

**CIVIL AIR PATROL**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**CIVIL AIR PATROL  
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SEPTEMBER 30, 2020**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Governors  
Civil Air Patrol

### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of Civil Air Patrol (the Organization), which comprise the consolidated statement of financial position as of September 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Civil Air Patrol as of September 30, 2020, and the changes in their net assets, their functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2021, on our consideration of Civil Air Patrol's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Civil Air Patrol's internal control over financial reporting and compliance.

**Report on Summarized Comparative Information**

We have previously audited Civil Air Patrol's 2019 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated April 2, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Warren Averett, LLC*

Montgomery, Alabama  
April 7, 2021

**CIVIL AIR PATROL  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
SEPTEMBER 30, 2020  
(WITH COMPARATIVE INFORMATION AS OF SEPTEMBER 30, 2019)**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	\$ 17,217,642	\$ 17,179,426
Cash and cash equivalents – restricted	5,848,507	2,994,455
Accounts and grants receivable	10,414,676	9,805,525
Prepaid expenses	573,081	438,930
Unconditional promises to give	9,626,520	11,788,521
Investments	8,888,417	8,590,874
Investments – restricted	1,621,436	1,224,359
Property and equipment, net of accumulated depreciation	<u>125,134,284</u>	<u>123,656,599</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 179,324,563</u></u>	<u><u>\$ 175,678,689</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 5,313,564	\$ 5,696,561
Deferred revenue	<u>768,726</u>	<u>904,979</u>
<b>TOTAL LIABILITIES</b>	<u>6,082,290</u>	<u>6,601,540</u>
<b>NET ASSETS</b>		
Without donor restrictions	35,590,119	33,416,267
With donor restrictions	<u>137,652,154</u>	<u>135,660,882</u>
<b>TOTAL NET ASSETS</b>	<u>173,242,273</u>	<u>169,077,149</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 179,324,563</u></u>	<u><u>\$ 175,678,689</u></u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2019)**

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
			2020	2019
<b>OPERATING REVENUES AND OTHER SUPPORT</b>				
Governmental appropriations and grants	\$ 40,733,632	\$ -	\$ 40,733,632	\$ 44,005,225
Other program revenue	606,420	2,104,060	2,710,480	4,141,808
Membership dues	3,003,746	-	3,003,746	3,187,988
Governmental contributions	4,906,202	15,920,048	20,826,250	21,830,531
Contributions	4,312,285	675,023	4,987,308	12,180,803
Fundraising	876,279	-	876,279	1,339,429
Registration fees and events	155,670	-	155,670	976,819
Publications and advertising	20,985	-	20,985	-
Sale of materials, supplies and surplus property	97,706	-	97,706	160,744
Interest income	56,781	699	57,480	59,830
Investment income	130,622	30,432	161,054	161,810
Other	645,360	-	645,360	1,027,267
Net assets released from restrictions	12,567,549	(12,567,549)	-	-
Total operating revenues and other support	<u>68,113,237</u>	<u>6,162,713</u>	<u>74,275,950</u>	<u>89,072,254</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Aerospace education and training	4,918,343	-	4,918,343	5,371,634
Cadet programs	5,772,084	-	5,772,084	10,528,050
Communication maintenance	3,216,646	-	3,216,646	3,951,071
Counterdrug	696,644	-	696,644	1,218,154
Drug demand reduction	274,225	-	274,225	309,511
Emergency services	31,371,390	-	31,371,390	33,795,106
Total program services	<u>46,249,332</u>	<u>-</u>	<u>46,249,332</u>	<u>55,173,526</u>
Supporting services:				
Fundraising	604,942	-	604,942	691,323
Management and general	14,554,078	-	14,554,078	14,435,754
Membership development	5,011,804	-	5,011,804	5,214,353
Strategic communications	120,100	-	120,100	99,910
Total supporting services	<u>20,290,924</u>	<u>-</u>	<u>20,290,924</u>	<u>20,441,340</u>
Total operating expenses	<u>66,540,256</u>	<u>-</u>	<u>66,540,256</u>	<u>75,614,866</u>
Change in net assets from operations	<u>1,572,981</u>	<u>6,162,713</u>	<u>7,735,694</u>	<u>13,457,388</u>
<b>NONOPERATING GAINS AND LOSSES</b>				
Gain (loss) on disposition of property and equipment	(1,475)	1,937,342	1,935,867	701,843
Net unrealized and realized gains on investments	602,346	102,197	704,543	201,617
Loss on asset impairment	-	(6,210,980)	(6,210,980)	-
Total nonoperating gains and losses	<u>600,871</u>	<u>(4,171,441)</u>	<u>(3,570,570)</u>	<u>903,460</u>
<b>CHANGE IN NET ASSETS</b>	<u>2,173,852</u>	<u>1,991,272</u>	<u>4,165,124</u>	<u>14,360,848</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>33,416,267</u>	<u>135,660,882</u>	<u>169,077,149</u>	<u>154,716,301</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 35,590,119</u>	<u>\$ 137,652,154</u>	<u>\$ 173,242,273</u>	<u>\$ 169,077,149</u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2019)**

