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

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

In planning and performing our audit of the financial statements of American Academy of Family Physicians Foundation (the Foundation) as of and for the year ended December 31, 2010, in accordance with U.S generally accepted auditing standards, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

House Park & Dobratz, P.C.

May 21, 2011

AMERICAN ACADEMY OF FAMILY
PHYSICIANS FOUNDATION AND SUBSIDIARY

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY

YEARS ENDED DECEMBER 31, 2010 AND 2009

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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, 2010 and 2009, 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 2009 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, 2010 and 2009, 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.

May 21, 2011

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

ASSETS

	2010	2009
Cash and cash equivalents (Note 4)	$ 9,938,988	$ 7,365,047
Accounts receivable (Note 10)	928,593	720,448
Beneficial interest in trust assets (Note 3)	35,896	33,715
Prepaid expenses	70,447	72,297
Investments at fair value (Notes 2, 3 and 4)	10,708,425	9,350,795
Office equipment, furniture and fixtures, net of accumulated depreciation of $637,356 and $647,353 as of December 31, 2010 and 2009, respectively	144,236	140,243
	$21,826,585	$17,682,545

LIABILITIES AND NET ASSETS

	2010	2009
Liabilities:		
Accounts payable (Note 10)	$ 5,593,209	$ 4,681,718
Deferred revenue and advances (Note 11)	2,199,914	355,246
Deferred income taxes (Note 7)	6,892	4,164
Liabilities under split-interest agreements (Note 3)	64,715	68,841
Federal and state income taxes payable (receivable) (Note 7)	(4,226)	102,048
Grant awards payable	366,942	299,116
Total liabilities	8,227,446	5,511,133
Commitments (Notes 8 and 12)		
Net assets:		
Unrestricted:		
Undesignated	2,525,366	1,904,046
Equity in office equipment, furniture and fixtures	53,121	67,286
Board-appropriated (Note 4)	8,522,463	7,559,618
Total unrestricted	11,100,950	9,530,950
Temporarily restricted (Note 4)	1,157,330	1,366,306
Permanently restricted (Note 4)	1,340,859	1,274,156
Total net assets	13,599,139	12,171,412
	$21,826,585	$17,682,545

See notes to consolidated financial statements.

2010			
All funds	AAFP Insurance Services, Inc.	Consolidated totals	2009 Consolidated totals
$ --	$ 3,462,685	$ 3,462,685	$ 3,255,235
675,044	--	675,044	915,279
1,182,150	--	1,182,150	863,450
6,093,920	--	6,093,920	7,983,861
44,138	--	44,138	1,353
1,063,541	--	1,063,541	1,608,210
14	37	51	52,821
--	--	--	--
9,058,807	3,462,722	12,521,529	14,680,209
697,736	1,556,513	2,254,249	2,222,857
129,411	--	129,411	120,488
150,348	--	150,348	142,447
2,217,939	--	2,217,939	3,038,462
51,599	--	51,599	41,242
567,794	289,507	857,301	637,668
155,336	9,670	165,006	168,732
--	39,309	39,309	42,501
3,855,513	--	3,855,513	4,444,869
776,831	--	776,831	650,018
--	596,296	596,296	597,576
8,602,507	2,491,295	11,093,802	12,106,860
456,300	971,427	1,427,727	2,573,349
971,427	(971,427)	--	--
--	--	--	--
--	--	--	126,534
12,171,412	--	12,171,412	9,471,529
$ 13,599,139	$ --	$ 13,599,139	$ 12,171,412

See notes to consolidated financial statements.

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Reconciliation of change in net assets to net cash provided by operating activities:		
Cash flows from operating activities:		
Change in net assets/net income	$ 1,427,727	$ 2,573,349
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,571	29,880
Realized losses	257,766	724,469
Unrealized gains	(1,177,440)	(2,139,170)
Change in value of split-interest agreements	(11,647)	(20,072)
Change in operating assets and liabilities:		
Accounts receivable	(208,145)	(30,169)
Prepaid expenses	1,850	(38,750)
Accounts payable	911,491	1,010,549
Deferred revenue and advances	1,844,668	(1,143,562)
Deferred income taxes	2,728	2,848
Federal and state income taxes payable	(106,274)	94,727
Grant awards payable	67,826	85,936
Net cash provided by operating activities	3,055,121	1,150,035
Cash flows from investing activities:		
Purchase of office equipment, furniture and fixtures	(48,564)	(102,019)
Purchase of investments	(432,616)	(167,882)
Net cash used by investing activities	(481,180)	(269,901)
Increase in cash and cash equivalents	2,573,941	880,134
Cash and cash equivalents, beginning of year	7,365,047	6,484,913
Cash and cash equivalents, end of year	$ 9,938,988	$ 7,365,047
Supplemental disclosures of cash flow information:		
Amounts paid for federal and state income taxes (Note 7)	$ 699,842	$ 500,001
Reclassification of FMPC payable to net assets	$ --	$ 126,534

