

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY
YEARS ENDED DECEMBER 31, 2009 AND 2008**



HOUSE PARK & DOBRATZ, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

YEARS ENDED DECEMBER 31, 2009 AND 2008

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Independent Auditors' Report

Board of Trustees
American Academy of Family Physicians Foundation
Leawood, Kansas

We have audited the accompanying consolidated statements of financial position of American Academy of Family Physicians Foundation and Subsidiary (the Organization) as of December 31, 2009 and 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized comparative information in the consolidated statement of activities has been derived from the Organization's 2008 financial statements.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Academy of Family Physicians Foundation and Subsidiary as of December 31, 2009 and 2008, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

House Park & Dobratz, P.C.

April 24, 2010

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents (Note 10)	\$ 7,365,047	\$ 6,484,913
Accounts receivable (Note 12)	720,448	690,279
Accounts receivable, planned giving program (Note 11)	33,715	29,096
Prepaid expenses	72,297	33,547
Investments at fair value (Notes 7, 10 and 11)	9,350,795	7,744,089
Office equipment, furniture and fixtures, net of accumulated depreciation of \$647,353 and \$626,078 as of December 31, 2009 and 2008, respectively	<u>140,243</u>	<u>68,104</u>
	<u>\$ 17,682,545</u>	<u>\$ 15,050,028</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable (Note 12)	\$ 4,681,718	\$ 3,797,703
Deferred revenue and advances (Note 3)	355,246	1,498,808
Deferred income taxes (Note 6)	4,164	1,316
Liabilities under split-interest agreements (Note 11)	68,841	60,171
Federal and state income taxes payable (Note 6)	102,048	7,321
Grant awards payable	<u>299,116</u>	<u>213,180</u>
Total liabilities	<u>5,511,133</u>	<u>5,578,499</u>
Commitments (Notes 2 and 8)		
Net assets:		
Unrestricted:		
Undesignated	1,904,046	1,137,484
Equity in equipment, furniture and fixtures	67,286	7,612
Board-appropriated (Note 10)	<u>7,559,618</u>	<u>6,124,173</u>
Total unrestricted	9,530,950	7,269,269
Temporarily restricted (Note 10)	1,366,306	1,029,209
Permanently restricted (Note 10)	<u>1,274,156</u>	<u>1,173,051</u>
Total net assets	<u>12,171,412</u>	<u>9,471,529</u>
	<u>\$ 17,682,545</u>	<u>\$ 15,050,028</u>

See notes to consolidated financial statements.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND
CHANGES IN NET ASSETS**

YEAR ENDED DECEMBER 31, 2009
(With comparative totals for the year ended December 31, 2008)

	2009		
	<u>American Academy of Family Physicians Foundation</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Revenues and support:			
Insurance revenues	\$ --	\$ --	\$ --
Individual donations (Note 12)	867,627	78,924	42,281
Corporate and chapter support	780,950	45,500	37,000
Grants	91,315	7,892,546	--
Investment return (loss) (Notes 7 and 11)	1,552,503	43,384	12,323
Other	17,034	35,217	--
Net assets released from restrictions, satisfaction of donor stipulations (Note 10)	<u>7,758,584</u>	<u>(7,758,584)</u>	<u>--</u>
Total revenues and support	<u>11,068,013</u>	<u>336,987</u>	<u>91,604</u>
Expenses:			
Board, general staff and administration	693,344	--	--
Family Medicine Philanthropic Consortium	120,488	--	--
Center for the History of Family Medicine	142,447	--	--
Grant awards and administration	3,038,462	--	--
Teacher Development Awards program	41,242	--	--
Individual development	559,794	--	--
Professional and corporate affairs	148,327	--	--
Communications and public relations	--	--	--
Working party	--	--	--
Peers for Progress (Note 3)	4,444,869	--	--
Programs, other	650,018	--	--
Income taxes (Note 6)	<u>--</u>	<u>--</u>	<u>--</u>
Total expenses (Note 5)	<u>9,838,991</u>	<u>--</u>	<u>--</u>
Change in net assets	1,229,022	336,987	91,604
Net income	915,736	--	--
Transfers	(9,611)	110	9,501
Reclassification of FMPC payable to net assets (Note 13)	126,534	--	--
Net assets, beginning of year	<u>7,269,269</u>	<u>1,029,209</u>	<u>1,173,051</u>
Net assets, end of year	<u>\$ 9,530,950</u>	<u>\$ 1,366,306</u>	<u>\$ 1,274,156</u>

<u>2009</u>		<u>Consolidated totals</u>	<u>2008 Consolidated totals</u>
<u>All funds</u>	<u>AAFP Insurance Services, Inc.</u>		
\$ --	\$ 3,255,235	\$ 3,255,235	\$ 3,157,911
988,832	--	988,832	713,623
863,450	--	863,450	1,015,065
7,983,861	--	7,983,861	4,003,194
1,608,210	--	1,608,210	(2,853,594)
52,251	570	52,821	655
--	--	--	--
<u>11,496,604</u>	<u>3,255,805</u>	<u>14,752,409</u>	<u>6,036,854</u>
693,344	1,529,513	2,222,857	2,308,996
120,488	--	120,488	124,912
142,447	--	142,447	133,186
3,038,462	--	3,038,462	2,717,499
41,242	--	41,242	41,524
559,794	150,074	709,868	720,825
148,327	20,405	168,732	206,321
--	42,501	42,501	79,316
--	--	--	12,021
4,444,869	--	4,444,869	1,310,176
650,018	--	650,018	815,760
--	597,576	597,576	531,607
<u>9,838,991</u>	<u>2,340,069</u>	<u>12,179,060</u>	<u>9,002,143</u>
1,657,613	915,736	2,573,349	(2,965,289)
915,736	(915,736)	--	--
--	--	--	--
126,534	--	126,534	--
<u>9,471,529</u>		<u>9,471,529</u>	<u>12,436,818</u>
<u>\$12,171,412</u>	<u>\$ --</u>	<u>\$12,171,412</u>	<u>\$ 9,471,529</u>

