

CIVIL AIR PATROL
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

**CIVIL AIR PATROL
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SEPTEMBER 30, 2019**

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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, 2019, 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, 2019, 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 2, 2020, 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 2018 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated April 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Warren Averett, LLC

Montgomery, Alabama
April 2, 2020

**CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019
(WITH COMPARATIVE INFORMATION AS OF SEPTEMBER 30, 2018)**

ASSETS	2019	2018
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 17,179,426	\$ 16,370,587
Cash – restricted	2,994,455	2,853,295
Accounts and grants receivable	9,805,525	8,048,312
Prepaid expenses	438,930	301,438
Unconditional promises to give	11,788,521	11,954,534
Investments	8,590,874	8,282,920
Investments – restricted	1,224,359	673,127
Property and equipment, net of accumulated depreciation	<u>123,656,599</u>	<u>111,621,321</u>
TOTAL ASSETS	<u><u>\$ 175,678,689</u></u>	<u><u>\$ 160,105,534</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 5,696,561	\$ 4,335,866
Deferred revenue	<u>904,979</u>	<u>1,053,367</u>
TOTAL LIABILITIES	<u>6,601,540</u>	<u>5,389,233</u>
NET ASSETS		
Without donor restrictions	33,416,267	32,743,094
With donor restrictions	<u>135,660,882</u>	<u>121,973,207</u>
Total net assets	<u>169,077,149</u>	<u>154,716,301</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 175,678,689</u></u>	<u><u>\$ 160,105,534</u></u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2018)**

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTALS	
			2019	2018
OPERATING REVENUES AND OTHER SUPPORT				
Governmental appropriations and grants	\$ 43,980,225	\$ 25,000	\$ 44,005,225	\$ 38,007,670
Other program revenue	1,659,544	2,482,264	4,141,808	3,928,188
Membership dues	3,187,988	-	3,187,988	3,124,657
Governmental contributions	106,317	21,724,214	21,830,531	20,815,210
Contributions	11,004,238	1,176,565	12,180,803	4,375,867
Fundraising	1,339,429	-	1,339,429	1,261,355
Registration fees and events	976,819	-	976,819	1,142,762
Publications and advertising	-	-	-	14,620
Sale of materials, supplies and surplus property	160,744	-	160,744	115,065
Interest income	58,384	1,446	59,830	26,804
Investment income	149,343	12,467	161,810	366,198
Other	1,027,267	-	1,027,267	1,074,809
Net assets released from restrictions	12,451,816	(12,451,816)	-	-
Total operating revenues and other support	<u>76,102,114</u>	<u>12,970,140</u>	<u>89,072,254</u>	<u>74,253,205</u>
OPERATING EXPENSES				
Program services:				
Aerospace education and training	5,371,634	-	5,371,634	4,668,232
Cadet programs	10,528,050	-	10,528,050	9,363,228
Communication maintenance	3,951,071	-	3,951,071	2,093,736
Counterdrug	1,218,154	-	1,218,154	1,129,648
Drug demand reduction	309,511	-	309,511	283,910
Emergency services	33,795,106	-	33,795,106	30,592,844
Total program services	<u>55,173,526</u>	<u>-</u>	<u>55,173,526</u>	<u>48,131,598</u>
Supporting services:				
Fundraising	691,323	-	691,323	489,959
Management and general	14,435,754	-	14,435,754	12,766,752
Membership development	5,214,353	-	5,214,353	5,879,266
Strategic communications	99,910	-	99,910	113,848
Total supporting services	<u>20,441,340</u>	<u>-</u>	<u>20,441,340</u>	<u>19,249,825</u>
Total operating expenses	<u>75,614,866</u>	<u>-</u>	<u>75,614,866</u>	<u>67,381,423</u>
Change in net assets from operations	<u>487,248</u>	<u>12,970,140</u>	<u>13,457,388</u>	<u>6,871,782</u>
NONOPERATING GAINS AND LOSSES				
Gain on disposition of property and equipment	-	701,843	701,843	849,483
Net unrealized and realized gains on investments	185,925	15,692	201,617	244,114
Total nonoperating gains and losses	<u>185,925</u>	<u>717,535</u>	<u>903,460</u>	<u>1,093,597</u>
CHANGE IN NET ASSETS	673,173	13,687,675	14,360,848	7,965,379
NET ASSETS AT BEGINNING OF YEAR	<u>32,743,094</u>	<u>121,973,207</u>	<u>154,716,301</u>	<u>146,750,922</u>
NET ASSETS AT END OF YEAR	<u>\$ 33,416,267</u>	<u>\$ 135,660,882</u>	<u>\$ 169,077,149</u>	<u>\$ 154,716,301</u>

See notes to the consolidated financial statements.

CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2018)

	Program Services					
	Aerospace Education and Training	Cadet Programs	Communication Maintenance	Counterdrug	Drug Demand Reduction	Emergency Services
Advertising	\$ 3,217	\$ 4,240	\$ 643	\$ 1,073	\$ 427	\$ 6,431
Aircraft maintenance	8,725	112,150	-	13,086	-	7,956,536
Awards	90,658	247,189	-	-	-	193
Bad debts	-	-	-	-	-	-
Bank and credit card expense	-	-	-	-	-	-
Cadet activities	-	4,361,884	18,198	-	-	475,006
Conference	180,758	278,347	36,120	60,201	24,080	365,587
Contingency	-	-	-	-	-	-
Contributed flying	-	-	-	167,401	-	927,648
Cost of goods sold	35,357	141,432	-	-	-	-
Depreciation	42,663	56,883	8,533	14,222	5,688	10,388,446
Equipment maintenance	66,975	89,299	3,383,777	22,325	8,930	704,311
Facility maintenance	1,686,564	2,192,494	352,442	541,614	216,644	3,659,091
Fundraising events	-	-	-	-	-	-
Insurance	13,764	29,024	2,753	4,587	1,835	27,530
Interest expense	-	-	-	-	-	-
IT expense	6,966	9,289	1,394	2,322	927	13,933
Legal and accounting	-	332	-	-	-	-
Lobbying	-	-	-	-	-	-
Maintenance and equipment rental	18,000	-	45,136	-	-	66,543
Miscellaneous	1,728	2,776	398	665	266	4,745
Mission support	4,586	-	-	263,360	-	3,752,633
Payroll taxes and benefits	196,455	115,261	1,349	1,999	800	286,257
Professional services	305,381	420,667	-	-	-	414,924
Professional development	164,051	16,273	6	-	-	16,010
Postage	6,866	9,028	23,448	2,256	903	22,853
Printing and publications	3,905	5,208	781	1,301	520	7,811
Salaries	783,714	451,753	10,486	13,792	5,517	1,264,028
Senior activities	234,199	-	-	-	-	2,380
Supplies	1,293,290	1,056,597	26,674	44,456	17,783	1,166,525
Telephone	69,212	92,283	13,842	23,070	9,228	250,035
Travel	148,795	811,325	21,445	34,346	13,532	1,275,290
Vehicle maintenance	5,805	24,316	3,646	6,078	2,431	740,360
	<u>\$ 5,371,634</u>	<u>\$ 10,528,050</u>	<u>\$ 3,951,071</u>	<u>\$ 1,218,154</u>	<u>\$ 309,511</u>	<u>\$ 33,795,106</u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2018)**

	Supporting Services				Totals	
	Fundraising	Management and General	Membership Development	Strategic Communications	2019	2018
Advertising	\$ -	\$ 29,454	\$ 6,363	\$ 3,990	\$ 55,838	\$ 44,140
Aircraft maintenance	-	3,149	500	-	8,094,146	7,896,456
Awards	4,500	6,902	13,634	-	363,076	340,048
Bad debts	-	1,095	-	-	1,095	2,359
Bank and credit card expense	-	80,973	-	-	80,973	65,990
Cadet activities	-	248	-	-	4,855,336	3,873,046
Conference	-	318,603	361,321	-	1,625,017	1,601,866
Contingency	-	4,012	-	-	4,012	16,804
Contributed flying	-	-	-	-	1,095,049	736,782
Cost of goods sold	-	-	-	-	176,789	125,428
Depreciation	-	1,055,138	14,222	-	11,585,795	10,970,072
Equipment maintenance	-	189,922	22,325	-	4,487,864	2,074,794
Facility maintenance	-	2,617,681	623,184	-	11,889,714	10,693,850
Fundraising events	273,001	-	-	-	273,001	259,294
Insurance	-	1,530,317	4,587	-	1,614,397	1,517,691
Interest expense	-	910	-	-	910	177
IT expense	-	9,289	2,322	-	46,442	52,520
Legal and accounting	-	236,019	-	-	236,351	348,569
Lobbying	2,944	22,051	-	-	24,995	19,239
Maintenance and equipment rental	-	375,290	-	-	504,969	366,077
Miscellaneous	-	251,918	665	-	263,161	234,271
Mission support	-	160	-	-	4,020,739	3,755,387
Payroll taxes and benefits	65,620	1,066,872	717,046	-	2,451,659	2,182,309
Professional services	54,410	916,455	278,639	18,371	2,408,847	2,521,723
Professional development	1,130	132,770	775	229	331,244	352,882
Postage	3,753	109,156	2,256	-	180,519	138,178
Printing and publications	2,643	5,208	1,301	73,593	102,271	87,513
Salaries	243,400	4,471,302	2,737,199	-	9,981,191	9,068,721
Senior activities	-	19,408	-	-	255,987	245,998
Supplies	3,318	596,417	51,498	2,859	4,259,417	3,358,732
Telephone	-	115,609	333,272	-	906,551	1,121,501
Travel	36,604	227,972	37,166	868	2,607,343	2,516,200
Vehicle maintenance	-	41,454	6,078	-	830,168	792,806
	<u>\$ 691,323</u>	<u>\$ 14,435,754</u>	<u>\$ 5,214,353</u>	<u>\$ 99,910</u>	<u>\$ 75,614,866</u>	<u>\$ 67,381,423</u>