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 2,554	\$ 3,404	\$ 510	\$ 853	\$ 341	\$ 5,107
Aircraft maintenance	7,960	94,313	-	11,938	-	7,800,946
Awards	52,181	209,304	-	-	-	-
Bad debts	-	-	-	-	-	-
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	-	1,193,320	-	-	345	226,146
Conference	84,507	131,750	16,901	28,169	11,268	169,014
Contingency	-	-	-	-	-	-
Contributed flying	-	-	-	-	-	591,581
Cost of goods sold	18,399	73,592	-	-	-	-
Depreciation	42,820	57,093	8,564	14,274	5,708	11,191,545
Equipment maintenance	54,812	73,083	2,694,958	18,271	7,309	400,546
Facility maintenance	1,657,687	2,114,074	343,946	520,867	208,346	3,510,503
Fundraising events	-	-	-	-	-	-
Insurance	9,883	15,981	1,976	3,294	1,318	19,766
Interest expense	-	-	-	-	-	-
IT expense	8,891	11,856	1,779	2,963	1,185	17,784
Legal and accounting	-	-	-	-	-	-
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	18,000	-	83,871	-	-	76,849
Miscellaneous	1,687	2,284	338	562	225	5,539
Mission support	4,343	-	-	-	-	2,968,116
Payroll taxes and benefits	234,630	93,571	1,164	1,941	776	298,030
Professional services	180,706	352,032	-	-	-	456,859
Professional development	77,337	4,948	-	-	-	2,602
Postage	6,406	8,438	7,083	2,110	844	14,394
Printing and publications	2,397	3,196	479	800	319	5,018
Salaries	850,011	458,081	7,661	12,767	5,107	1,344,109
Senior activities	102,767	-	-	-	-	-
Supplies	1,355,442	629,097	20,604	34,338	13,736	548,430
Telephone	67,427	89,904	13,484	22,476	8,990	296,122
Travel	63,200	133,705	10,469	16,255	6,502	660,610
Vehicle maintenance	14,296	19,058	2,859	4,766	1,906	761,774
	<u>\$ 4,918,343</u>	<u>\$ 5,772,084</u>	<u>\$ 3,216,646</u>	<u>\$ 696,644</u>	<u>\$ 274,225</u>	<u>\$ 31,371,390</u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020  
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2019)**