See notes to consolidated financial statements.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Cash flows from operating activities:		
Change in net assets/net income	\$ 2,573,349	(\$ 2,965,289)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	29,880	37,522
Net realized and unrealized (gains) losses	(1,414,701)	3,165,502
Change in value of split-interest agreements	(20,072)	43,132
Change in operating assets and liabilities:		
Receivables	(30,169)	10,397
Prepaid expenses	(38,750)	23,774
Accounts payable	1,010,549	151,578
Deferred revenue and advances	(1,143,562)	(179,133)
Deferred income taxes, net	2,848	14,331
Federal and state income taxes payable	94,727	(47,089)
Grant awards payable	<u>85,936</u>	<u>(96,294)</u>
Net cash provided by operating activities	<u>1,150,035</u>	<u>158,431</u>
Cash flows from investing activities:		
Purchase of equipment, furniture and fixtures	(102,019)	(10,124)
Purchase of investments	<u>(167,882)</u>	<u>(574,900)</u>
Net cash used by investing activities	<u>(269,901)</u>	<u>(585,024)</u>
Increase (decrease) in cash and cash equivalents	880,134	(426,593)
Cash and cash equivalents, beginning of year	<u>6,484,913</u>	<u>6,911,506</u>
Cash and cash equivalents, end of year	<u>\$ 7,365,047</u>	<u>\$ 6,484,913</u>
<i>Supplemental disclosures of cash flow information:</i>		
Net investment (income) losses allocated to assets held under split interest agreements	(\$ <u>24,123</u>)	<u>\$ 54,661</u>
Amounts paid for federal and state income taxes (Note 6)	<u>\$ 500,001</u>	<u>\$ 578,696</u>
Reclassification of FMPC payable to net assets	<u>\$ 126,534</u>	

See notes to consolidated financial statements.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies:

Organization and principles of consolidation:

The American Academy of Family Physicians Foundation (the Foundation) is a not-for-profit organization whose primary activity is serving as a fiscal intermediary for programs that serve to promote and benefit family medicine throughout the United States. The Foundation encourages philanthropy, awards research grants, offers education programs and maintains a center for the history of family medicine. The Foundation's donors and members are located primarily throughout the United States of America.

AAFP Insurance Services, Inc. (Insurance Services) is a wholly-owned, for-profit subsidiary of the American Academy of Family Physicians Foundation. Insurance Services administers and sells various types of insurance plans (life, medical, disability, accidental death, etc.) to members of the American Academy of Family Physicians (the Academy), the sole contract holder of such plans. Insurance Services maintains a relationship with one insurance company that services a majority of these plans and is the source for a significant portion of revenues from insurance plans. Insurance Services' insured are located primarily throughout the United States of America.

The consolidated financial statements include the financial position, operations, cash flows and changes in net assets of the Foundation and Insurance Services (collectively referred to as the Organization). Inter-entity transactions and balances have been eliminated for financial statement purposes.

The consolidated statement of activities includes certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which the summarized information is derived.

Accounts receivable:

Accounts receivable consists primarily of Foundation donations collected by the Academy and commissions due from an insurance carrier. Neither the Foundation nor Insurance Services requires collateral for the accounts. Balances become past due according to the terms of various agreements with the chapters, organizations who handle the initial processing and insurance carriers. Balances that are still outstanding after management has used reasonable collection efforts are charged to expense when that determination is made. Management believes that all accounts receivable are collectible; therefore, no allowance for uncollectible accounts has been established.

Advertising:

Insurance Services expenses advertising and other promotional costs as they are incurred. These types of expenses for mailing campaigns, newsletters and similar activities totaled \$177,516 for 2009 and \$277,822 for 2008.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Basis of accounting:

The financial statements of the Foundation and Insurance Services have been prepared on the accrual basis of accounting; accordingly, certain support and revenue are recognized when earned rather than when received, and certain expenses are recognized when the obligation is incurred rather than when cash is disbursed.

Basis of presentation:

Financial statement presentation follows the guidelines of the Financial Accounting Standards Board in its FASB Accounting Standards Codification (ASC) 958 *Not for Profit Entities*. Under ASC 958 the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets consist of funds free of any donor-imposed restrictions and are classified into undesignated funds and Board-designated funds. The Board-designated funds represent a portion of unrestricted donations received, which are set aside by the Board for the future general operation and administration of the Foundation.

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose.

Permanently restricted net assets are those contributions whose use by the Foundation is limited by donor-imposed stipulations that the corpus be held in perpetuity. The earnings from each of these net assets are available for use for temporarily restricted purposes or are added to the corpus as specified by the donor.

