



# Calvetti Ferguson

**FIRST COMMAND EDUCATIONAL FOUNDATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018 AND 2017**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
First Command Educational Foundation

We have audited the accompanying financial statements of First Command Educational Foundation which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of First Command Educational Foundation as of December 31, 2018 and 2017 and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Fort Worth, Texas  
December 30, 2019

**FIRST COMMAND EDUCATIONAL FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 148,558	\$ 114,351
Pledges receivable	10,236	295
Due from First Command Financial Services, Inc.	14,928	18,816
Inventory	1,400	2,257
Assets restricted for endowment	1,132,312	1,194,455
Board reserved investments	<u>242,516</u>	<u>347,545</u>
Total current assets	1,549,950	1,677,719
Property and equipment, net	<u>4,298</u>	<u>4,187</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,554,248</u></b>	<b><u>\$ 1,681,906</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 5,500	\$ -
Scholarships payable	17,030	21,964
Accrued expenses and other liabilities	<u>85,690</u>	<u>65,013</u>
Total current liabilities	108,220	86,977
Long-term liabilities:		
Scholarships payable	<u>15,000</u>	<u>30,000</u>
Total long-term liabilities	15,000	30,000
Total liabilities	123,220	116,977
Net assets:		
With donor restrictions	1,117,401	1,128,912
Without donor restrictions	<u>313,627</u>	<u>436,017</u>
Total net assets	<u>1,431,028</u>	<u>1,564,929</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,554,248</u></b>	<b><u>\$ 1,681,906</u></b>

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

**FIRST COMMAND EDUCATIONAL FOUNDATION**

**STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating revenues and support</b>						
Contributions	\$ 929,637	\$ 13,878	\$ 943,515	\$ 810,074	\$ 19,617	\$ 829,691
Special events	53,230	-	53,230	55,270	-	55,270
Donated facilities, materials, and services	98,211	-	98,211	95,934	-	95,934
Investment income (loss)	(27,458)	(9,634)	(37,092)	80,161	23,223	103,384
Federal employee market seminar income	145,109	-	145,109	14,044	-	14,044
Net assets released from restriction	15,755	(15,755)	-	15,459	(15,459)	-
Total revenues and other support	1,214,484	(11,511)	1,202,973	1,070,942	27,381	1,098,323
<b>Operating expenses</b>				114,351		
Program services:						
Scholarship program	162,772	-	162,772	289,598	-	289,598
Federal employee market	106,173	-	106,173	20,542	-	20,542
Education	874,479	-	874,479	558,853	-	558,853
Total program services expenses	1,143,424	-	1,143,424	868,993	-	868,993
Management and general administrative	193,450	-	193,450	138,496	-	138,496
Total expenses	1,336,874	-	1,336,874	1,007,489	-	1,007,489
Changes in net assets	(122,390)	(11,511)	(133,901)	63,453	27,381	90,834
Net assets at beginning of year	436,017	1,128,912	1,564,929	372,564	1,101,531	1,474,095
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 313,627</b>	<b>\$ 1,117,401</b>	<b>\$ 1,431,028</b>	<b>\$ 436,017</b>	<b>\$ 1,128,912</b>	<b>\$ 1,564,929</b>

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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (133,901)	\$ 90,834
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	2,266	1,579
Gain on investment securities	107,365	(40,293)
Changes in operating assets and liabilities:		
Pledges receivable	(9,941)	6,858
Due from First Command Financial Services, Inc.	3,888	(8,662)
Inventory	857	1,532
Accounts payable	5,500	-
Scholarships payable	(19,934)	(15,000)
Accrued expenses and other liabilities	20,677	(480)
Pledges payable	-	(3,530)
Net cash from operating activities	<u>(23,223)</u>	<u>32,838</u>
<b>Cash flows from investing activities</b>		
Purchases of equipment	(2,377)	(2,797)
Purchases of investments	(162,042)	(152,507)
Proceeds from redemption and sale of investments	221,849	22,027
Net cash from investing activities	<u>57,430</u>	<u>(133,277)</u>
Net change in cash and cash equivalents	34,207	(100,439)
Cash and cash equivalents, beginning of year	114,351	214,790
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 148,558</u></b>	<b><u>\$ 114,351</u></b>

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

## FIRST COMMAND EDUCATIONAL FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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#### 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 certifications.

Education – provides financial education courses and classroom instruction to individuals, businesses, and community organizations.

**Change in Accounting Principle** – On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

**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. The consolidated financial statements are presented in accordance with FASB Accounting Standards Codification ("ASC") 958, and the provisions of the American Institute of Certified Public Accountants ("AICPA") *Audit and Accounting Guide for Not-for-Profit Organizations* (the "Guide"). ASC 958-205 was effective January 1, 2018.