	Supporting Services				Totals	
	Fundraising	Management and General	Membership Development	Strategic Communications	2020	2019
Advertising	\$ 4,125	\$ 16,068	\$ 5,632	\$ 10,877	\$ 49,471	\$ 55,838
Aircraft maintenance	-	34	-	-	7,915,191	8,094,146
Awards	1,800	4,575	14,333	-	282,193	363,076
Bad debts	-	1,330	-	-	1,330	1,095
Bank and credit card expense	-	65,187	-	-	65,187	80,973
Cadet activities	-	540	-	-	1,420,351	4,855,336
Conference	-	146,387	117,847	-	705,843	1,625,017
Contingency	-	7,307	-	-	7,307	4,012
Contributed flying	-	-	-	-	591,581	1,095,049
Cost of goods sold	-	-	-	-	91,991	176,789
Depreciation	-	1,045,481	14,274	-	12,379,759	11,585,795
Equipment maintenance	-	144,836	18,271	-	3,412,086	4,487,864
Facility maintenance	8,188	2,547,274	608,532	-	11,519,417	11,889,714
Fundraising events	190,771	-	-	-	190,771	273,001
Insurance	-	1,622,536	3,294	-	1,678,048	1,614,397
Interest expense	-	546	-	-	546	910
IT expense	-	11,856	2,963	-	59,277	46,442
Legal and accounting	-	314,185	-	-	314,185	236,351
Lobbying	-	1,456	-	-	1,456	24,995
Maintenance and equipment rental	-	310,876	-	-	489,596	504,969
Miscellaneous	-	107,209	562	-	118,406	263,161
Mission support	-	-	-	-	2,972,459	4,020,739
Payroll taxes and benefits	71,771	1,117,697	726,407	-	2,545,987	2,451,659
Professional services	53,945	1,147,721	263,486	40,290	2,495,039	2,408,847
Professional development	414	70,414	-	-	155,715	331,244
Postage	2,145	95,908	2,110	-	139,438	180,519
Printing and publications	2,841	3,196	800	68,451	87,497	102,271
Salaries	253,016	4,900,616	2,833,780	-	10,665,148	9,981,191
Senior activities	-	3,636	-	-	106,403	255,987
Supplies	1,036	470,634	46,014	258	3,119,589	4,259,417
Telephone	-	110,445	331,573	-	940,421	906,551
Travel	14,890	261,720	17,160	224	1,184,735	2,607,343
Vehicle maintenance	-	24,408	4,766	-	833,833	830,168
	<u>\$ 604,942</u>	<u>\$ 14,554,078</u>	<u>\$ 5,011,804</u>	<u>\$ 120,100</u>	<u>\$ 66,540,256</u>	<u>\$ 75,614,866</u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020  
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2019)**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,165,124	\$ 14,360,848
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,379,759	11,585,795
Net unrealized and realized gain on investments	(704,543)	(201,617)
Gain on disposition of property and equipment	(1,935,867)	(701,843)
Loss on asset impairment	6,210,980	-
Noncash contributions	(227,055)	(6,210,980)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(609,151)	(1,757,213)
Prepaid expenses	(134,151)	(137,492)
Unconditional promises to give	2,162,001	166,013
Accounts payable and accrued expenses	(382,997)	1,360,695
Deferred revenue	(136,253)	(148,388)
Net cash provided by operating activities	20,787,847	18,315,818
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of property and equipment	2,236,262	1,505,715
Purchase of property and equipment	(20,141,764)	(18,213,965)
Proceeds from sale of investments	2,026,939	2,092,044
Purchase of investments	(2,017,016)	(2,749,613)
Net cash used in investing activities	(17,895,579)	(17,365,819)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in contractually restricted cash	(2,854,052)	(141,160)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	38,216	808,839
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	17,179,426	16,370,587
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 17,217,642	\$ 17,179,426
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	\$ 546	\$ 910

See notes to the consolidated financial statements.

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**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, where by 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, 2020, from which the summarized information was derived.

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**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.

**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 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 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 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.

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.

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Inventories**

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

**Property and Equipment**

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

As of September 30, 2020, 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, 2019. The tax returns of the Organization for years ended September 30, 2016, and thereafter are subject to audit by the taxing authorities.

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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 support increasing net assets without donor restrictions.

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.