Cash equivalents:

For purposes of the consolidated statements of cash flows, cash equivalents consist primarily of money market accounts and are carried at cost which approximates market value.

Contributions:

Contributions received by the Foundation are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Specific programs are considered unrestricted support when the restrictions are met in the same reporting period.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Investments and concentrations of credit risk:

Financial instruments which potentially subject the Organization to significant concentrations of credit risk consist principally of cash and investments. The Organization maintains its bank accounts at two institutions where accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Balances frequently exceed insured limits. As of December 31, 2009, the Organization also has invested \$3,206,227 in mutual funds which hold U.S. government and agency securities. These funds are not covered by FDIC insurance.

Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the statement of activities. Marketable securities are held by a custodian and are stated at fair value based on quoted market prices. Alternative investments consist primarily of publicly traded limited partnerships.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported as net assets in the consolidated statements of financial position.

Certain assets are pooled for investment purposes. Related investment income, net of investment expenses, and net realized and unrealized gains and losses are allocated to each component fund based on a ratio of the individual weighted average fund balance to total weighted average fund balance.

Income tax status:

The Foundation is an organization as described in Section 501(c)(3) of the Internal Revenue Code (RC), and has received a determination letter from the Internal Revenue Service (IRS) that it is exempt from federal income tax on its related exempt activities under IRC 501(a).

Insurance Services is a for-profit entity. Income taxes are provided for the tax effects of Insurance Services transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the bases of assets or liabilities for financial statement and income tax purposes and are measured using the enacted tax rates and laws anticipated to be in effect when the differences are expected to reverse.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Income tax status (continued):

The differences relate to depreciable assets (use of accelerated depreciation methods) and accrued expenses (timing differences on deductibility). The deferred tax assets or liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets or liabilities are recovered or settled.

As of December 31, 2009, Insurance Services has adopted the provisions of the Financial Accounting Standards Board's FIN 48 – *Accounting for Uncertain Income Tax Positions* (FASB ACS 740-10) as it might apply to Insurance Services' financial transactions. Insurance Services' policy is to record a liability for any tax position that is beneficial to Insurance Services, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2009 and, accordingly, no liability has been accrued. However, Insurance Services' federal income tax returns for 2006, 2007 and 2008 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Office equipment, furniture and fixtures:

Office equipment, furniture and fixtures over a nominal amount are capitalized and stated at cost. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets (three to ten years).

Revenue recognition:

Insurance Services' revenues are based upon broker and service agreements between Insurance Services and the insurance companies that provide coverage. Commissions and administrative allowances are accrued on premiums collected in the period earned.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Reclassifications:

Certain amounts previously reported in the 2008 consolidated financial statements have been reclassified to conform to the current year presentation.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Change in accounting standards guidance:

In June, 2009, the Financial Accounting Standards Board (FASB) issued guidance which is included in the Codification in FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*. This guidance modified the Generally Accepted Accounting Principles (GAAP) hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB ASC, also known collectively as the "Codification", is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. These changes will have no effect on the Organization's accounting policies or disclosures except that the references to FASB pronouncements will be replaced by the corresponding Codification references.

Subsequent events:

Subsequent events have been evaluated through April 24, 2010, which is the date the financial statements were available to be issued.

2. Commitments:

On June 18, 2004, Insurance Services entered into a two-year employment contract with its president, effective July 1, 2004, and renewable automatically on a two-year basis subject to cancellation by either party under specified conditions. This contract provides for a base compensation including a fixed salary along with incentive compensation based on dividends paid. The latest date of renewal was June 18, 2009, effective July 1, 2009.

On December 12, 2005, the Foundation entered into an administrative services contract with the Academy. Under the contract, the Academy agrees to perform day-to-day executive, legal, accounting, clerical and other services in connection with the operations of the Foundation. The contract, effective January 1, 2006 for a one-year term, is automatically extended for consecutive one-year periods unless notice of termination by either party is given at least 90 days prior to the end of the current term. The monthly fee was \$102,600 in 2008 and increased to \$107,730 beginning January 1, 2009.

**AMERICAN ACADEMY OF FAMILY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. Commitments (continued):

The director of the Peers for Progress program and his assistant are employed by a university. The Foundation has an agreement with the university to pay a portion of their salaries and related expenses. The agreement extends through June, 2011. Amounts expensed under this agreement were \$342,236 and \$96,013 for 2009 and 2008, respectively. Future commitments as of December 31, 2009, are as follows:

2010	\$ 365,583
2011	<u>186,327</u>
	<u>\$ 551,910</u>

3. Conditional promises:

In May 2007, The Foundation became the recipient of a \$15 million grant from the Eli Lilly and Company Foundation to help the diabetes community establish a new model of peer education for people with diabetes. The grant is to fund "Peers for Progress", a program that is rooted in peer-to-peer interactions in order to sustain individual behavior changes that will improve health as well as quality of life. Peers for Progress is designed to demonstrate the value of peer support, extend the evidence base for such interventions, help establish peer support as an accepted, core component of diabetes care, and promote peer support programs and networks around the world. The Foundation administers the Peers for Progress program, including distribution of grant funds. As administrator, the Foundation retains 5% of the grant amount to cover overhead and administrative expenses. Through December 31, 2009, the Foundation had received \$7,238,934, and \$6,886,059 in expenses had been incurred. The balance of \$352,875 is included in deferred revenue at December 31, 2009. While the grant will expire on December 31, 2011, it is cancellable by the grantor at any time with or without cause with unexpended or uncommitted advances to be refunded.