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:

Without donor restrictions – Net assets that are not subject to donor (or certain grantor) restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. The Foundation's board may designate assets without restrictions for specific operational purposes from time to time.

With donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues and other support are reported as increases in net assets without donor restrictions unless use of the related amount is limited by donor-imposed restrictions. Support and revenues that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the same reporting period in which the support is recognized. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (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 THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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#### NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES – continued

**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.

**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 recognizes interest accrued related to unrecognized tax benefits and penalties in management and general administrative expenses, if any. For 2018 and 2017, there were no interest or penalty expenses. The Foundation is not under examination for tax purposes by any jurisdiction. Open tax years include 2015 forward.

**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. As of December 31, 2018 and 2017, there were no amounts held in excess of FDIC limits. Amounts related to endowment funds are held in separate accounts but are not required to be held in separate accounts.

**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.

**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. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. 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. In 2018 and 2017, all property and equipment were classified as computer and office equipment. For the years ended December 31, 2018 and 2017, depreciation expense was \$2,266 and \$1,579, respectively, and accumulated depreciation was \$16,378 and \$ 14,112, respectively.

**Inventories** – Inventories are comprised of educational materials stated at the lower of cost or net realizable value determined by the first-in, first-out method.

**Assets Restricted for Endowment** – Assets restricted for endowment consist of investments and cash and cash equivalents 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 or loss.

**Scholarships 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.



# FIRST COMMAND EDUCATIONAL FOUNDATION

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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### NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES – continued

**Donated Facilities, Materials, and Services** – Donated facilities, materials, and services are recognized as contributions in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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 2018 and 2017, the Foundation received the use of facilities, materials, and services that met these criteria for recognition for the general operation of the Foundation.

**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. As of December 31, 2018 and 2017, there were no concentrations of credit risk related to pledges receivable. Contributions from two related party donors comprise approximately 51% and 54% of total contributions for 2018 and 2017, respectively.

**Reclassifications** – Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. Such reclassifications had no effect on the change in total net assets as previously reported.

**Subsequent Events** – Management has evaluated subsequent events through December 30, 2019, the date on which these financial statements were available to be issued.

### NOTE 2 – INVESTMENTS

Investments, included as assets restricted for endowment and board-reserved investments, at market value as of December 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Government securities	\$ 94,523	\$ 96,795
Mutual funds and other securities	1,203,922	1,402,666
Total investments	1,298,445	1,499,461
Cash included in assets restricted for endowment	76,383	42,539
	<u>\$ 1,374,828</u>	<u>\$ 1,542,000</u>

**FIRST COMMAND EDUCATIONAL FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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**NOTE 2 – INVESTMENTS – continued**

The following summarizes the investment return for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest, dividends and realized gains	\$ 70,273	\$ 63,091
Unrealized gain (loss) on investments	(107,365)	40,293
Total investment return	<u>\$ (37,092)</u>	<u>\$ 103,384</u>

Investment related expenses for the years ended December 31, 2018 and 2017 were \$3,754 and \$3,459, respectively.

**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 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 as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation. Net unrealized gains and losses on endowment-related investments are classified as net assets with donor restrictions.

**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, 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, 2018 and 2017 is as follows:

<u>2018</u>		<u>2017</u>	
<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>
<u>\$ 1,117,750</u>	<u>\$ 14,562</u>	<u>\$ 1,125,261</u>	<u>\$ 69,194</u>

**FIRST COMMAND EDUCATIONAL FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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**NOTE 3 – DONOR-DESIGNATED ENDOWMENT – continued**

Changes in endowment assets as of December 31, 2018 are as follows:

	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total Endowment</u>
Endowment assets, beginning of year	\$ 1,125,261	\$ 69,194	\$ 1,194,455
Contributions	13,878	3,342	17,220
Amounts appropriated	(11,755)	(45,598)	(57,353)
Net unrealized gains	(26,437)	(80,928)	(107,365)
Other investment income	16,803	68,552	85,355
Endowment assets, end of year	<u>\$ 1,117,750</u>	<u>\$ 14,562</u>	<u>\$ 1,132,312</u>

Changes in endowment assets as of December 31, 2017 are as follows:

	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total Endowment</u>
Endowment assets, beginning of year	\$ 1,104,531	\$ 33,834	\$ 1,138,365
Contributions	12,967	-	12,967
Amounts appropriated	(15,460)	(30,002)	(45,462)
Net unrealized gains	6,984	31,738	38,722
Other investment income	16,239	33,624	49,863
Endowment assets, end of year	<u>\$ 1,125,261</u>	<u>\$ 69,194</u>	<u>\$ 1,194,455</u>

**NOTE 4 – FAIR VALUE MEASUREMENTS**

FASB ASC 820, *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) and the lowest priority to unobservable inputs (level 3). 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.

