American Academy of Family Physicians Foundation and Subsidiary

Auditor's Report and Consolidated Financial Statements

December 31, 2013 and 2012

BKD LLP
CPAs & Advisors

American Academy of Family Physicians Foundation and Subsidiary

December 31, 2013 and 2012

Contents

BKD LLP
CPAs & Advisors

1201 Walnut Street, Suite 1700 // Kansas City, MO 64106-2246
816.221.6300 // fax 816.221.6380 // bkd.com

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of American Academy of Family Physicians Foundation and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Academy of Family Physicians Foundation and Subsidiary as of December 31, 2013 and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information Audited by Other Auditors

The 2012 consolidated financial statements were audited by other auditors and their report thereon, dated May 19, 2013, expressed an unmodified opinion. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with those audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the basic consolidated 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 consolidated financial statements. The information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
May 19, 2014

American Academy of Family Physicians Foundation and Subsidiary

Consolidating Statement of Financial Position

December 31, 2013

(with Comparative Totals for 2012)

	2013				Comparative Totals for 2012
Assets	Foundation	Insurance Services	Eliminations	Total	
Cash and cash equivalents	$ 6,308,726	$ 889,557	$ -	$ 7,198,283	$ 9,755,937
Cash and cash equivalents - premium account	-	3,216,818	-	3,216,818	3,139,288
Accounts receivable	250,930	684,070	-	935,000	847,252
Prepaid expenses	168,198	17,883	-	186,081	149,368
Investments at fair value	14,151,634	-	-	14,151,634	12,003,054
Investment in subsidiary	1,498,697	-	(1,498,697)	-	-
Beneficial interest in trust assets	41,969	-	-	41,969	36,321
Income tax receivable	-	6,355	-	6,355	-
Deferred tax asset	-	35,600	-	35,600	28,443
Office equipment, furniture and fixtures, net of accumulated depreciation; 2013 - $745,378, 2012 - $721,416	10,065	52,270	-	62,335	90,816
	$ 22,430,219	$ 4,902,553	$ (1,498,697)	$ 25,834,075	$ 26,050,479
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	$ 1,054,116	$ 184,467	$ -	$ 1,238,583	$ 930,057
Premiums payable	-	3,216,989	-	3,216,989	3,139,449
Grant awards payable	549,098	-	-	549,098	1,267,386
Deferred revenue and advances	3,653,216	-	-	3,653,216	5,222,911
Liabilities under split-interest agreements	74,269	-	-	74,269	56,986
Deferred tax liability	-	2,400	-	2,400	21,609
Federal and state income taxes payable	-	-	-	-	28,177
Total liabilities	5,330,699	3,403,856	-	8,734,555	10,666,575
Net Assets					
Unrestricted:					
Undesignated	3,342,257	1,498,697	(1,498,697)	3,342,257	3,523,364
Board designated	10,861,083	-	-	10,861,083	9,293,758
Total unrestricted	14,203,340	1,498,697	(1,498,697)	14,203,340	12,817,122
Temporarily restricted	1,469,751	-	-	1,469,751	1,035,077
Permanently restricted	1,426,429	-	-	1,426,429	1,531,705
Total net assets	17,099,520	1,498,697	(1,498,697)	17,099,520	15,383,904
Total liabilities and net assets	$ 22,430,219	$ 4,902,553	$ (1,498,697)	$ 25,834,075	$ 26,050,479

American Academy of Family Physicians Foundation and Subsidiary

Consolidating Statement of Activities

Year Ended December 31, 2013

(with Comparative Totals for 2012)