4. Employee benefit plans:

Insurance Services administers a non-contributory, defined contribution retirement plan (the Defined Contribution Plan) for its employees. All employees who have attained the age of 21 and completed 1,000 hours of service during a 12-month period are eligible. The right to discontinue the Defined Contribution Plan has been reserved by Insurance Services, and in such event the trust fund must be used for the exclusive benefit of participants. Insurance Services' annual contribution to the Defined Contribution Plan is seven percent (7%) of each participant's annual salary. Additionally, Insurance Services has a 401(k) plan, under which Insurance Services matches employee contributions up to an additional four percent (4%) of compensation. Insurance Services contributed \$91,957 and \$94,674 to the plans for 2009 and 2008, respectively.

**AMERICAN ACADEMY OF FAMILY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

5. Functional allocation of expenses:

The costs of providing various program and supporting activities of the Foundation have been reported on a natural basis in the statement of activities. The costs of these activities on a functional basis, including allocation of certain costs, are summarized below.

	<u>2009</u>	<u>2008</u>
Program services	\$ 8,675,740	\$ 5,577,317
Supporting services:		
Administration	365,772	400,138
Fundraising	797,479	715,201
	<u>1,163,251</u>	<u>1,115,339</u>
	<u>\$ 9,838,991</u>	<u>\$ 6,692,656</u>

6. Income taxes:

Insurance Services' current federal and state income tax liability and deferred tax liability follow:

	<u>2009</u>	<u>2008</u>
Current tax liability	\$ 102,048	\$ 7,321
Deferred tax asset	\$ 22,286	\$ 19,844
Deferred tax liability	(26,450)	(21,160)
Deferred tax liability, net	(\$ 4,164)	(\$ 1,316)

The provisions for income taxes consist of the following components:

Current expense	\$ 594,728	\$ 517,276
Deferred expense	<u>2,848</u>	<u>14,331</u>
	<u>\$ 597,576</u>	<u>\$ 531,607</u>

Insurance Services' provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes primarily due to provisions for state income taxes and deducting certain expenses for financial statement purposes but not for federal income tax purposes.

**AMERICAN ACADEMY OF FAMILY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

7. Investments:

During 2009, the Foundation adopted FASB ASC 820-10, *Fair Value Measurements and Disclosure* (ASC 820-10) with respect to its financial assets and liabilities. ASC 820-10 defines fair value as the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs including quoted prices in active markets for similar assets and Level 3 inputs consist of unobservable inputs that are supported by little or no market activity and have the lowest priority.

Investments of the Foundation are reported at fair value and consist of the following:

	<u>2009</u>	<u>2008</u>
Equities	\$ 5,613,541	\$ 3,803,632
Corporate bonds	869,465	1,051,565
Alternative investments	753,913	1,080,704
Treasury and federal agency obligations	267,319	99,032
Cash and equivalents	193,327	410,562
Fixed income funds	<u>1,653,230</u>	<u>1,298,594</u>
	<u>\$ 9,350,795</u>	<u>\$ 7,744,089</u>

The Foundation is a limited partner in an investment pool with the Academy. The Foundation's share of the pooled investments was valued at \$703,202 at December 31, 2009 and \$571,060 at December 31, 2008. These investments are included above and consist almost exclusively of equities and fixed income funds.

Assets held as investments for planned giving programs totaled \$132,155 and \$108,032 at December 31, 2009 and 2008. These investments are included above and consist almost exclusively of equities and fixed income funds.

Investment income (loss) from these Foundation investments and Insurance Services cash equivalents is summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividends, net of expenses	\$ 173,437	\$ 355,040
Net realized and unrealized gains (losses)	1,414,701	(3,165,502)
Change in value of split-interest agreements (Note 11)	<u>20,072</u>	<u>(43,132)</u>
	<u>\$ 1,608,210</u>	<u>(\$2,853,594)</u>

**AMERICAN ACADEMY OF FAMILY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

7. Investments (continued):

The following is a summary of the inputs used as of December 31, 2009 in valuing the Foundation's investments carried at fair value:

	December 31 <u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities	\$ 5,613,541	\$ 5,613,541	--	--
Corporate bonds	869,465	--	\$ 869,465	
Alternative investments	753,913	--	--	\$ 753,913
Treasury and federal agency obligations	267,319	267,319	--	--
Cash and equivalents	193,327	193,327	--	--
Fixed income funds	<u>1,653,230</u>	<u>1,653,230</u>	<u>--</u>	<u>--</u>
	<u>\$ 9,350,795</u>	<u>\$ 7,727,417</u>	<u>\$ 869,465</u>	<u>\$ 753,913</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>Alternative investments</u>
Balance December 31, 2008	\$ 1,080,704
Purchases	35,000
Interest income	4,720
Realized losses	(131,790)
Unrealized gains	135,540
Transfers out of Level 3	<u>(370,261)</u>
Balance December 31, 2009	<u>\$ 753,913</u>

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

8. Leases:

Insurance Services leases space from the Academy. The current lease expires in September 2014. Future minimum lease payments are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2010	\$ 84,342
2011	84,342
2012	84,342
2013	84,342
2014	<u>56,227</u>
	<u>\$ 393,595</u>

Total rent expense for the office operating lease was \$79,924 and \$77,716 for the years ended December 31, 2009 and 2008, respectively.