See notes to the consolidated financial statements.

**CIVIL AIR PATROL
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2018)**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,360,848	\$ 7,965,379
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,585,795	10,970,072
Net unrealized and realized gain on investments	(201,617)	(244,114)
Gain on disposition of property and equipment	(701,843)	(849,483)
Noncash contributions	(6,210,980)	(10,411)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(1,757,213)	(3,239,505)
Prepaid expenses	(137,492)	(11,794)
Inventories	-	2,009
Unconditional promises to give	166,013	(1,958,624)
Accounts payable and accrued expenses	1,360,695	1,126,143
Deferred revenue	(148,388)	126,354
	18,315,818	13,876,026
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	1,505,715	1,231,434
Purchase of property and equipment	(18,213,965)	(15,381,578)
Proceeds from sale of investments	2,092,044	7,959,724
Purchase of investments	(2,749,613)	(7,811,570)
	(17,365,819)	(14,001,990)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in contractually restricted cash	(141,160)	(695,128)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	808,839	(821,092)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	16,370,587	17,191,679
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 17,179,426	\$ 16,370,587

See notes to the consolidated financial statements.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2018, from which the summarized information was derived.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019**

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, 2019, 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, 2018. The tax returns of the Organization for years ended September 30, 2015, and thereafter are subject to audit by the taxing authorities.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019**

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.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit-Entities*, which made several improvements to current financial reporting for not-for-profits. The guidance was effective and adopted for the Organization's annual financial statements for the year ended September 30, 2019. The most significant provisions of this standard required two classes of net assets, rather than the previously required three classes. The changes in the ASU were applied on a retrospective basis, which means that all financial statements presented reflected the changes and the effect was disclosed for each period presented.

Subsequent Events

Management has evaluated subsequent events through April 2, 2020, which is the date the financial statements were available to be issued.

2. CASH

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

Contractually restricted by the USAF for:

Future aircraft maintenance, modernization and procurement	\$ 2,206,904
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Restricted by donors for:

Cadet scholarships and activities	226,845
Aerospace scholarships and activities	57,889
Construction of facility	72,897
Wing missions and operations	370,651
Other activities	<u>59,269</u>

Total restricted cash	<u>2,994,455</u>
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**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

2. CASH – CONTINUED

Designated by the governing board for:

Cadet scholarships and activities	\$ 40,240
Facility maintenance	143,431
Reserve	<u>216,153</u>

Total designated cash	<u>399,824</u>
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Cash unrestricted and not designated	<u>16,779,602</u>
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Total cash	<u>\$ 20,173,881</u>
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Statement of financial position presentation:

Cash and cash equivalents	\$ 17,179,426
Cash – restricted	<u>2,994,455</u>

Total	<u>\$ 20,173,881</u>
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3. INVESTMENTS

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

Annuities	\$ 62,287
U.S. Treasuries	544,691
Bonds	1,185,514
Equities	515,773
Exchange traded funds	794,388
Mutual funds	6,613,724
Real estate investment trusts	<u>98,856</u>
Total	<u>\$ 9,815,233</u>

The composition of the return on investments is as follows:

Investment income	\$ 219,786
Investment advisory fees	<u>(57,976)</u>
Net investment income	161,810
Net unrealized and realized gains on investments	<u>201,617</u>
Total	<u>\$ 363,427</u>

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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>
Restricted by donors for:			
Cadet scholarships and activities	\$ 471,540	\$ 40,666	\$ 512,206
Aerospace scholarships and activities	13,866	417	14,283
Senior activities	5,504	165	5,669
Wing missions and operations	657,158	7,687	664,845
Other activities	<u>25,534</u>	<u>1,822</u>	<u>27,356</u>
	<u>1,173,602</u>	<u>50,757</u>	<u>1,224,359</u>
Designated by the governing board for:			
Reserve	5,952,067	179,043	6,131,110
Cadet scholarships and activities	<u>1,108,014</u>	<u>33,329</u>	<u>1,141,343</u>
	<u>7,060,081</u>	<u>212,372</u>	<u>7,272,453</u>
Investments unrestricted and undesignated			
	<u>1,247,371</u>	<u>71,050</u>	<u>1,318,421</u>
Total	<u>\$ 9,481,054</u>	<u>\$ 334,179</u>	<u>\$ 9,815,233</u>
Statement of financial position presentation:			
Investments	\$ 8,590,874		
Investments – restricted	<u>1,224,359</u>		
Total	<u>\$ 9,815,233</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	\$ 9,078,294
Others	<u>727,231</u>
Total	<u>\$ 9,805,525</u>

5. PROMISES TO GIVE

Unconditional Promises to Give

Unconditional promises to give consist of the following:

USAF – Aircraft procurement	\$ 11,419,824
USAF – Vehicle procurement	<u>368,697</u>
Total	<u>\$ 11,788,521</u>

Amounts due in:

Less than one year	<u>\$ 11,788,521</u>
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Conditional Promises to Give

As of September 30, 2019, the Organization received from the USAF conditional promises to give of \$3,213,159 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	9,614,068
Aircraft	202,968,708
Computers	2,532,063
Vehicles	28,398,769
Office furniture and equipment	148,113
Building under capital lease	253,148
Communication and other equipment	17,387,666
Construction in progress	258,296
Equipment not placed into service	<u>11,724,238</u>
	273,375,469
Accumulated depreciation	<u>149,718,870</u>
Net property and equipment	<u>\$ 123,656,599</u>

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

6. PROPERTY AND EQUIPMENT – CONTINUED

Depreciation expense for the period ending September 30, 2019 \$ 11,585,795

As of September 30, 2019, improvements with a book value of \$377,042 have been made to leased facilities. These improvements are located at the Virginia Wing and North Carolina Wing in the amounts of \$302,012 and \$75,030, 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, 2019, property and equipment restricted for specific purposes amounted to \$248,959,189 less accumulated depreciation of \$142,004,405, resulting in a balance of \$106,954,784.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are as follows:

Accrued payroll and payroll taxes	\$ 1,104,877
Vendor payables	<u>4,591,684</u>
Total	<u>\$ 5,696,561</u>

8. DEFERRED REVENUE

Deferred revenue is detailed as follows:

Prepaid membership dues	\$ 844,141
Other	<u>60,838</u>
Total	<u>\$ 904,979</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, 2020, with interest computed utilizing a variable interest rate. During the 2019 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, 2019**

10. NET ASSETS

Net assets consisted of the following as of September 30, 2019:

Net Assets Without Donor Restrictions

Undesignated	\$ 25,785,125
Board Designated:	
Reserve funds	6,063,622
Scholarships	1,073,450
Other	197,992
Net investment in property and equipment	<u>296,078</u>
Total net assets without donor restrictions	<u>\$ 33,416,267</u>

Net Assets With Donor Restrictions

Subject to expenditure for specified purpose:

Aerospace education activities:	
Scholarships	\$ 63,630
Other	36,220
Emergency Services	2,184
Cadet program activities:	
Scholarships	425,324
Other	172,287
Senior program activities:	
Other	5,837
Support, maintenance and modernization of aircraft fleet	7,331,161
Wing missions and operations	1,035,495
Other	<u>528,233</u>
Total subject to expenditures for a specified purpose	<u>9,600,371</u>

Subject to the passage of time:

Subsequent years' use of property, equipment and inventories	<u>125,870,344</u>
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Subject to restrictions in perpetuity:

Scholarships	170,128
Other	<u>20,039</u>

Total subject to restrictions in perpetuity	<u>190,167</u>
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Total net assets with donor restrictions	<u>\$ 135,660,882</u>
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**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019:

Years ending September 30:	
2020	\$ 464,006
2021	373,804
2022	364,747
2023	327,015
2024	<u>74,170</u>
	<u>\$ 1,603,742</u>

Total rental expense for all operating leases is \$790,924 for the year ended September 30, 2019.