**Functional Expenses**

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

**Fair Value Measurement**

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

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

Level 2        Inputs to the valuation methodology include:

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

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

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

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fair Value Measurement – Continued**

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 7, 2021, which is the date the financial statements were available to be issued.

**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 is presented below:

**Contractually restricted by the USAF for:**

Future aircraft maintenance, modernization and procurement	\$ 4,806,715
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**Restricted by donors for:**

Cadet scholarships and activities	275,463
Aerospace scholarships and activities	73,066
Construction of facility	60,283
Wing missions and operations	116,945
Squadron operations	432,721
Other activities	83,314
	83,314

Total restricted cash and cash equivalents	5,848,507
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**Designated by the governing board for:**

Cadet scholarships and activities	105,685
Facility maintenance	227,119
Reserve	567,722
	567,722

Total designated cash and cash equivalents	900,526
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<b>Cash and cash equivalents unrestricted and not designated</b>	16,317,116
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Total cash and cash equivalents	\$ 23,066,149
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**Statement of financial position presentation:**

Cash and cash equivalents	\$ 17,217,642
Cash and cash equivalents - restricted	5,848,507
	5,848,507

Total	\$ 23,066,149
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**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

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**3. INVESTMENTS**

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

Annuities	\$ 63,221
Bonds	1,936,937
Equities	925,255
Exchange traded funds	902,209
Mutual funds	6,604,110
Real estate investment funds	78,121
	<hr/>
Total	<u>\$ 10,509,853</u>

The composition of the return on investments is as follows:

Investment income	\$ 224,167
investment advisory fees	(63,113)
	<hr/>
Net investment income	161,054
Net unrealized and realized gain on investments	704,543
	<hr/>
Total	<u>\$ 865,597</u>

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**3. INVESTMENTS – CONTINUED**

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

<u>Description</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
<b>Restricted by donors for:</b>			
Cadet scholarships and activities	\$ 497,541	\$ 79,492	\$ 577,033
Aerospace scholarships and activities	12,560	1,506	14,066
Senior activates	4,985	598	5,583
Wing missions and operations	924,187	72,662	996,849
Other activities	22,797	5,108	27,905
	<u>1,462,070</u>	<u>159,366</u>	<u>1,621,436</u>
<b>Designated by the governing board for:</b>			
Reserve	5,391,316	646,596	6,037,912
Cadet scholarships and activities	1,003,629	120,365	1,123,994
	<u>6,394,945</u>	<u>766,961</u>	<u>7,161,906</u>
<b>Investments unrestricted and undesignated</b>	<u>1,584,763</u>	<u>141,748</u>	<u>1,726,511</u>
<b>Total</b>	<u><u>\$ 9,441,778</u></u>	<u><u>\$ 1,068,075</u></u>	<u><u>\$ 10,509,853</u></u>
<b>Statement of financial position presentation:</b>			
Investments	\$ 8,888,417		
Investments - restricted	<u>1,621,436</u>		
<b>Total</b>	<u><u>\$ 10,509,853</u></u>		

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**4. ACCOUNTS AND GRANTS RECEIVABLE**

Accounts and grants receivable are due from the following:

USAF	\$ 8,796,949
Others	1,617,727
	<u>10,414,676</u>
Total	<u>\$ 10,414,676</u>

**5. PROMISES TO GIVE**

**Unconditional Promises to Give**

Unconditional promises to give consist of the following:

USAF - Aircraft procurement	<u>\$ 9,626,520</u>
Amount due in:	
Less than one year	<u>\$ 9,626,520</u>

**Conditional Promises to Give**

As of September 30, 2020, the Organization received from the USAF conditional promises to give of \$3,608,849 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. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land	\$ 90,400
Buildings and improvements	10,118,299
Aircraft	211,365,934
Computers	2,759,395
Vehicles	29,212,638
Office furniture and equipment	179,133
Building under capital lease	253,148
Communication and other equipment	18,152,662
Construction in progress	169,516
Equipment not placed into service	9,615,026
	<u>281,916,151</u>
Accumulated depreciation	<u>156,781,867</u>
Net property and equipment	<u>\$ 125,134,284</u>