9. Major customer and sole stockholder:

The Academy, as the contract holder, controls certain plans administered by Insurance Services. The Board of Directors of the Academy constitutes the membership of Insurance Services' sole stockholder, the American Academy of Family Physicians Foundation. Insurance Services administers Academy-sponsored life insurance plans and, pursuant to a royalty agreement related thereto, incurred costs to the Academy of \$51,102 and \$49,340 for the years ended December 31, 2009 and 2008, respectively.

10. Net assets:

Certain net assets have been designated or appropriated by the Board as follows:

	<u>2009</u>	<u>2008</u>
General endowment	\$ 6,774,398	\$ 5,582,090
Archives endowment	650,463	532,582
Family Medicine Philanthropic Consortium (Note 13)	134,757	--
Graham endowment	<u>--</u>	<u>9,501</u>
Total Board-appropriated net assets	<u>\$ 7,559,618</u>	<u>\$ 6,124,173</u>

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

10. Net assets (continued):

Temporarily restricted net assets consist of cash and investments and are held for the following purposes at December 31:

	<u>2009</u>	<u>2008</u>
Resident Repayment Program	\$ 483,941	\$ 483,941
Time to Talk Cardio	165,715	--
Pass-through grants	134,558	36,595
Stern Lectureship Fund	75,037	63,431
Immunization program	72,616	58,681
Teacher Development Awards	70,672	69,207
Pooled income fund	49,522	--
CRT planned gifts	47,505	41,628
Visiting Professorship Program	46,384	51,432
International fund	45,742	35,294
Nutrition spokesperson grants	42,051	42,051
Health Literacy fund	27,608	33,796
Disaster relief fund	27,136	27,086
Lopez fund	15,129	12,467
Fellowship awards	10,000	1,000
Research Skills Seminar	2,100	32,124
Sundry	<u>50,590</u>	<u>40,476</u>
	<u>\$ 1,366,306</u>	<u>\$ 1,029,209</u>

Net assets released from temporary restrictions due to satisfaction of donor restrictions are as follows:

	<u>2009</u>	<u>2008</u>
Peers for Progress	\$ 4,678,808	\$ 1,379,133
Pass-through grants	2,358,275	2,460,708
Time to Talk Cardio	249,575	--
Immunization program	216,066	194,814
Visiting Professorship Program	68,048	52,878
Teacher Development Awards	48,534	44,972
Research Skills Seminar	48,402	42,621
International fund	34,611	47,264
Bulletin	20,000	45,000
Fellowship awards	11,000	29,000
Auction	10,146	3,650
Annual report	7,069	10,000
Health Literacy fund	6,188	54,632
Sundry	1,862	3,284
Disaster Relief	<u>--</u>	<u>21,000</u>
	<u>\$ 7,758,584</u>	<u>\$ 4,388,956</u>

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

10. Net assets (continued):

In August, 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)*, and *Enhanced Disclosures for All Endowment Funds*. This guidance is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations and was effective for years ending after December 15, 2008. The FSP requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) including the Foundation's policy for determining the permanently restricted portion of the endowment funds.

The Foundation's permanently restricted net assets consist of six individual funds established for a variety of purposes and include both donor-restricted endowment funds and funds designated by the Board of Trustees. The Foundation's policy requires the preservation of the fair value as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Based on its interpretation of state law regarding management of endowment funds, the Foundation classifies as permanently restricted net assets the original value of the gifts to the permanent endowment, the fair value of any subsequent gifts to the endowment and any accumulation required to be made by donor stipulation. Amounts in excess of the stated value of permanently restricted funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

The Foundation has investment and expenditure policies that consider the purpose of the donor-restricted fund, general economic conditions, and expected investment returns. From time to time, the fair value of net assets associated with individual donor-restricted endowment funds may fall below the level the donor required the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature would be appropriated from unrestricted funds. As of December 31, 2009, these deficiencies totaled \$194,224.

Endowment net assets composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	(\$ 194,224)	\$ 34,984	\$ 1,274,156	\$ 1,114,916
Board-designated endowment funds	<u>7,424,861</u>	<u>--</u>	<u>--</u>	<u>7,424,861</u>
	<u>\$ 7,230,637</u>	<u>\$ 34,984</u>	<u>\$ 1,274,156</u>	<u>\$ 8,539,777</u>

**AMERICAN ACADEMY OF FAMILY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

10. Net assets (continued):

Changes in endowment net assets for the year ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,777,423	\$ 24,704	\$ 1,173,050	\$ 6,975,177
Contributions	61,162	--	79,281	140,443
Net investment income	167,828	10,280	12,324	190,432
Net realized and unrealized gains	1,258,852	--	--	1,258,852
Program expenses	(40,017)	--	--	(40,017)
Transfers from operating fund	15,000	--	--	15,000
Fund reclassification	(9,611)	--	9,501	(110)
	<u>\$ 7,230,637</u>	<u>\$ 34,984</u>	<u>\$ 1,274,156</u>	<u>\$ 8,539,777</u>