See notes to consolidated financial statements.

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 Unites 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 (GAAP). Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, 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 \$314,000 for 2010 and \$177,516 for 2009.

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 fair 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. Contributions to certain programs are considered unrestricted support when the restrictions are met in the same reporting period.

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

Fair value of financial instruments:

The carrying amount of financial instruments including cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, deferred revenue, income taxes payable and grants payable approximated fair values as of December 31, 2010 due to their short-term nature. The fair value of investments is disclosed in Note 2.

Investments and concentrations of credit risk:

Financial instruments which potentially subject the Organization to significant concentrations of credit risk consist principally of cash and cash investments. The Organization maintains its bank accounts at two institutions where accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution. Balances frequently exceed insured limits. At December 31, 2010, Insurance Services had deposits in excess of insurance levels by $3,620,011. As of December 31, 2010, cash and cash equivalents includes $3,512,156 invested by the Foundation in a mutual fund which holds certificates of deposit and fixed income 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.

The Foundation holds units in a pooled investment fund administered by the Academy. The pooled investment fund investments include money market funds and equity and fixed income funds. The Foundation reflects the investments in the pooled investment funds at the Academy at net asset value as a practical expedient to fair value, because these investments have a readily determined value and transact frequently. The underlying holdings in these funds are valued by the respective managers or custodians using quoted market prices for publicly traded securities and fair value for other investments, using methodologies relevant to each asset class. The valuations are routinely evaluated by management, and management believes such values are reasonable.

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.

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

Income tax status:

The Foundation is an organization as described in Section 501(c)(3) of the Internal Revenue Code (IRC), 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). The Foundation's current accounting policy is to provide liabilities for uncertain income tax provisions when a liability is probable and estimable. The Foundation has no uncertain income tax positions for the years ended December 31, 2010 and 2009. However, the Foundation's federal information returns for 2007, 2008 and 2009 are subject to examination by the IRS, generally for three years after they are filed. Management is not aware of any violation of its tax status as an organization exempt from income taxes.

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.

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 ASC 740-10 *Accounting for Uncertain Income Tax Positions* 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, 2010 and, accordingly, no liability has been accrued. However, Insurance Services' federal income tax returns for 2007, 2008 and 2009 are subject to examination by the IRS, 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).

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

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 GAAP 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 2009 financial statements have been reclassified to conform to the 2010 presentation.

Subsequent events:

Subsequent events have been evaluated through May 21, 2011, which is the date the financial statements were available to be issued.

2. Investments:

The Foundation values investments at fair value. Fair value is defined as the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date. GAAP 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.

During 2010, the Foundation adopted the measurement provisions under GAAP with respect to certain investments in funds that do not have readily determinable fair value, including pooled investment funds at the Academy. This guidance amends existing GAAP and permits the use of net asset value or its equivalent for the estimation of the fair value of investments for which the investment does not have a readily determinable fair value. Certain investments reported as Level 1 as of December 31, 2009, have been reclassified to Level 2 to conform with the December 31, 2010 reporting.

2. Investments (continued):

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

	2010	2009
Equities	$ 6,685,601	$ 5,119,672
Corporate bonds	946,867	660,390
Fixed income funds	716,737	1,653,230
Treasury and federal agency obligations	914,181	267,319
Investment in pooled funds at the Academy	801,024	703,202
Alternative investments	162,149	753,913
Cash and equivalents	481,866	193,069
	$10,708,425	$ 9,350,795

Units in pooled investment funds at the Academy are reported at net asset value as a practical expedient to estimate the fair value of the Foundation's interest therein. Classification of these funds as Level 2 is based on the Foundation's ability to redeem its interest at or near the date of the statement of financial position. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Investment income from the Foundation investments is summarized as follows:

	2010	2009
Interest and dividends	$ 184,964	$ 218,704
Investment fees and expenses	(52,744)	(45,267)
Realized losses	(257,766)	(724,469)
Unrealized gains	1,177,440	2,139,170
Change in value of split-interest agreements (Note 3)	11,647	20,072
	$ 1,063,541	$ 1,608,210

2. Investments (continued):

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

	December 31 2010	Level 1	Level 2	Level 3
Equities	$ 6,685,601	$ 6,685,601	--	--
Corporate bonds	946,867	--	$ 946,867	--
Fixed income funds	716,737	716,737	--	--
Treasury and federal agency obligations	914,181	914,181	--	--
Investment in pooled funds at the Academy	801,024	--	801,024	--
Alternative investments	162,149	--	--	$ 162,149
Cash and equivalents	481,866	481,866	--	--
	$ 10,708,425	$ 8,798,385	$ 1,747,891	$ 162,149

	December 31 2009	Level 1	Level 2	Level 3
Equities	$ 5,119,672	$ 5,119,672	--	--
Corporate bonds	660,390	--	$ 660,390	
Fixed income funds	1,653,230	1,653,230	--	--
Treasury and federal agency obligations	267,319	267,319	--	--
Investment in pooled funds at the Academy	703,202	--	703,202	--
Alternative investments	753,913	--	--	$ 753,913
Cash and equivalents	193,069	193,069	--	--
	$ 9,350,795	$ 7,233,290	$ 1,363,592	$ 753,913

Assets held as investments for planned giving programs totaled $137,495 and $132,155 at December 31, 2010 and 2009, respectively. These amounts are included in investments and consist almost exclusively of equities and fixed income funds.

2. Investments (continued):

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

	Alternative investments
December 31, 2009	$ 753,913
Interest income	671
Realized losses	(99,892)
Unrealized gains	102,965
Transfers out of Level 3	(595,508)
December 31, 2010	$ 162,149

3. 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 $55,612 as of December 31, 2010 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 $38,637 at December 31, 2010, 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, 2010, distributions payable to the beneficiary of $2,058 are included in "liabilities under split-interest agreements". The increase in the net value of the CRUT of $1,126 is included in "investment return" in the statement of activities for 2010.

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 $35,896 is recorded as "beneficial interest in trust assets" as of December 31, 2010. The increase in this receivable of $2,181 is included in "investment return" in the statement of activities for 2010.

3. Split-interest agreements (continued):

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 2010 or 2009.

The fair value of the pooled income fund assets of $81,883 is included in investments in the accompanying consolidated statements of financial position as of December 31, 2010. Periodic income on the pooled income fund and payments to the donors are reflected as increases and decreases in the liability to the donors, $433 as of December 31, 2010, 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 $23,588 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 $8,341 is included in "investment return" in the statement of activities for 2010.

4. Net assets:

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

	2010	2009
General endowment	$ 7,613,652	$ 6,774,398
Archives endowment	730,933	650,463
Family Medicine Philanthropic Consortium	127,878	134,757
Family Medicine Cares	50,000	--
Total Board-appropriated net assets	$ 8,522,463	$ 7,559,618

4. Net assets (continued):

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

	2010	2009
Resident Repayment Program	$ 483,941	$ 483,941
Time to Talk Cardio	--	165,715
Pass-through grants	96,539	134,558
Stern Lectureship Fund	81,797	75,037
Immunization program	115,137	72,616
Teacher Development Awards	68,421	70,672
Pooled income fund	57,863	49,522
CRT planned gifts	50,812	47,505
Visiting Professorship Program	46,016	46,384
International fund	53,670	45,742
Nutrition spokesperson grants	42,051	42,051
Health Literacy fund	3,108	27,608
Disaster relief fund	28,857	27,136
Lopez fund	2,396	15,129
Fellowship awards	1,000	10,000
Research Skills Seminar	6,715	2,100
Sundry	19,007	50,590
	$ 1,157,330	$ 1,366,306

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

	2010	2009
Peers for Progress	$ 4,058,435	$ 4,678,808
Pass-through grants	1,435,536	2,358,275
Time to Talk Cardio	378,215	249,575
Immunization program	217,479	216,066
Visiting Professorship Program	63,368	68,048
Teacher Development Awards	54,251	48,534
Research Skills Seminar	26,126	48,402
International fund	72,159	34,611
Bulletin	20,000	20,000
Fellowship awards	9,000	11,000
Annual report	2,931	7,069
Health Literacy fund	24,500	6,188
Disaster relief	72,708	--
Sundry	16,471	12,008
	$ 6,451,179	$ 7,758,584

4. Net assets (continued):

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 GAAP, deficiencies of this nature would be appropriated from unrestricted funds. As of December 31, 2010 and 2009, these deficiencies totaled $44,711 and $194,224, respectively.