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are summarized as follows:

Satisfaction of purpose restrictions	\$ 1,227,322
Expiration of time restrictions	<u>11,224,494</u>
Total	<u>\$ 12,451,816</u>

13. EMPLOYEE BENEFIT PLAN

The Organization sponsors a 401(k) and defined contribution plan for the benefit of its employees, substantially all of whom are eligible to participate after meeting minimum qualifying standards. Under the plan, employees may elect to defer a portion of their salary, subject to Internal Revenue Code limits. The Organization may contribute a discretionary amount to the plan with immediate vesting. Organization contributions to the plan were \$364,994 for the year ended September 30, 2019, and are included in payroll taxes and benefits in the statement of functional expenses.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019, is presented below:

Transactions Providing Revenue:

From the USAF for:

Governmental appropriations	\$ 40,999,848
Contributions for:	
Use of facilities and utilities	1,833,684
Property and equipment	<u>15,670,409</u>

Total \$ 58,503,941

Transactions Incurring Expenses:

Expenses with the USAF for:

Facilities	<u>\$ 1,833,684</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, 2019.

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019.

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, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Annuities	\$ 62,287	\$ -	\$ -	\$ 62,287
U.S. Treasuries	544,691	-	-	544,691
Bonds	1,185,514	-	-	1,185,514
Equities	515,773	-	-	515,773
Exchange traded funds	794,388	-	-	794,388
Mutual funds	6,613,724	-	-	6,613,724
Real estate investment trusts	<u>60,981</u>	<u>-</u>	<u>37,875</u>	<u>98,856</u>
	<u>\$ 9,777,358</u>	<u>\$ -</u>	<u>\$ 37,875</u>	<u>\$ 9,815,233</u>

**CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

16. FAIR VALUE MEASUREMENTS – CONTINUED

The following table presents a roll forward of the amounts for the year ended September 30, 2019, 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

The gains (losses) in the above table are reported as net unrealized and realized gains (losses) on investments in the accompanying statement of activities for the year ended September 30, 2019.

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, 2019.

<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	\$ 3,239,193	\$ -	Daily, monthly	3 – 10 days
Exchange traded funds	794,388	-	Daily, monthly	3 – 10 days
International equities	2,164,101	-	Daily, monthly	3 – 10 days
Domestic fixed income	3,579,676	-	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, 2019, the Organization's uninsured cash balances totaled \$12,301,567.

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, 2018. The Organization is currently evaluating the effect that the provisions of ASU 2014-09 will have on the Organization's consolidated 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 is currently evaluating the effect that the provisions of ASU 2016-02 will have on the Organization's consolidated 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, 2018. Early application of the amendments in this update is permitted. The Organization is currently evaluating the effect that the provisions of ASU 2016-15 will have on the Organization's consolidated 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, 2017, and for interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018. Early application of the amendments in this update is permitted. The Organization is currently evaluating the effect that the provisions of ASU 2016-18 will have on the Organization's consolidated 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, 2018. 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, 2018. The Organization is currently evaluating the effect that the provisions of ASU 2018-08 will have on the Organization's consolidated financial statements.

CIVIL AIR PATROL
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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, 2019:

Financial assets:	
Cash and cash equivalents	\$ 20,173,881
Accounts and grants receivable	9,805,525
Investments	<u>9,815,233</u>
Total financial assets	39,794,639
Less assets unavailable for general expenditures because of donor-imposed restrictions:	
Cash contractually restricted by the USAF (Note 2)	(2,206,904)
Cash restricted by donors (Note 2)	(2,994,455)
Investments restricted by donors (Note 3)	(1,224,359)
Accounts receivable from the USAF	(9,078,294)
Less assets unavailable because of board designations:	
Cash designated by the governing board (Note 2)	(399,824)
Investments designated by the governing board (Note 3)	<u>(7,272,453)</u>
	<u><u>\$ 16,618,350</u></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.

20. SUBSEQUENT EVENTS

The outbreak of the novel coronavirus has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus 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 the novel coronavirus. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to the Organization, its performance and its financial results.