

FIRST COMMAND EDUCATIONAL FOUNDATION

Financial Statements

**As of and For the Years Ended
December 31, 2009 and 2008**

(With Independent Auditors' Report)



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
First Command Educational Foundation:

We have audited the accompanying statements of financial position of First Command Educational Foundation (the "Foundation") as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2009 and 2008, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hartman Leito & Bolt, LLP

July 26, 2010
Fort Worth, Texas

FIRST COMMAND EDUCATIONAL FOUNDATION
Statements of Financial Position
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 99,084	\$ 364,444
Pledges receivable	28,613	87,066
Due from First Command Financial Services, Inc.	7,224	24,003
Computer equipment, net	3,414	7,093
Inventory	45,672	26,087
Assets restricted for endowment	899,704	736,653
Total assets	<u>\$ 1,083,711</u>	<u>\$ 1,245,346</u>
<u>LIABILITIES</u>		
Scholarships payable	\$ 6,750	\$ 52,214
Accrued expenses and other liabilities	34,118	65,052
Pledges payable	138,000	199,000
Total liabilities	<u>178,868</u>	<u>316,266</u>
COMMITMENTS AND CONTINGENCIES	<u>-</u>	<u>-</u>
<u>NET ASSETS</u>		
Unrestricted	(84,474)	12,965
Temporarily restricted	31,566	16,034
Permanently restricted	957,751	900,081
Total net assets	<u>904,843</u>	<u>929,080</u>
Total liabilities and net assets	<u>\$ 1,083,711</u>	<u>\$ 1,245,346</u>

The accompanying notes are an integral part of these financial statements.

FIRST COMMAND EDUCATIONAL FOUNDATION
Statements of Activities
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenues and other support:		
Contributions	\$ 675,370	\$ 848,282
Special events	35,500	44,503
Donated facilities, materials and services	110,231	73,273
Investment income (loss)	105,381	(149,812)
Sales income	347	2,542
Net assets released from restriction	<u>9,468</u>	<u>58,142</u>
Total revenues and other support	<u>936,297</u>	<u>876,930</u>
Expenses:		
Program services:		
Scholarship program	224,950	367,393
Education	507,617	207,960
Public awareness	-	158,586
Total program services expenses	<u>732,567</u>	<u>733,939</u>
Development and fundraising	174,387	193,164
Management and general administrative	<u>126,782</u>	<u>143,592</u>
Total expenses	<u>1,033,736</u>	<u>1,070,695</u>
Decrease in unrestricted net assets	<u>(97,439)</u>	<u>(193,765)</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Contributions	25,000	9,392
Net assets released from restriction	<u>(9,468)</u>	<u>(58,142)</u>
Increase (decrease) in temporary restricted net assets	<u>15,532</u>	<u>(48,750)</u>
<u>PERMANENTLY RESTRICTED NET ASSETS</u>		
Contributions	<u>57,670</u>	<u>105,446</u>
Increase in permanently restricted net assets	<u>57,670</u>	<u>105,446</u>
Decrease in net assets	(24,237)	(137,069)
Net assets at beginning of year	<u>929,080</u>	<u>1,066,149</u>
Net assets at end of year	<u>\$ 904,843</u>	<u>\$ 929,080</u>

The accompanying notes are an integral part of these financial statements.

FIRST COMMAND EDUCATIONAL FOUNDATION
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Decrease in net assets	\$ (24,237)	\$ (137,069)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation	3,679	3,056
Donated securities	-	(21,739)
Uncollectible pledge receivable	40,000	-
Unrealized (gains) losses on assets restricted for endowment	(216,862)	187,404
Changes in assets and liabilities:		
Increase in pledges receivable	(21,547)	(145,874)
Decrease in amounts due from First Command Financial Services, Inc.	16,779	-
Increase in inventory	(19,585)	(26,087)
(Decrease) increase in scholarships payable	(5,464)	29,514
Decrease in accrued expenses and other liabilities	(30,934)	(5,885)
(Decrease) increase in pledges payable	(61,000)	99,000
Net cash used by operating activities	<u>(319,171)</u>	<u>(17,680)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale of assets restricted for endowment	312,546	-
Payments for assets restricted for endowment	(258,735)	(21,477)
Net cash provided (used) by investing activities	<u>53,811</u>	<u>(21,477)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(265,360)	(39,157)
Cash and equivalents at beginning of year	364,444	403,601
Cash and equivalents at end of year	<u>\$ 99,084</u>	<u>\$ 364,444</u>

The accompanying notes are an integral part of these financial statements.