Endowment net assets composition by type of fund as of December 31, 2010 and 2009 is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
December 31, 2010:				
Donor-restricted endowment funds	($ 44,711)	$ 5,550	$ 1,340,859	$ 1,301,698
Board-designated endowment funds	8,344,585	--	--	8,344,585
	$ 8,299,874	$ 5,550	$ 1,340,859	$ 9,646,283
December 31, 2009:				
Donor-restricted endowment funds	($ 194,224)	$ 34,984	$ 1,274,156	$ 1,114,916
Board-designated endowment funds	7,424,861	--	--	7,424,861
	$ 7,230,637	$ 34,984	$ 1,274,156	$ 8,539,777

4. Net assets (continued):

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

	2010	2009
Archives endowment	$ 690,548	$ 584,941
Lopez endowments	164,365	148,119
Graham endowment	256,301	219,900
McCord endowment	91,252	83,171
Panther endowment	29,388	26,489
Ostergaard endowment	69,844	52,296
	$1,301,698	$ 1,114,916

Changes in endowment net assets for the years ended December 31, 2010 and 2009, follow:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, December 31, 2008	$ 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 in	15,000	--	--	15,000
Fund reclassification	(9,611)	--	9,501	(110)
Endowment net assets, December 31, 2009	7,230,637	34,984	1,274,156	8,539,777
Contributions	104,306	--	66,703	171,009
Net investment income	100,558	4,198	--	104,756
Net realized and unrealized gains	816,434	507	--	816,941
Program expenses	--	(1,200)	--	(1,200)
Transfers between classes to offset investment losses	32,939	(32,939)	--	--
Transfers in	15,000	--	--	15,000
Endowment net assets, December 31, 2010	$ 8,299,874	$ 5,550	$ 1,340,859	$ 9,646,283

5. 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 $89,333 and $91,957 to the plans for 2010 and 2009, respectively.

6. 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.

	2010	2009
Program services	$ 7,378,875	$ 8,675,740
Supporting services:		
Administration	399,231	365,772
Fundraising	824,401	797,479
	1,223,632	1,163,251
	$ 8,602,507	$ 9,838,991

7. Income taxes:

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

	2010	2009
Current tax asset (liability)	$ 4,226	($ 102,048)
Deferred tax asset	$ 26,382	$ 22,286
Deferred tax liability	(33,274)	(26,450)
Deferred tax liability, net	($ 6,892)	($ 4,164)

The provisions for income taxes consist of the following components:

Current expense	$ 593,568	$ 594,728
Deferred expense	2,728	2,848
	$ 596,296	$ 597,576

7. Income taxes (continued):

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.

8. Leases:

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

Year ending December 31,	Amount
2011	$ 84,342
2012	84,342
2013	84,342
2014	56,227
	$ 309,253

Total rent expense for the office operating lease was $84,342 and $79,924 for the years ended December 31, 2010 and 2009, 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 $56,599 and $51,102 for the years ended December 31, 2010 and 2009, respectively.

10. Related-party transactions:

Foundation accounts receivable include revenues and other support from the Academy of $64,814 and $65,151 at December 31, 2010 and 2009, respectively. Accounts payable includes $897,023 and $582,269 at December 31, 2010 and 2009, respectively, due to the Academy by the Foundation for services and other items. In addition, $3,894 and $12,693 were due to the Academy from Insurance Services at December 31, 2010 and 2009, respectively, as reimbursements for certain common administrative costs.