**CIVIL AIR PATROL  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**6. PROPERTY AND EQUIPMENT – CONTINUED**

Depreciation expense for the period ending September 30, 2020 \$ 12,379,759

As of September 30, 2020, improvements with a book value of \$352,441 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$288,170 and \$64,271, 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, 2020, property and equipment restricted for specific purposes amounted to \$259,170,986 less accumulated depreciation of \$148,975,235, resulting in a balance of \$110,195,751.

**7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses are as follows:

Accrued payroll and payroll taxes	\$ 1,371,981
Vendor payables	<u>3,941,583</u>
Total	<u>\$ 5,313,564</u>

**8. DEFERRED REVENUE**

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 681,209
Other	<u>87,517</u>
Total	<u>\$ 768,726</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, 2021, with interest computed utilizing a variable interest rate. During the 2020 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  
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**10. NET ASSETS**

Net assets consisted of the following as of September 30, 2020:

**Net Assets Without Donor Restrictions**

Undesignated	\$ 27,341,165
Board Designated:	
Reserve funds	6,605,634
Scholarships	1,085,493
Other activities	371,305
Net investment in property and equipment	186,522
	<u>186,522</u>
Total net assets without donor restrictions	<u>\$ 35,590,119</u>

**Net Assets With Donor Restrictions**

Subject to expenditure for specified purpose:

Aerospace education activities:	
Scholarships	\$ 71,452
Other	42,929
Emergency Services	6,995
Cadet Program Activities:	
Scholarships	544,872
Other	170,948
Senior Program Activities:	
Other	6,316
Support, maintenance and modernization of aircraft fleet	9,682,531
Wing missions and operations	1,119,974
Squadron operations	432,721
Other	527,180
	<u>527,180</u>
Total subject to expenditure for specified purpose	<u>12,605,918</u>

Subject to passage of time:

Subsequent years' use of property, equipment and inventories	<u>124,845,201</u>
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Subject to restrictions in perpetuity:

Scholarships	180,967
Other	20,068
	<u>201,035</u>
Total subject to restrictions in perpetuity	<u>201,035</u>

Total net assets with donor restrictions	<u>\$ 137,652,154</u>
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**CIVIL AIR PATROL  
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**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 2024. Many of these operating leases require no rental payments, or payments at less than fair rental value. Some of these leases have options to renew with automatic increases in rental payments, while other leases may be canceled during the lease term. Also, a facility is leased from a governmental municipality with a lease term (including automatic renewals) expiring in 2044. The Organization also leases various other equipment which is classified as operating leases. The majority of the leases require the Organization to pay taxes, insurance, and repairs and maintenance. In most cases, management expects that, in the normal course of activities, leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2020:

Years ending September 30:	
2021	\$ 510,705
2022	376,689
2023	279,890
2024	117,934
2025	76,487
	<u>\$ 1,361,705</u>

Total rental expense for all operating leases is \$788,253 for the year ended September 30, 2020.

**12. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 584,971
Expiration of time restrictions	11,982,578
Total	<u>\$ 12,567,549</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 \$386,230 for the year ended September 30, 2020, and are included in payroll taxes and benefits in the statement of functional expenses.

**CIVIL AIR PATROL  
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**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, 2020, is presented below:

**Transactions Providing Revenue**

From USAF for:

Governmental appropriations	\$ 38,387,364
Contributions for:	
Use of facilities and utilities	1,882,439
Property and equipment	<u>12,389,673</u>
Total	<u><u>\$ 52,659,476</u></u>

**Transactions Incurring Expenses:**

Expenses with USAF for:

Facilities	<u><u>\$ 1,882,439</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, 2020.

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**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, 2020.