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Organization

First Command Educational Foundation (the "Foundation") is a 501(c) public charity that provides grant support for charitable, religious, scientific, literary or educational purposes. The major programs of the Foundation are as follows:

Scholarship Program - Provides scholarships for those military and civilian individuals pursuing undergraduate and graduate degrees as well as trade programs and professional certification.

Education - Provides financial education courses and classroom instruction to individuals, businesses, and community organizations.

Public Awareness - Increases awareness in military and civilian communities regarding professional development and scholarships available (from the Foundation) to individuals, their families, and financial counselors; raises money to provide meet these mission requirements.

(b) Basis of Accounting and Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Net assets, revenues and other support, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be retained permanently with all or part of the income earned on related investments available for general or specific purposes.

Revenues and other support are reported as increases in unrestricted net assets unless use of the related amount is limited by donor-imposed and/or time restrictions. Support and revenues that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the same reporting period in which the support is recognized. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Tax Exempt Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Prior to January 1, 2006, the Foundation was classified as a private foundation as defined in Section 509(a) of the Internal Revenue Code. Effective January 1, 2006, the Foundation voluntarily terminated its private foundation status and is now classified as a public charity as defined in Section 509(a)(1) of the Internal Revenue Code. The Foundation is subject to applicable and federal unrelated business income tax and federal excise tax.

Because the Foundation is exempt from Federal income taxes, no provision has been made for Federal income tax. The Foundation adopted provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) topic *Accounting for Uncertainty in Income Taxes* during the year. No change in unrecognized tax liability of asset resulted from adopting this new accounting guidance. The Foundation recognizes interest accrued related to unrecognized tax benefits and penalties in management and general administrative expenses, if any. For 2009 and 2008, there were no interest or penalty expenses. The Foundation is not under examination for tax purposes by any jurisdiction. Open tax years include 2006 forward.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the year. Actual results could differ from those estimates.

(e) Cash Equivalents

The Foundation considers all interest-bearing deposits and short-term investments purchased with maturities of three months or less to be cash equivalents.

(f) Pledges Receivable

Unconditional promises to give are recognized as support in the period in which the promise is made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Because all significant receivable balances are due within one year, no present value discount has been applied to the balances for 2009 or 2008.

(g) Computer Equipment

Computer equipment is stated at cost less accumulated depreciation. Donated assets are recorded at their estimated fair value on the date of contribution. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally five years. The Foundation capitalized all assets with cost greater than \$1,000 and estimated useful life greater than one year. For the years ended December 31, 2009 and 2008, depreciation expense was \$3,679 and \$3,056, respectively.

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Inventories

Inventories are comprised of educational materials stated at the lower of cost or market determined by the first-in first-out method.

(i) Assets Restricted for Endowment

Assets Restricted for Endowment consist of investments and cash and cash equivalents permanently restricted by donors. The related investments are stated at fair value using quoted market prices when available. If quoted market prices are not available, estimated fair values are determined based on quoted market prices of similar financial instruments. Realized and unrealized gains and losses are reflected in the statement of activities as investment income (loss).

(j) Scholarship and Pledges Payable

Scholarships and pledges payable are recorded as liability and scholarship program expense when a commitment is approved by the Chief Executive Officer.

(k) Donated Services

Donated facilities, materials and services are recognized as contributions in accordance with ASC topic *Accounting for Contributions Received and Contributions Made* if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. During 2009 and 2008, the Foundation received the use of facilities, materials and services that met these criteria for recognition.

(l) Expense Allocation

The costs of providing 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.