10. Related-party transactions (continued):

Insurance Services reimbursed the Academy for common administrative costs (postage, internet, telephone) and marketing expenses in the amount of $121,284 and $89,242 for 2010 and 2009, 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:

	2010	2009
Dues check-off (pass-through donation)	$ 281,300	$ 315,487
Operational support	5,000	25,000
Center for the History of Family Medicine support	15,000	15,000
Other	45,000	12,475
	$ 346,300	$ 367,962

In 2010, the Foundation incurred $1,809,790 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 $1,779,679 as expenses to the Academy for similar expenses in 2009. The Foundation also recorded $2,068,400 in 2010 and $2,982,560 in 2009 for grants and related costs to the Academy.

11. Conditional promises:

In May 2007, The Foundation entered into an agreement with Eli Lilly and Company Foundation, Inc. (Lilly) whereby Lilly agreed to a grant of $15 million to the Foundation to support the development of the "Peers for Progress" program (PFP). PFP is designed to help the diabetes community establish a new model of peer education for people with diabetes. The program is rooted in peer-to-peer interactions in order to sustain individual behavior changes that will improve health as well as quality of life. PFP 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 grant expires December 31, 2011.

11. Conditional promises (continued):

In December 2010, the Foundation entered into a grant agreement with Bristol-Myers Squibb Foundation, Inc. that provides for a grant of up to $5,234,876, in three annual payments, in support of a demonstration project to be led by the PFP management team. The grant expires December 31, 2013.

These grants are cancellable by the grantors at any time with or without cause with unexpended or uncommitted advances to be refunded. The Foundation retains a 5% fee for administering the grants. Through December 31, 2010, the Foundation had received $13,142,536 under these grant agreements, and $10,944,494 in expenses had been incurred. The balance of $2,198,042 is included in deferred revenue at December 31, 2010.

12. 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 2, 2010, effective July 1, 2010.

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 $107,730 in 2009 and increased to $110,423 beginning January 1, 2010.

The Program Development Center (PDC) of the PFP program is located at a university. The director of the PFP program as well as other PDC staff members are employees of the university. The Foundation has agreements with the university to pay for salaries and other expenses of the PDC through December, 2011. Amounts expensed under these agreements were $944,972 and $973,446 for 2010 and 2009, respectively. Future commitments as of December 31, 2010, are as follows:

Year ending December 31,	Amount
2011	$ 728,110
2012	136,630
	$ 864,740

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

We have audited the financial statements of American Academy of Family Physicians Foundation and Subsidiary as of and for the years ended December 31, 2010 and 2009, and our report thereon dated May 21, 2011 appears on page one. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information on pages 22-24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

House Park & Dobratz, P.C.

May 21, 2011

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2010

ASSETS

	American Academy of Family Physicians Foundation	AAFP Insurance Services, Inc.	Eliminations	Consolidated totals
Cash and cash equivalents:				
Operating accounts	$ 6,132,932	$ 657,388	--	$ 6,790,320
Premium accounts	--	3,148,668	--	3,148,668
Total cash and cash equivalents	6,132,932	3,806,056	--	9,938,988
Accounts receivable	221,573	707,020	--	928,593
Beneficial interest in trust assets	35,896	--	--	35,896
Prepaid expenses	24,073	46,374	--	70,447
Investments at fair value	10,708,425	--	--	10,708,425
Investment in AAFP Insurance Services, Inc.	1,396,467	--	($1,396,467)	--
Office equipment, furniture and fixtures, net of accumulated depreciation of $637,356	53,121	91,115	--	144,236
Total assets	$ 18,572,487	$ 4,650,565	($1,396,467)	$ 21,826,585

LIABILITIES AND NET ASSETS/EQUITY

	American Academy of Family Physicians Foundation	AAFP Insurance Services, Inc.	Eliminations	Consolidated totals
Accounts payable:				
Premiums	--	$ 3,149,060	$ --	$ 3,149,060
Trade	$ 2,341,777	102,372	--	2,444,149
Total accounts payable	2,341,777	3,251,432	--	5,593,209
Deferred revenue and advances	2,199,914	--	--	2,199,914
Deferred income taxes	--	6,892	--	6,892
Liabilities under split-interest agreements	64,715	--	--	64,715
Federal and state income taxes payable (receivable)	--	(4,226)	--	(4,226)
Grant awards payable	366,942	--	--	366,942
Total liabilities	4,973,348	3,254,098	--	8,227,446
Net assets and stockholder's equity:				
Net assets:				
Unrestricted:				
Undesignated	2,525,366	--	--	2,525,366
Equity in office equipment, furniture and fixtures	53,121	--	--	53,121
Board-appropriated	8,522,463	--	--	8,522,463
Total unrestricted	11,100,950	--	--	11,100,950
Temporarily restricted	1,157,330	--	--	1,157,330
Permanently restricted	1,340,859	--	--	1,340,859
Total net assets	13,599,139	--	--	13,599,139
Stockholder's equity:				
Common stock	--	26,500	(26,500)	--
Retained earnings	--	1,369,967	(1,369,967)	--
Total stockholder's equity	--	1,396,467	(1,396,467)	--
Total liabilities and equity	$ 18,572,487	$ 4,650,565	($1,396,467)	$ 21,826,585