	2013				
	Foundation	Insurance Services	Eliminations	Consolidated Total	Comparative Totals for 2012
Unrestricted Net Assets					
Revenues, Gains and Other Support					
Grant revenue	$ 71,235	$ -	$ -	$ 71,235	$ 49,656
Corporate and chapter support	915,000	-	-	915,000	1,154,700
Individual contributions	518,711	-	-	518,711	448,439
Special events, net of direct expenses of $29,919 in 2013 and $38,040 in 2012	40,091	-	-	40,091	42,089
Investment return	1,708,985	-	-	1,708,985	1,064,567
Insurance agreement revenues	-	3,803,999	-	3,803,999	3,655,838
Net assets released from restrictions	2,593,824	-	-	2,593,824	3,867,193
Total revenues, gains and other support	5,847,846	3,803,999	-	9,651,845	10,282,482
Expenses and Losses					
Insurance services	-	2,800,355	-	2,800,355	2,607,889
Board, general, staff and administration	483,198	-	-	483,198	504,207
Family Medicine Philanthropic Consortium	78,602	-	-	78,602	109,915
Center for the History of Family Medicine	211,473	-	-	211,473	200,288
Grant awards and administration	673,405	-	-	673,405	1,216,796
Family Medicine Cares	234,061	-	-	234,061	168,147
Individual development	732,063	-	-	732,063	624,984
Professional and corporate affairs	193,257	-	-	193,257	211,065
Peers for Progress	1,649,737	-	-	1,649,737	1,990,471
Programs, other	1,209,476	-	-	1,209,476	1,371,396
Total expenses and losses	5,465,272	2,800,355	-	8,265,627	9,005,158
Change in unrestricted net assets	382,574	1,003,644	-	1,386,218	1,277,324
Temporarily Restricted Net Assets					
Grant revenues	2,300,890	-	-	2,300,890	3,605,944
Corporate and chapter support	10,000	-	-	10,000	-
Individual contributions	250,355	-	-	250,355	211,558
Special events	3,152	-	-	3,152	11,616
Investment return	243,189	-	-	243,189	44,521
Net asset transfer	220,912			220,912	-
Net assets released from restrictions	(2,593,824)	-	-	(2,593,824)	(3,867,193)
Change in temporarily restricted net assets	434,674	-	-	434,674	6,446
Permanently Restricted Net Assets					
Corporate and chapter support	36,000	-	-	36,000	35,000
Individual contributions	38,966	-	-	38,966	32,950
Investment return	40,670			40,670	62,710
Net asset transfer	(220,912)	-	-	(220,912)	-
Change in permanently restricted net assets	(105,276)	-	-	(105,276)	130,660
Increase in Net Assets Before Earnings of Subsidiary and Dividends Paid	711,972	1,003,644	-	1,715,616	1,414,430
Earnings of Subsidiary	1,003,644	-	(1,003,644)	-	-
Dividends Paid	-	(956,000)	956,000	-	-
Increase in Net Assets	1,715,616	47,644	(47,644)	1,715,616	1,414,430
Net Assets, Beginning of Year	15,383,904	1,451,053	(1,451,053)	15,383,904	13,969,474
Net Assets, End of Year	$ 17,099,520	$ 1,498,697	$ (1,498,697)	$ 17,099,520	$ 15,383,904

American Academy of Family Physicians Foundation and Subsidiary

Consolidating Statement of Cash Flows

Year Ended December 31, 2013

(with Comparative Totals for 2012)

	2013				
	Foundation	Insurance Services	Eliminations	Total	Comparative Totals for 2012
Operating Activities					
Change in net assets	$ 1,715,616	$ 1,003,644	$ (1,003,644)	$ 1,715,616	$ 1,414,430
Items not requiring (providing) operating cash flows					
Depreciation	14,631	41,441	-	56,072	61,588
Net realized and unrealized gains on investments	(1,780,939)	-	-	(1,780,939)	(942,497)
Gain on split-interest agreements	(2,562)	-	-	(2,562)	(9,428)
Contributions and investment income received restricted for long-term investment	(76,911)	-	-	(76,911)	-
Change in investment in subsidiary	(47,644)	-	47,644	-	-
Deferred income taxes	-	(26,366)	-	(26,366)	(12,398)
Change in					
Accounts receivable	(98,349)	10,601	-	(87,748)	3,349
Prepaid expenses	(38,099)	1,386	-	(36,713)	13,404
Accounts payable and accrued expenses	235,523	73,003	-	308,526	580,271
Premiums payable	-	77,540	-	77,540	(173,046)
Grant awards payable	(718,288)	-	-	(718,288)	58,507
Deferred revenue and advances	(1,569,695)	-	-	(1,569,695)	(692,794)
Federal and state income taxes payable	-	(34,532)	-	(34,532)	2,846
Net cash provided by (used in) operating activities	(2,366,717)	1,146,717	(956,000)	(2,176,000)	304,232
Investing Activities					
Purchase of office equipment, furniture and fixtures	-	(27,591)	-	(27,591)	(20,271)
Purchase of investments	(5,439,069)	-	-	(5,439,069)	(1,030,983)
Sales and maturities of investments	5,085,625	-	-	5,085,625	732,250
Net cash used in investing activities	(353,444)	(27,591)	-	(381,035)	(319,004)
Financing Activities					
Proceeds from contributions and investment income restricted for long-term investment	76,911	-	-	76,911	-
Cash dividends paid	-	(956,000)	956,000	-	-
Net cash provided by (used in) financing activities	76,911	(956,000)	956,000	76,911	-
Increase (Decrease) in Cash and Cash Equivalents	(2,643,250)	163,126	-	(2,480,124)	(14,772)
Cash and Cash Equivalents, Beginning of Year	8,951,976	3,943,249	-	12,895,225	12,909,997
Cash and Cash Equivalents, End of Year	$ 6,308,726	$ 4,106,375	$ -	$ 10,415,101	$ 12,895,225
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position					
Cash and cash equivalents	$ 6,308,726	$ 889,557	$ -	$ 7,198,283	$ 9,755,937
Cash and cash equivalents - premium account	-	3,216,818	-	3,216,818	3,139,288
	$ 6,308,726	$ 4,106,375	$ -	$ 10,415,101	$ 12,895,225
Supplemental Cash Flows Information					
Income taxes paid	$ -	$ 678,587	$ -	$ 678,587	$ 646,601