Donor restricted endowment funds consist of cash and investments and are held for the following purposes at December 31:

	<u>2009</u>	<u>2008</u>
Archives endowment	\$ 584,941	\$ 451,196
Lopez endowments	148,119	122,890
Graham endowment	219,900	160,753
McCord endowment	83,171	68,981
Panther endowment	26,489	21,998
Ostergaard endowment	<u>52,296</u>	<u>25,187</u>
	<u>\$ 1,114,916</u>	<u>\$ 851,005</u>

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

11. Split-interest agreements:

Charitable Remainder Trusts:

The Foundation is the named beneficiary of two Charitable Remainder Unitrusts (CRUTs). These split interest agreements provide for a lifetime benefit to be paid to the donor or other designated beneficiary. Upon the death of the beneficiary(ies), the remaining trust assets are distributed to charitable remainder beneficiaries as provided in the trust document. The Foundation is the trustee and sole remainder beneficiary of one of the CRUTs. The assets held in this trust totaled \$57,869 as of December 31, 2009 and are included in investments. Based on the value of the assets and the age of the beneficiaries, the Foundation has recorded a liability of \$37,418 at December 31, 2009, equal to the present value of the estimated future obligations based on mortality rates derived from ordinary life annuity tables. Additionally, as of December 31, 2009, distributions payable to the beneficiary of \$6,659 are included in "liabilities under split-interest agreements". The increase in the net value of the CRUT of \$1,258 is included in "investment return" in the statement of activities for 2009.

The other CRUT names the Foundation as beneficiary of the remainder interest but the Foundation is not the trustee. Therefore, the present value of the estimated remainder interest attributable to the Foundation of \$33,715 is recorded as a receivable as of December 31, 2009. The increase in this receivable of \$4,619 is included in "investment return" in the statement of activities for 2009.

Pooled income fund:

Donors contribute assets to an investment pool and are assigned a specific number of units based on the proportion of the fair value of their contribution to the total fair value of the pooled income fund on the date of the donor's entry to the pooled fund. The contributed assets are recorded at fair value. A contribution is recorded at the fair value of the assets discounted for the estimated time period until the donor's death. The difference between the fair value of the assets received and the revenue recognized is recorded as deferred revenue, representing the amount of the discount for future interest. Until a donor's death, the donor or donor's designated beneficiary is paid the actual ordinary income earned on the donor's units. Upon the donor's death, the fair value of the units is released to the Foundation or other designated charitable beneficiary for unrestricted use. No additional pooled income fund contributions were received in 2009 or 2008.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

11. Split-interest agreements (continued):

Pooled income fund (continued):

The fair value of the pooled income fund assets of \$74,286 is included in investments in the accompanying consolidated statements of financial position as of December 31, 2009. Periodic income on the pooled income fund and payments to the donors are reflected as increases and decreases in the liability to the donors, \$301 as of December 31, 2009, which is included in "liabilities under split-interest agreements." The present value of the future interest is calculated using discount rates ranging from 5.75% to 8.75% and applicable life expectancy tables. The estimated future liability of the pooled income fund contributions of \$24,463 is recognized as deferred revenue and is included in "liabilities under split-interest agreements". The increase in the net value of the pooled income fund of \$14,195 is included in "investment return" in the statement of activities for 2009.

12. Related-party transactions:

Foundation accounts receivable include revenues and other support from the Academy of \$65,151 and \$57,151 at December 31, 2009 and 2008, respectively. Accounts payable includes \$582,269 and \$378,507 at December 31, 2009 and 2008, respectively, due to the Academy by the Foundation for services and other items. In addition, \$12,693 and \$8,847 were due to the Academy from Insurance Services at December 31, 2009 and 2008, respectively, as reimbursements for certain common administrative costs.

Insurance Services reimbursed the Academy for common administrative costs (postage, internet, telephone) and marketing expenses in the amount of \$89,242 and \$55,754 for 2009 and 2008, respectively.

The following amounts were provided to the Foundation as support from, or pass-through donations collected by, the Academy for the years ended December 31:

	<u>2009</u>	<u>2008</u>
Dues check-off (pass-through donation)	\$ 315,487	\$ 312,544
Operational support	25,000	28,000
Center for the History of Family Medicine support	15,000	--
Other	<u>12,475</u>	<u>4,664</u>
	<u>\$ 367,962</u>	<u>\$ 345,208</u>

In 2009, the Foundation incurred \$1,779,679 for personnel, travel, rent and other expenses covered by the administrative services contract with the Academy and for direct expenses charged by the Academy for printing, mailing, office supplies, design and other program expenses. The Foundation incurred \$1,787,170 as expenses to the Academy for similar expenses in 2008. The Foundation also recorded \$2,982,560 in 2009 and \$2,659,952 in 2008 for grants and related costs to the Academy.

**AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

13. Reclassification of liability:

In 2009 the Foundation determined that the amount recorded as a liability to reflect donations set aside for the Family Medicine Philanthropic Consortium (FMPC) was more properly classified as net assets. The amount as of January 1, 2009 of \$126,534 was reclassified to Board Designated net assets.