American Academy of Family Physicians Foundation

Temporarily restricted	Permanently restricted	All funds	AAFP Insurance Services, Inc.	Eliminations	Consolidated totals
$ --	$ --	$ --	$ 1,869,525	$ --	$ 1,869,525
--	--	--	1,125,327	--	1,125,327
--	--	--	467,833	--	467,833
159,411	30,703	675,044	--	--	675,044
60,200	36,000	1,182,150	--	--	1,182,150
6,035,568	--	6,093,920	--	--	6,093,920
--	--	44,138	--	--	44,138
24,613	--	1,063,541	--	--	1,063,541
--	--	971,427	--	(971,427)	--
--	--	14	37	--	51
(6,451,179)	--	--	--	--	
(171,387)	66,703	10,030,234	3,462,722	(971,427)	12,521,529
--	--	697,736	1,556,513	--	2,254,249
--	--	129,411	--	--	129,411
--	--	150,348	--	--	150,348
--	--	2,217,939	--	--	2,217,939
--	--	51,599	--	--	51,599
--	--	567,794	289,507	--	857,301
--	--	155,336	9,670	--	165,006
--	--	--	39,309	--	39,309
--	--	3,855,513	--	--	3,855,513
--	--	776,831	--	--	776,831
--	--	--	596,296	--	596,296
--	--	8,602,507	2,491,295	--	11,093,802
(171,387)	66,703	1,427,727	--	(971,427)	456,300
--	--	--	971,427	--	971,427
--	--	--	(810,000)	810,000	--
(37,589)	--	--	--	--	--
1,366,306	1,274,156	12,171,412	1,208,540	(1,208,540)	12,171,412
$1,157,330	$ 1,340,859	$13,599,139	$ 1,369,967	($ 1,369,967)	$13,599,139

AMERICAN ACADEMY OF FAMILY PHYSICIANS FOUNDATION AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

	American Academy of Family Physicians Foundation	AAFP Insurance Services, Inc.	Eliminations	Consolidated totals
Cash flows from operating activities:				
Change in net assets/net income	$ 1,427,727	$ 971,427	($ 971,427)	$ 1,427,727
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	15,365	29,206	--	44,571
Realized losses	257,766			257,766
Unrealized gains	(1,177,440)		--	(1,177,440)
Equity in earnings of AAFP Insurance Services, Inc., net of dividends of $810,000	(161,427)		161,427	--
Change in value of split-interest agreements	(11,647)		--	(11,647)
Change in operating assets and liabilities:				
Accounts receivable	(128,018)	(80,127)	--	(208,145)
Prepaid expenses	(1,027)	2,877	--	1,850
Deferred income taxes, net	--	2,728	--	2,728
Premiums payable	--	98,773	--	98,773
Accounts payable and accrued expenses	806,076	6,642	--	812,718
Deferred revenue and advances	1,844,668	--	--	1,844,668
Grant awards payable	67,826	--	--	67,826
Federal and state income taxes payable	--	(106,274)	--	(106,274)
Net cash provided by operating activities	2,939,869	925,252	(810,000)	3,055,121
Cash flows from investing activities:				
Purchase of office equipment, furniture and fixtures	(1,200)	(47,364)	--	(48,564)
Purchase of investments	(432,616)	--	--	(432,616)
Net cash used by investing activities	(433,816)	(47,364)	--	(481,180)
Cash flows from financing activities, cash dividends paid	--	(810,000)	810,000	--
Increase in cash and cash equivalents	2,506,053	67,888		2,573,941
Cash and cash equivalents, beginning of year	3,626,879	3,738,168	--	7,365,047
Cash and cash equivalents, end of year	$ 6,132,932	$3,806,056	$ --	$ 9,938,988