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The American Academy of Family Physicians Foundation (the Foundation) is a not-for-profit organization whose mission and principal activity is to serve 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 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), which is the sole contract holder of such plans. Insurance Services maintains a relationship with one insurance company that services a majority of these plans and through agreements provides the source for a significant portion of revenues from insurance plans.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, Insurance Services (hereinafter collectively known as the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash and cash equivalents consisted primarily of deposit accounts and a money market account with a financial institution.

At December 31, 2013, the Organization's deposit accounts exceeded federally insured limits by approximately $4,280,000. The money market account, which is not covered by FDIC insurance, had a balance of approximately $5,720,000 at December 31, 2013.

The premium account is a restricted cash account that holds premiums collected on behalf of Insurance Services.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

The pooled investment funds are valued at net asset value which estimates fair value. Investment earnings are allocated monthly on a prorata basis representative of the Foundation's overall percentage of the ownership fund.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated annually to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Investment securities are exposed to various risks such as interest rate, market and credit. 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 change could materially affect the amounts reported in the accompanying statements of financial position.

Accounts Receivable

Foundation accounts receivable consists primarily of Foundation donations collected by the Academy, and donations or grants receivable from third parties. Balances become past due according to the terms of various agreements with third parties and organizations who handle the initial processing. 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 is collectible at December 31, 2013 and 2012; therefore, no allowance for uncollectible accounts has been established.

Insurance Services accounts receivable consist primarily of commissions due from one insurance carrier. Insurance Services holds the funds of these accounts receivable and, accordingly, believes that no allowance for doubtful accounts is needed for the years ended December 31, 2013 and 2012. The insurance carrier and the insured are located throughout the United States.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. The estimated useful lives of the assets range from three years to fifteen years.

Temporarily and Permanently Restricted Net Assets

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 have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Grant Awards Payable

Grant awards payable include amounts due to outside organizations from grants the Foundation has awarded.

Grant Revenue and Deferred Revenue

Support funded by grants is recognized as the Foundation performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Insurance Revenues

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.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

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

The differences relate to depreciable assets (use of different depreciation methods and lives for financial statements and income tax purposes) and certain accrued expenses (expensed for financial statement purposes but not deductible for income tax purposes until paid). The deferred tax asset and liability 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. Valuation allowances are provided for deferred tax assets based on management’s projection of the sufficiency of future taxable income to realize the assets.

Income tax accounting guidance (ASC Topic 740, *Income Taxes*) requires that the Organization record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. Insurance Services continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

Advertising

Insurance Services expenses advertising and other promotional costs as they are incurred. These types of expenses for mailing campaigns, newsletters and similar activities were approximately $492,000 and $420,000 for the years ended 2013 and 2012, respectively.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Investments and Investment Return

Investments at December 31 consisted of the following:

	2013	2012
Money markets accounts	$ 439,931	$ 651,194
Common and preferred stock	7,084,289	6,191,288
Equity funds	1,818,652	1,149,918
Corporate bonds	2,863,105	1,888,455
Treasury and federal agency obligations	808,143	1,152,177
Pooled investment funds	1,104,694	921,434
Hedge fund	32,820	48,588
	$ 14,151,634	$ 12,003,054

Total investment return is comprised of the following:

	2013	2012
Interest and dividend income	$ 286,594	$ 291,780
Realized gains	498,172	269,315
Unrealized gains	1,282,767	673,182
Investment fees and expenses	(77,251)	(71,907)
Change in value of split-interest agreements	2,562	9,428
	$ 1,992,844	$ 1,171,798

Note 3: Split-Interest Agreements

Charitable Remainder Trusts

The Foundation is the beneficiary of two charitable remainder unitrusts. The trusts provide for a lifetime benefit to be paid to the donor or other designated beneficiary. Upon the death of the beneficiaries, the remaining trust assets are distributed in accordance with the trust document.

The Foundation is the trustee and sole remainder beneficiary of one of the trusts. The fair value of the trust assets were $53,220 and $49,750 as of December 31, 2013 and 2012, respectively, and are included in investments in the Foundation's statements of financial position. The Foundation has recorded a liability at December 31, 2013 and 2012, of $35,614 and $34,297, respectively, which represents the present value of the future obligations to make distributions to the designated beneficiaries.

The second trust is administered by an outside party. Therefore, the estimated value of the expected future cash flows of $41,969 and $36,321, which represents the fair value of the trust assets at December 31, 2013 and 2012, respectively, is recorded as "beneficial interest in trust assets" on the consolidated statement of financial position.

