

FIRST COMMAND EDUCATIONAL FOUNDATION

Financial Statements
Years Ended December 31, 2010 and 2009

FIRST COMMAND EDUCATIONAL FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
First Command Educational Foundation

We have audited the accompanying statement of financial position of First Command Educational Foundation (the "Foundation") as of December 31, 2010 and the related statements of activities and cash flows for the year 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 audit. We did not audit the financial statements of the Foundation as of December 31, 2009. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation for 2009, is based solely on the report of the other auditors.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Auldridge Griffin, P.C.

Fort Worth, Texas
June 3, 2011

FIRST COMMAND EDUCATIONAL FOUNDATION

Statements of Financial Position December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	155,041	99,084
Pledges receivable	9,619	28,613
Due from First Command Financial Services, Inc.	7,052	7,224
Inventory	53,819	45,672
Assets restricted for endowment	975,152	899,704
Total current assets	<u>1,200,683</u>	<u>1,080,297</u>
Property and equipment, net	<u>2,691</u>	<u>3,414</u>
Total assets	<u><u>\$ 1,203,374</u></u>	<u><u>\$ 1,083,711</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Scholarships payable	7,000	6,750
Accrued expenses and other liabilities	28,850	34,118
Pledges payable	55,000	138,000
Total current liabilities	<u>90,850</u>	<u>178,868</u>
Total liabilities	<u>90,850</u>	<u>178,868</u>
Net assets:		
Unrestricted	23,594	(84,474)
Temporarily restricted	184,930	31,566
Permanently restricted	904,000	957,751
Total net assets	<u>1,112,524</u>	<u>904,843</u>
Total liabilities and net assets	<u><u>\$ 1,203,374</u></u>	<u><u>\$ 1,083,711</u></u>

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

FIRST COMMAND EDUCATIONAL FOUNDATION

Statements of Activities Years Ended December 31, 2010 and 2009

	2010			2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and other support:								
Contributions	762,657	114,896	-	\$ 877,553	675,370	25,000	57,670	\$ 758,040
Special events	34,849	-	-	34,849	35,500	-	-	35,500
Donated facilities, materials and services	111,575	-	-	111,575	110,231	-	-	110,231
Investment income	54,531	16,016	-	70,547	105,381	-	-	105,381
Sales income	34	-	-	34	347	-	-	347
Net assets released from restriction	37,000	(37,000)	-	-	9,468	(9,468)	-	-
Total revenues and other support	1,000,646	93,912	-	1,094,558	936,297	15,532	57,670	1,009,499
Expenses:								
Program services:								
Scholarship program	250,880	-	-	250,880	224,950	-	-	224,950
Education	367,069	-	-	367,069	507,617	-	-	507,617
Total program services expenses	617,949	-	-	617,949	732,567	-	-	732,567
Development and fundraising	165,198	-	-	165,198	174,387	-	-	174,387
Management and general administrative	103,730	-	-	103,730	126,782	-	-	126,782
Total expenses	886,877	-	-	886,877	1,033,736	-	-	1,033,736
Increase (decrease) in net assets	113,769	93,912	-	207,681	(97,439)	15,532	57,670	(24,237)
Net asset adjustments	(5,701)	59,452	(53,751)	-				
Net assets at beginning of year	(84,474)	31,566	957,751	904,843	12,965	16,034	900,081	929,080
Net assets at end of year	\$ 23,594	\$ 184,930	\$ 904,000	\$ 1,112,524	\$ (84,474)	\$ 31,566	\$ 957,751	\$ 904,843

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

FIRST COMMAND EDUCATIONAL FOUNDATION

Statements of Cash Flows Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 207,681	\$ (24,237)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,249	3,679
Donated securities	(10,284)	-
Uncollectible pledge receivable	6,784	40,000
Unrealized (gain) loss on investment securities	(42,375)	(216,862)
Changes in operating assets and liabilities:		
Pledges receivable	22,494	(21,547)
Amounts due to related parties	172	16,779
Inventory	(8,147)	(19,585)
Scholarships payable	250	(5,464)
Accrued expenses and other liabilities	(5,267)	(30,934)
Decrease in pledges payable	(83,000)	(61,000)
Cash provided by (used for) operating activities	<u>90,557</u>	<u>(319,171)</u>
Cash flows from investing activities:		
Purchases of equipment	(1,526)	312,546
Proceeds from redemption of CD	5,000	-
Payments for assets restricted for endowment	(38,074)	(258,735)
Cash provided by (used in) investing activities	<u>(34,600)</u>	<u>53,811</u>
Cash flows from financing activities:	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	55,957	(265,360)
Cash and cash equivalents at beginning of year	<u>99,084</u>	<u>364,444</u>
Cash and cash equivalents at end of year	<u><u>\$ 155,041</u></u>	<u><u>\$ 99,084</u></u>

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

FIRST COMMAND EDUCATIONAL FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

NOTE 1 - Nature of Operations and Summary of Significant Accounting Principles

Organization

First Command Educational Foundation (the "Foundation") is a 501(c)(3) public charity that provides grant support for charitable, religious, scientific, literary or educational purposes and conducts financial educational programs. 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.

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.

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.

FIRST COMMAND EDUCATIONAL FOUNDATION

Notes to Financial Statements

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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 or assets 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 2010 and 2009, 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.

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.

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.

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 2010 or 2009.

Property and Equipment

Property and 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, 2010 and 2009, depreciation expense was \$2,249 and \$3,679, respectively, and accumulated depreciation was \$25,786 and \$23,537, respectively.

Inventories

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

FIRST COMMAND EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2010 and 2009

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).