(m) Fair Value of Financial Instruments

The carrying value of pledges receivable, amounts due from First Command Financial Services, Inc., and all liabilities approximate fair value principally because of the short maturity of those items. Estimated fair values of the assets restricted for endowment also approximate their carrying amounts as further described in Note 4.

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, investments, pledges receivable, and contributions. The Foundation places its cash with quality financial institutions; however, amounts occasionally exceed federally insured limits. Investments included in assets restricted for endowment are held by third parties and are subject to market risk. Approximately 65% and 50% of pledges receivable at December 31, 2009 and 2008 were due from a single donor, respectively. Contributions from two related party donors comprise approximately 55% and 50% of total contributions for 2009 and 2008, respectively.

(o) Recent Accounting Pronouncements

In June 2009, the FASB issued a standard that established the ASC, which effectively amended the hierarchy of U.S. generally accepted accounting principles (GAAP) and established only two levels of GAAP, authoritative and nonauthoritative. All previously existing accounting standard documents were superseded, and the ASC became the single source of authoritative, nongovernmental GAAP. All other non-grandfathered, non-SEC accounting literature not included in the ASC became nonauthoritative. The ASC was intended to provide access to the authoritative guidance related to a particular topic in one place. New guidance issued subsequent to June 30, 2009 will be communicated by the FASB through Accounting Standards Updates. The ASC was effective for financial statements for annual reporting periods ending after September 15, 2009. The Foundation has adopted and applied the provisions of the ASC for the Foundation's financial statements and has eliminated references to pre-ASC accounting standards throughout the financial statements. The Foundation's adoption of the ASC did not have a material impact on the Foundation's financial statements.

In September 2006, the FASB issued authoritative guidance on ASC topic *Fair Value Measurements and Disclosures*. This guidance defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This guidance is effective for financial statements issued for fiscal years beginning after November 15, 2008 for both financial and nonfinancial assets and liabilities. The implementation of this guidance did not have any significant impact on the Foundation's financial statements. See Note 4 for certain required disclosures related to this guidance.

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Recent Accounting Pronouncements (Continued)

In May 2009, the FASB issued authoritative guidance on ASC topic *Subsequent Events* which establishes general standards of accounting for and disclosure of events that occur after the statement of financial position date, but before financial statements are issued or are available to be issued. Specifically, this guidance provides (i) the period after the statement of financial position date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the statement of financial position date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the statement of financial position date. This guidance is effective for periods ending after June 15, 2009. The adoption of this guidance did not have a material effect on the Foundation's financial statements. See Note 15 for certain required disclosures related to this guidance.

In August 2009, the FASB issued new guidance on topic *Fair Value Measurements and Disclosures* of the FASB Accounting Standards Codification. This guidance provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of certain prescribed techniques. This amendment also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. It also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This new guidance is effective for the first reporting period beginning after August 2009. The implementation of this guidance is not expected to have any impact on the Foundation's financial statements.

(p) Reclassifications

Certain reclassifications have been made to 2008 balances to conform to classifications used in 2009.

2. INVESTMENTS

Investments, included as assets restricted for endowment, at market value as of December 31, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Government securities	\$ 97,094	\$ 96,802
Certificates of deposit	235,146	200,000
Mutual funds and other securities	<u>460,268</u>	<u>350,879</u>
Total investments	792,508	647,681
Cash included in assets restricted for endowment	<u>107,196</u>	<u>88,972</u>
	<u>\$ 899,704</u>	<u>\$ 736,653</u>

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

2. INVESTMENTS (Continued)

The following summarizes the investment return for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest, dividends and realized gains (losses)	\$ (111,481)	\$ 37,592
Unrealized gain (loss) on investments	<u>216,862</u>	<u>(187,404)</u>
Total investment return	\$ <u>105,381</u>	\$ <u>(149,812)</u>

3. DONOR DESIGNATED ENDOWMENT

The Foundation's endowment consists of individual funds established by donor-restricted contributions for the purpose of generating future scholarship funding. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Texas Prudent Management of Institutional Funds Act (TPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowments and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation. Net unrealized losses on endowment-related investments are classified as unrestricted net assets.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding for scholarships supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which meets the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities and certificates of deposit that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions for scholarships. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

3. DONOR DESIGNATED ENDOWMENT (Continued)

Spending Policy. Because actual investment returns in any given year vary, the Foundation reviews investment return throughout the year in conjunction with authorizing distributions to ensure the distributions do not liquidate the underlying endowment assets. In general, the Foundation distributes all earnings on the endowment assets, relying on additional donations to grow the principal investment assets.