SUPPLEMENTAL INFORMATION



HOUSE PARK & DOBRATZ, P.C.
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Independent Auditors' Report on Supplemental Information

Board of Trustees
American Academy of Family Physicians Foundation
Leawood, Kansas

Our report on our audit of the basic consolidated financial statements of American Academy of Family Physicians Foundation and Subsidiary for 2009 appears on page 1. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying information on pages 22 through 24 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, in our opinion, is fairly presented, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

House Park & Dobratz, P.C.

April 24, 2010

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

	ASSETS			
	American Academy of Family Physicians Foundation	AAFP Insurance Services, Inc.	Eliminations	Consolidated totals
Cash and cash equivalents:				
Operating accounts	\$ 3,626,879	\$ 688,024	\$ --	\$ 4,314,903
Premium accounts	--	3,050,144	--	3,050,144
Total cash and cash equivalents	<u>3,626,879</u>	<u>3,738,168</u>	<u>--</u>	<u>7,365,047</u>
Accounts receivable	93,555	626,893	--	720,448
Accounts receivable, planned giving program	33,715	--	--	33,715
Prepaid expenses	23,046	49,251	--	72,297
Investments at fair value	9,350,795	--	--	9,350,795
Investment in AAFP Insurance Services, Inc.	1,235,040	--	(1,235,040)	--
Office equipment, furniture and fixtures, net of accumulated depreciation of \$647,353	<u>67,286</u>	<u>72,957</u>	<u>--</u>	<u>140,243</u>
Total assets	<u>\$ 14,430,316</u>	<u>\$ 4,487,269</u>	<u>(\$ 1,235,040)</u>	<u>\$ 17,682,545</u>
	LIABILITIES AND NET ASSETS/EQUITY			
Accounts payable:				
Premiums	\$ --	\$ 3,050,287	\$ --	\$ 3,050,287
Trade	<u>1,535,701</u>	<u>95,730</u>	<u>--</u>	<u>1,631,431</u>
Total accounts payable	<u>1,535,701</u>	<u>3,146,017</u>	<u>--</u>	<u>4,681,718</u>
Deferred revenue and advances	355,246	--	--	355,246
Deferred income taxes	--	4,164	--	4,164
Liabilities under split-interest agreements	68,841	--	--	68,841
Federal and state income taxes payable	--	102,048	--	102,048
Grant awards payable	<u>299,116</u>	<u>--</u>	<u>--</u>	<u>299,116</u>
Total liabilities	<u>2,258,904</u>	<u>3,252,229</u>	<u>--</u>	<u>5,511,133</u>
Net assets and stockholder's equity:				
Net assets:				
Unrestricted:				
Undesignated	1,904,046	--	--	1,904,046
Equity in equipment, furniture and fixtures	67,286	--	--	67,286
Board-appropriated	<u>7,559,618</u>	<u>--</u>	<u>--</u>	<u>7,559,618</u>
Total unrestricted	<u>9,530,950</u>	<u>--</u>	<u>--</u>	<u>9,530,950</u>
Temporarily restricted	1,366,306	--	--	1,366,306
Permanently restricted	<u>1,274,156</u>	<u>--</u>	<u>--</u>	<u>1,274,156</u>
Total net assets	<u>12,171,412</u>	<u>--</u>	<u>--</u>	<u>12,171,412</u>
Stockholder's equity:				
Common stock	--	26,500	(26,500)	--
Retained earnings	<u>--</u>	<u>1,208,540</u>	<u>(1,208,540)</u>	<u>--</u>
Total stockholder's equity	<u>--</u>	<u>1,235,040</u>	<u>(1,235,040)</u>	<u>--</u>
Total liabilities and equity	<u>\$ 14,430,316</u>	<u>\$ 4,487,269</u>	<u>(\$ 1,235,040)</u>	<u>\$ 17,682,545</u>

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

	<u>American Academy of Family Physicians Foundation</u>		
	<u>Unrestricted</u>		
	<u>Undesignated</u>	<u>Board-appropriated</u>	<u>Total</u>
Revenues and support:			
Disability insurance revenues	\$ --	\$ --	\$ --
Life insurance revenues	--	--	--
Other insurance revenues	--	--	--
Individual donations	725,270	142,357	867,627
Corporate and chapter support	735,950	45,000	780,950
Grants	88,800	2,515	91,315
Investment return	318,365	1,234,138	1,552,503
Earnings of AAFP Insurance Services, Inc.	915,736	--	915,736
Other	17,034	--	17,034
Net assets released from restrictions, satisfaction of donor stipulations	<u>7,758,584</u>	<u>--</u>	<u>7,758,584</u>
Total revenues and support	<u>10,559,739</u>	<u>1,424,010</u>	<u>11,983,749</u>
Expenses:			
Board, general staff and administration	693,344	--	693,344
Family Medicine Philanthropic Consortium	--	120,488	120,488
Center for the History of Family Medicine	142,447	--	142,447
Grant awards and administration	3,038,462	--	3,038,462
Teacher Development Awards program	41,242	--	41,242
Individual development	559,794	--	559,794
Professional and corporate affairs	148,327	--	148,327
Communications and public relations	--	--	--
Peers for Progress	4,444,869	--	4,444,869
Programs, other	650,018	--	650,018
Income taxes	<u>--</u>	<u>--</u>	<u>--</u>
Total expenses	<u>9,718,503</u>	<u>120,488</u>	<u>9,838,991</u>
Change in net assets/retained earnings:			
Change in net assets	841,236	1,303,522	2,144,758
Net income	--	--	--
Dividends paid	--	--	--
Transfers	(15,000)	5,389	(9,611)
Reclassification of FMPC payable to net assets	--	126,534	126,534
Net assets/retained earnings, beginning of year	<u>1,145,096</u>	<u>6,124,173</u>	<u>7,269,269</u>
Net assets/retained earnings, end of year	<u>\$ 1,971,332</u>	<u>\$ 7,559,618</u>	<u>\$ 9,530,950</u>