**FIRST COMMAND EDUCATIONAL FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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**NOTE 4 – FAIR VALUE MEASUREMENTS – continued**

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, 2018 and 2017.

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.

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, 2018 and 2017:

	<b>Assets as Fair Value as of December 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Government securities	\$ 94,523	\$ -	\$ -	\$ 94,523
Mutual funds and other securities	1,203,922	-	-	1,203,922
	<u>\$ 1,298,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,298,445</u>

	<b>Assets as Fair Value as of December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Government securities	\$ 96,795	\$ -	\$ -	\$ 96,795
Mutual funds and other securities	1,402,666	-	-	1,402,666
	<u>\$ 1,499,461</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,499,461</u>

**NOTE 5 – PLEDGES RECEIVABLE**

As of December 31, 2018 and 2017, \$10,236 and \$295 are recorded as a pledges receivable, respectively. These amounts are considered to be current and collectible within the next year. Pledges are determined to be uncollectable when, based on management's judgment, circumstances indicate that pledges receivable will not be collected.

**NOTE 6 – SCHOLARSHIPS AND PLEDGES PAYABLE**

Scholarships payable consist of amounts pledged to directly to a scholarship recipient's desired educational institution. 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:	<b>Scholarships</b>
2019	\$ 17,030
2020	15,000
	<u>\$ 32,030</u>

**FIRST COMMAND EDUCATIONAL FOUNDATION**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

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**NOTE 7 – NET ASSETS WITHOUT AND WITH DONOR RESTRICTIONS**

Net assets without donor restrictions are comprised of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unexpended	\$ 93,627	\$ 116,017
Board designated	220,000	320,000
	<u>\$ 313,627</u>	<u>\$ 436,017</u>

Net assets with donor restrictions are comprised of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
<b>Endowed scholarships:</b>		
Beyland	\$ 11,721	\$ 5,785
Carroll H Payne	754,000	754,000
Dallas Lower Scholarships	66,118	69,089
Konecny	64,883	69,966
Lt. Jay Smith	97,138	103,564
NTAGGL	52,917	57,148
Oaksmith	70,624	69,360
	<u>\$ 1,117,401</u>	<u>\$ 1,128,912</u>

Net assets with donor restrictions include principal amounts of \$1,004,000 of contributions restricted by donor stipulations to investment and reinvestment in perpetuity, the income of which is restricted by donor stipulations to be used for scholarships.

**NOTE 8 – 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Use of office space, furniture, and equipment	\$ 55,469	\$ 49,327
Donated materials in support of special events	35,017	25,473
Donated general account services	18,279	20,089
Donated retirement plan administration services	928	1,045
	<u>\$ 109,693</u>	<u>\$ 95,934</u>

**NOTE 9 – RELATED PARTY TRANSACTIONS**

The Foundation receives the donated value of facilities and services (see Note 8) 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, 2018 and 2017, the Foundation had a receivable from FCFS of \$14,928 and \$18,816, respectively.

## FIRST COMMAND EDUCATIONAL FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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#### NOTE 10 – EMPLOYEE RETIREMENT PLANS

The Foundation has a 401(k) and profit-sharing plan (the “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. In addition, the Foundation may contribute a percentage of total salaries to employees under the profit-sharing plan. For 2018 and 2017, the Foundation has accrued approximately \$41,684 and \$35,579, respectively, to be contributed to the Plan.

#### NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Foundation entered into agreements during 2009 for website-related services. Expense incurred under these agreements was approximately \$2,578 and \$2,490 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the terms of all lease agreements entered into by the Foundation had been completed and there were no future minimum lease payments required.

The Foundation renewed its facilities rental agreement for 2018 with the related party discussed at Note 9 and Note 10 for \$22,645 for the year then ended. The related party has agreed to donate the facilities rental amount for 2019 as they did in 2018.

#### NOTE 12 – LIQUIDITY AND AVAILABILITY

The Foundation has \$417,638 of financial assets available to meet cash needs for general expenditures within one year of the financial statement date, as noted in the current assets section of the statement of financial position less the assets restricted for endowment. None of the remaining financial assets are subject to done or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

#### NOTE 13 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. The Foundation is currently evaluating the new guidance to determine the impact it will have on its financial statements.

In February 2017, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to record most leases on their balance sheet, while expense recognition on the statement of operations remains similar to current lease accounting guidance. The guidance also eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. Under the new guidance, lease classification as either a finance lease or an operating lease will determine how lease-related revenue and expense are recognized. The pronouncement is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the effect of the adoption of this guidance on its financial statements.

Other recent accounting pronouncements issued by the FASB or other authoritative standards groups with future effective dates are either not applicable or are not expected to be significant to the financial statements of the Company.

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