Scholarship and Pledges Payable

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

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 2010 and 2009, the Foundation received the use of facilities, materials and services that met these criteria for recognition.

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.

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.

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 81% and 65% of pledges receivable at December 2010 and 2009 were due from a single donor, respectively. Contributions from two related party donors comprise approximately 75% and 55% of total contributions for 2010 and 2009, respectively.

FIRST COMMAND EDUCATIONAL FOUNDATION**Notes to Financial Statements****December 31, 2010 and 2009****NOTE 2 - Investments**

Investments, included as assets restricted for endowment, at market value as of December 31, 2010 and 2009 are summarized as follows:

	2010	2009
Government securities	\$ 116,349	\$ 97,094
Certificates of deposit	230,372	235,146
Mutual funds and other securities	543,675	460,268
Total investments	890,396	792,508
Cash included in assets restricted for endowment	84,756	107,196
	<u>\$ 975,152</u>	<u>\$ 899,704</u>

The following summarizes the investment return for the years ended December 31, 2010 and 2009:

	2010	2009
Interest, dividends and realized gains (losses)	\$ 28,172	\$ (111,481)
Unrealized gain (loss) on investments	42,375	216,862
Total investment return	<u>\$ 70,547</u>	<u>\$ 105,381</u>

NOTE 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

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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 scholarship. 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.

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, 2010 and 2009 is as follows:

2010			2009	
Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Permanently Restricted
\$ (8,229)	\$ 79,381	\$ 904,000	\$ (58,047)	\$ 957,751

Changes in endowment assets as of December 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment assets, beginning of year	\$ (58,047)	\$ -	\$ 957,751	\$ 899,704
Transfer adjustments	(5,701)	59,452	(53,751)	-
Contributions	-	19,501	-	19,501
Amounts appropriated	-	(14,600)	-	(14,600)
Net unrealized gains	42,375	-	-	42,375
Other investment income	13,144	15,028	-	28,172
Endowment assets, end of year	\$ (8,229)	\$ 79,381	\$ 904,000	\$ 975,152

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Notes to Financial Statements
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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	(111,481)	-	-	(111,481)
Endowment assets, end of year	<u>\$ (58,047)</u>	<u>\$ -</u>	<u>\$ 957,751</u>	<u>\$ 899,704</u>

NOTE 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, 2010 or 2009.

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Notes to Financial Statements

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Government securities, mutual funds and other securities: The fair values of government securities, mutual funds and other securities are based on quoted market price and 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.

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 tables set forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of December 31, 2010 and 2009:

Assets at Fair Value as of December 31, 2010				
	Level 1	Level 2	Level 3	Total
Government securities	\$ 116,349	\$ -	\$ -	\$ 116,349
Mutual funds and other securities	543,675	-	-	543,675
Certificates of deposit	-	230,372	-	230,372
	<u>\$ 660,024</u>	<u>\$ 230,372</u>	<u>\$ -</u>	<u>\$ 890,396</u>

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

NOTE 5 - Pledges Receivable

As of December 31, 2010 and 2009, no allowance has been recorded for pledges receivable. As of December 31, 2010, all pledges are considered to be fully collectible within one year.

NOTE 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:

FIRST COMMAND EDUCATIONAL FOUNDATION**Notes to Financial Statements****December 31, 2010 and 2009**

Amounts to be paid in 2011	\$ 24,000
Amounts to be paid in 2012	21,000
Amounts to be paid in 2013	5,000
Amounts to be paid in 2014	5,000
	<u>\$ 55,000</u>

NOTE 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of the following at December 31, 2010 and 2009:

	2010	2009
Money Matters	\$ 105,554	\$ -
Ricco	46,483	-
Lt. Jay Smith	17,443	-
Konecny	7,953	
Dallas Lower Scholarships	5,144	6,566
Lonestar Squadron	2,353	
Other Scholarships	-	25,000
	<u>\$ 184,930</u>	<u>\$ 31,566</u>

NOTE 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.

NOTE 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, 2010 and 2009 were \$-0- and \$1,364, respectively.

NOTE 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, 2010 and 2009:

	2010	2009
Use of office space, furniture and equipment	\$ 34,656	\$ 34,656
Donated materials in support of programs	56,844	55,322
Donated general accounting services	19,025	19,203
Donated retirement plan administration services	1,050	1,050
	<u>\$ 111,575</u>	<u>\$ 110,231</u>

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Notes to Financial Statements

December 31, 2010 and 2009

NOTE 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). The Foundation reimburses FCFS for personnel expenses and other expenses paid on behalf of the Foundation. FCFS collects certain commissions on behalf of the Foundation. As of December 31, 2010 and 2009, the Foundation had a receivable from FCFS of \$7,052 and \$7,224, respectively.

NOTE 12 - Employee Retirement Plans

The Foundation has 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 2010 and 2009, the Foundation has accrued approximately \$21,000 and \$23,000, respectively, to be contributed to the Plan.

NOTE 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.

NOTE 14 - Commitments and Contingencies

The Foundation entered into agreements during 2009 for equipment rental and website related services. Expense incurred under these agreements was approximately \$13,000 and \$17,000 for the years ended December 31, 2010 and 2009, respectively.

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

2011	\$ 12,000
2012	12,000
2013	3,000
	<u>\$ 27,000</u>

NOTE 15 - Net Asset Adjustment

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. In a prior period amounts received were incorrectly recorded as additions to the permanently restricted net assets. The reclassification of \$59,452 reclassifies the amounts originally reported as permanently restricted to temporarily restricted.

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NOTE 16 - Subsequent Events

There were no subsequent events identified by management as of the issuance date of these financial statements.