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, 2020.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Annuities	\$ 63,221	\$ -	\$ -	\$ 63,221
U.S. Treasuries	484,581	-	-	484,581
Bonds	1,452,356	-	-	1,452,356
Equities	496,201	-	-	496,201
Exchange traded funds	902,209	-	-	902,209
Mutual funds	7,033,164	-	-	7,033,164
Real estate investment trusts	40,246	-	37,875	78,121
	<u>\$ 10,471,978</u>	<u>\$ -</u>	<u>\$ 37,875</u>	<u>\$ 10,509,853</u>

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**16. FAIR VALUE MEASUREMENTS – CONTINUED**

The following table presents a roll forward of the amounts for the year ended September 30, 2020, 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	\$ 37,875	\$ -	\$ -	\$ 37,875

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, 2020.

<u>Description</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Domestic equities	\$ 4,201,984	\$ -	Daily, Monthly	3 - 10 Days
Exchange traded funds	902,209	-	Daily, Monthly	3 - 10 Days
International equities	1,678,856	-	Daily, Monthly	3 - 10 Days
Domestic fixed income	3,688,929	-	Daily, Monthly	3 - 10 Days
Private equity fund	37,875	-	Illiquid	Illiquid

**17. 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, 2020, the Organization's uninsured cash balances totaled \$14,844,095.

**CIVIL AIR PATROL**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**18. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. Early adoption is not permitted. The amendments in this update are effective for annual periods beginning after December 15, 2019. The Organization does not expect this guidance to have a significant impact on the financial statements.

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, 2019. The Organization does not expect this guidance to have a significant impact on the financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019. Early application of the amendments in this update is permitted. The Organization does not expect this guidance to have a significant impact on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*. The amendments in this update require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019. Early application of the amendments in this update is permitted. The Organization does not expect this guidance to have a significant impact on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction. The amendments are effective for a public business on contributions received for annual periods beginning after June 15, 2019. For all other entities, the amendments are effective for transactions in which the entity serves as the resource recipient for annual periods beginning after December 15, 2019. The Organization does not expect this guidance to have a significant impact on the financial statements.

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**18. RECENT ACCOUNTING PRONOUNCEMENTS – CONTINUED**

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update require 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. The amendments in this update should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. The Organization does not expect this guidance to have a significant impact on the financial statements.

**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 statement of financial position date, comprise the following as of September 30, 2020:

Financial assets:	
Cash and cash equivalents	\$ 23,066,149
Accounts and grants receivable	10,414,676
Investments	<u>10,509,853</u>
Total financial assets	43,990,678
Less assets unavailable for general expenditures because of donor-imposed restrictions:	
Cash and cash equivalents contractually restricted by the USAF (Note 2)	(4,806,715)
Cash and cash equivalents restricted by donors (Note 2)	(1,041,792)
Investments restricted by donors (Note 3)	(1,621,436)
Accounts receivable from the USAF	(8,796,949)
Less assets unavailable because of board designations:	
Cash and cash equivalents designated by the governing board (Note 2)	(900,526)
Investments designated by the governing board (Note 3)	<u>(7,161,906)</u>
	<u>\$ 19,661,354</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.

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**20. COVID-19 PANDEMIC**

The outbreak of the novel coronavirus (COVID-19) has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The COVID-19 pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of COVID-19. Nevertheless, COVID-19 presents material uncertainty and risk with respect to the Organization, its performance and its financial results.

**21. ASSET IMPAIRMENT**

During the 2019 fiscal year, the Organization received a donation of eleven WESCAM MX-15 from the Texas National Guard. The value of the donated assets totaled \$6,210,980 and the assets were included in equipment not placed into service as of September 30, 2019. During the 2020 fiscal year, the Organization determined they would not be installing the donated items and would be returning them. Accordingly the Organization wrote off the assets in the accompanying statements. As of September 30, 2020, the Organization was awaiting instructions from the Defense Reutilization and Marketing Office (DRMO) of how to return the donated items.