Endowment asset composition by type of fund as of December 31, 2009 and 2008 is as follows:

<u>2009</u>		<u>2008</u>	
<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>
\$ <u>(58,047)</u>	\$ <u>957,751</u>	\$ <u>(163,428)</u>	\$ <u>900,081</u>

Changes in endowment assets as of December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment assets, beginning of year	\$ (163,428)	\$ -	\$ 900,081	\$ 736,653
Contributions	-	-	57,670	57,670
Net unrealized gains	216,862	-	-	216,862
Other investment losses	<u>(111,481)</u>	<u>-</u>	<u>-</u>	<u>(111,481)</u>
Endowment assets, end of year	\$ <u>(58,047)</u>	\$ <u>-</u>	\$ <u>957,751</u>	\$ <u>899,704</u>

Changes in endowment assets as of December 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Assets</u>
Endowment assets, beginning of year	\$ -	\$ -	\$ 794,635	\$ 794,635
Contributions	-	44,635	105,446	150,081
Net unrealized losses	(163,428)	(23,976)	-	(187,404)
Investment income	-	37,592	-	37,592
Amounts appropriated for expenditure	<u>-</u>	<u>(58,251)</u>	<u>-</u>	<u>(58,251)</u>
Endowment assets, end of year	\$ <u>(163,428)</u>	\$ <u>-</u>	\$ <u>900,081</u>	\$ <u>736,653</u>

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

4. FAIR VALUE MEASUREMENTS

FASB ASC topic *Fair Value Measurements* 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 this guidance 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 Foundation 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 that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

The asset or liability's 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009 or 2008.

Government securities, mutual funds and other securities: The fair values of government securities, mutual funds and other securities are based on quoted market price are classified in level 1 of the fair value hierarchy.

Certificates of deposit: The fair value of certificates of deposit is based on amortized cost or original cost plus accrued interest and are classified in level 2 of the fair value hierarchy.

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

4. FAIR VALUE MEASUREMENTS (Continued)

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 the Foundation 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.

The following table set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2009 and 2008:

<u>Assets At Fair Value as of December 31, 2009</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government securities	\$ 97,094	\$ -	\$ -	\$ 97,094
Mutual funds and other securities	460,268	-	-	460,268
Certificates of deposit	-	<u>235,146</u>	-	<u>235,146</u>
Total assets at fair value	\$ <u>557,362</u>	\$ <u>235,146</u>	\$ -	\$ <u>792,508</u>

<u>Assets At Fair Value as of December 31, 2008</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Government securities	\$ 96,802	\$ -	\$ -	\$ 96,802
Mutual funds and other securities	350,879	-	-	350,879
Certificates of deposit	-	<u>200,000</u>	-	<u>200,000</u>
Total assets at fair value	\$ <u>447,681</u>	\$ <u>200,000</u>	\$ -	\$ <u>647,681</u>

5. PLEDGES RECEIVABLE

As of December 31, 2009 and 2008, no allowance has been recorded for pledges receivable. As of December 31, 2009, all pledges are considered to be fully collectible within one year.

6. PLEDGES PAYABLE

Pledges payable consist of amounts pledged to other organizations, generally to be used by those organizations to provide scholarships. These obligations are expected to be paid out as follows:

Amounts to be paid in 2010	\$ 51,000
Amounts to be paid in 2011	51,000
Amounts to be paid in 2012	26,000
Amounts to be paid in 2013	<u>10,000</u>
	\$ <u>138,000</u>

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
As of and For the Years Ended December 31, 2009 and 2008

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of the following at December 31,:

	<u>2009</u>	<u>2008</u>
Texas Credit Union Foundation Grant	\$ -	\$ 6,292
Colonial Grant	-	1,000
Dallas Lower Scholarships	6,566	8,742
Other Scholarships	<u>25,000</u>	<u>-</u>
	<u>\$ 31,566</u>	<u>\$ 16,034</u>

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include principal amounts of contributions restricted by donor stipulations to investment and reinvestment in perpetuity, income of which is restricted by donor stipulations to be used for scholarships.