American Academy of Family Physicians Foundation

<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>All funds</u>	<u>AAFP Insurance Services, Inc.</u>	<u>Eliminations</u>	<u>Consolidated totals</u>
\$ --	\$ --	\$ --	\$ 1,847,792	\$ --	\$ 1,847,792
--	--	--	1,089,620	--	1,089,620
--	--	--	317,823	--	317,823
78,924	42,281	988,832	--	--	988,832
45,500	37,000	863,450	--	--	863,450
7,892,546	--	7,983,861	--	--	7,983,861
43,384	12,323	1,608,210	--	--	1,608,210
--	--	915,736	--	(915,736)	--
35,217	--	52,251	570	--	52,821
(7,758,584)	--	--	--	--	--
<u>336,987</u>	<u>91,604</u>	<u>12,412,340</u>	<u>3,255,805</u>	<u>(915,736)</u>	<u>14,752,409</u>
--	--	693,344	1,529,513	--	2,222,857
--	--	120,488	--	--	120,488
--	--	142,447	--	--	142,447
--	--	3,038,462	--	--	3,038,462
--	--	41,242	--	--	41,242
--	--	559,794	150,074	--	709,868
--	--	148,327	20,405	--	168,732
--	--	--	42,501	--	42,501
--	--	4,444,869	--	--	4,444,869
--	--	650,018	--	--	650,018
--	--	--	597,576	--	597,576
<u>--</u>	<u>--</u>	<u>9,838,991</u>	<u>2,340,069</u>	<u>--</u>	<u>12,179,060</u>
336,987	91,604	2,573,349	--	(915,736)	1,657,613
--	--	--	915,736	--	915,736
--	--	--	(781,000)	781,000	--
110	9,501	--	--	--	--
--	--	126,534	--	--	126,534
<u>1,029,209</u>	<u>1,173,051</u>	<u>9,471,529</u>	<u>1,073,804</u>	<u>(1,073,804)</u>	<u>9,471,529</u>
<u>\$ 1,366,306</u>	<u>\$ 1,274,156</u>	<u>\$ 12,171,412</u>	<u>\$ 1,208,540</u>	<u>(\$ 1,208,540)</u>	<u>\$ 12,171,412</u>

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009

	American Academy of Family Physicians Foundation	AAFP Insurance Services, Inc.	Eliminations	Consolidated totals
Cash flows from operating activities:				
Change in net assets/net income	\$ 2,573,349	\$ 915,736	(\$ 915,736)	\$ 2,573,349
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	9,824	20,056	--	29,880
Net realized and unrealized gains	(1,414,701)	--	--	(1,414,701)
Equity in earnings of AAFP Insurance Services, Inc., net of dividends of \$781,000	(134,736)	--	134,736	--
Change in value of split-interest agreements	(20,072)	--	--	(20,072)
Change in operating assets and liabilities:				
Receivables	(541)	(29,628)	--	(30,169)
Prepaid expenses	307	(39,057)	--	(38,750)
Deferred income taxes, net	--	2,848	--	2,848
Premiums payable	--	113,180	--	113,180
Accounts payable and accrued expenses	907,538	(10,169)	--	897,369
Deferred revenue and advances	(1,143,562)	--	--	(1,143,562)
Grant awards payable	85,936	--	--	85,936
Federal and state income taxes payable	<u> -- </u>	<u>94,727</u>	<u> -- </u>	<u>94,727</u>
Net cash provided by operating activities	<u>863,342</u>	<u>1,067,693</u>	<u>(781,000)</u>	<u>1,150,035</u>
Cash flows from investing activities:				
Purchase of equipment, furniture and fixtures	(69,498)	(32,521)	--	(102,019)
Purchase of investments	<u>(167,882)</u>	<u> -- </u>	<u> -- </u>	<u>(167,882)</u>
Net cash used by investing activities	<u>(237,380)</u>	<u>(32,521)</u>	<u> -- </u>	<u>(269,901)</u>
Cash flows from financing activities, cash dividends paid	<u> -- </u>	<u>(781,000)</u>	<u>781,000</u>	<u> -- </u>
Increase in cash and cash equivalents	625,962	254,172	--	880,134
Cash and cash equivalents, beginning of year	<u>3,000,917</u>	<u>3,483,996</u>	<u> -- </u>	<u>6,484,913</u>
Cash and cash equivalents, end of year	<u>\$ 3,626,879</u>	<u>\$ 3,738,168</u>	<u>\$ --</u>	<u>\$ 7,365,047</u>
Supplemental disclosure, reclassification of FMPC payable	<u>\$ 126,534</u>			<u>\$ 126,534</u>