9. ADVERTISING COSTS

The Foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2009 and 2008 were \$1,364 and \$18,050, respectively.

10. DONATED USE OF FACILITIES AND SERVICES

The value of donated use of facilities and services included as contributions in the financial statements and corresponding expenses are as follows at December 31,:

	<u>2009</u>	<u>2008</u>
Use of office space, furniture and equipment	\$ 34,656	\$ 42,097
Donated materials in support of programs	55,322	18,543
Donated general accounting services	19,203	11,583
Donated retirement plan administration services	<u>1,050</u>	<u>1,050</u>
Total services	<u>\$ 110,231</u>	<u>\$ 73,273</u>

11. RELATED PARTY TRANSACTIONS

The Foundation receives the donated value of facilities and services (see Note 10) from a related organization, First Command Financial Services, Inc. (FCFS) and First Command Financial Planning, Inc. (FCFP). The Foundation reimburses FCFP for personnel expenses paid on behalf of the Foundation and FCFS for other services provided to the Foundation. FSFS collects certain commissions on behalf of the Foundation. As of December 31, 2009 and 2008, the Foundation had a receivable from FCFS of \$7,224 and \$24,003, respectively.

FIRST COMMAND EDUCATIONAL FOUNDATION
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12. EMPLOYEE RETIREMENT PLANS

As of December 31, 2008 the Foundation sponsored two contribution retirement plans for its employees. A qualified retirement plan is subject to a three year vesting schedule and is funded solely by contributions of the Foundation. A 403(b) plan is funded by the voluntary contributions of the employee. During the years ended December 31, 2008 the Foundation incurred expenses of \$ 38,881 for funding the qualified retirement plan. The plans cover all eligible employees of the Foundation.

In 2009, the Foundation replaced these retirement plans with a 401(k) and profit sharing plan with a four year vesting schedule. The plan is available to all employees. Employees are immediately covered by a 3% safe harbor match and may begin elective deferrals provided the employee is over 18 years of age. After one year of service, employees are eligible to receive matching contributions from the Foundation. The Foundation may match a portion of employee contributions each year at its discretion. In addition, the Foundation may contribute a percentage of total salaries to employees under the profit sharing plan. For 2009, the Foundation has accrued approximately \$23,000 to be contributed to the Plan.

13. LITIGATION

The Foundation is involved in various legal actions in the ordinary course of business. Management believes the ultimate disposition of these matters will not have a material adverse effect on the financial condition of the Foundation.

14. COMMITMENTS AND CONTINGENCIES

The Foundation entered into agreements during 2008 and 2009 for equipment rental and website related services. Expense incurred under these agreements was approximately \$17,000 and \$11,000 for the years ended December 31, 2009 and 2008, respectively.

Future lease payments required under these leases are approximately as follows:

2010	\$ 13,000
2011	12,000
2012	<u>3,000</u>
	<u>\$ 28,000</u>

In December 2009, the Foundation entered into an agreement with an independent contractor to provide grant writing and related services in 2010. Amounts due in 2010 for these services will total \$44,500.

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15. SUBSEQUENT EVENTS

In 2010, the Foundation entered into three agreements with independent contractors to provide fundraising and development, policy and program documentation, curriculum development, and similar services. Minimum obligations under these contracts total \$23,500, due in 2010.

Also in 2010, the Foundation entered into an agreement for web site design that requires an initial payment of \$20,000 followed by five quarterly payments of \$24,000 each beginning in July 2010. In addition, web site hosting and maintenance agreements totaling approximately \$1,500 per month were executed, effective beginning August 2010.

The date to which events occurring after December 31, 2009, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is July 26, 2010, which is the date on which the financial statements were issued.