Pooled Income Fund

The Foundation manages a pooled income fund in which donors who contribute to the fund 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. Until the donor's death, the donor or the donor's designated beneficiary is paid the actual ordinary income earned on the donor's units. Upon the donor's death, the value of the assigned units reverts to the Foundation.

The Foundation recognizes its remainder interest in the assets received as temporarily restricted contribution revenue in the period in which the assets are received from the donor. The contributed assets are recognized at fair value when received. The difference between the fair value of the assets when received and the revenue recognized is recorded as deferred revenue, representing the amount of discount for future interest.

The fair value of the pooled income fund assets was $95,743 and $85,018 as of December 31, 2013 and 2012, respectively, and is included in "investments" in the consolidated statement of financial position. The present value of the estimated future payments is calculated using a discount rate ranging from 5.75% to 8.75% and applicable life expectancy tables. The estimated future liability of the pooled income fund was $38,655 and $22,689 as of December 31, 2013 and 2012, respectively, and is included in "liabilities under split-interest agreements" in the consolidated statement of financial position.

Note 4: Net Assets

Board-Designated Net Assets

Certain net assets have been designated by the board for the following purposes:

	2013	2012
General endowment	$ 9,791,095	$ 8,377,730
Center for the History of Family Medicine endowment	958,784	816,335
Total board-designated endowments	10,749,879	9,194,065
Family Medicine Cares USA	4,558	-
Family Medicine Philanthropic Consortium	106,646	99,693
	$ 10,861,083	$ 9,293,758

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes:

	2013	2012
Resident Service Award	$ 467,442	$ 483,942
Center for the History of Family Medicine	365,734	-
Family Medicine Cares	102,585	107,774
Stern Lectureship	102,313	87,901
Special projects	115,222	104,407
Charitable remainder trusts	59,576	51,773
Pooled income fund	57,088	62,329
Disaster relief fund	39,319	27,125
Ruth Ostergaard Children's fund	25,878	9,651
Immunization program	7,216	28,516
Other	127,378	71,659
	$ 1,469,751	$ 1,035,077

Permanently Restricted Net Assets

Permanently restricted net assets at December 31 are restricted to:

	2013	2012
Investment in perpetuity, the income of which is expendable to support		
National Conference Scholarships (McCord endowment)	$ 114,084	$ 97,948
Ruth Ostergaard Children's fund	95,488	91,113
Robert Graham Center	322,225	296,597
Research (Lopez endowment)	179,571	161,969
Endowment requiring income to be added to the permanently restricted balance until $50,000 is accumulated	38,380	32,802
Investment in perpetuity, the income of which is expendable upon board approval to support Center for the History of Family Medicine	676,681	851,276
	$ 1,426,429	$ 1,531,705

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2013	2012
Peers for Progress	$ 1,753,120	$ 2,092,956
Cities for Life	233,385	614,508
Special projects	213,621	460,114
Family Medicine Cares	132,211	60,021
Immunization program	126,667	222,139
Disaster relief	75,808	18,971
Highlight on Diabetes	31,514	322,304
Resident Service Award	16,500	-
Other	10,998	76,180
	$ 2,593,824	$ 3,867,193

Note 5: Endowment

The Foundation's endowment consists of seven individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Kansas Prudent Management of Institutional Funds Act (KPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by KPMIFA. In accordance with KPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at December 31, 2013 and 2012, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
December 31, 2013				
Donor-restricted	$ -	$ 469,732	$ 1,426,429	$ 1,896,161
Board-designated	10,749,879	-	-	10,749,879
Total endowment funds	$ 10,749,879	$ 469,732	$ 1,426,429	$ 12,646,040
December 31, 2012				
Donor-restricted	$ -	$ 27,953	$ 1,531,705	$ 1,559,658
Board-designated	9,194,065	-	-	9,194,065
Total endowment funds	$ 9,194,065	$ 27,953	$ 1,531,705	$ 10,753,723

Changes in endowment net assets for the years ended December 31, 2013 and 2012 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2012	$ 8,195,705	$ 1,801	$ 1,401,045	$ 9,598,551
Investment return				
Investment income	170,829	6,049	13,780	190,658
Net appreciation	747,181	20,703	48,930	816,814
Total investment return	918,010	26,752	62,710	1,007,472
Contributions	65,350	-	67,950	133,300
Appropriation of endowment assets for expenditures	-	(600)	-	(600)
Other transfers	15,000	-	-	15,000
Endowment net assets, December 31, 2012	9,194,065	27,953	1,531,705	10,753,723
Investment return				
Investment income	152,362	30,856	1,945	185,163
Net appreciation	1,343,952	190,611	38,725	1,573,288
Total investment return	1,496,314	221,467	40,670	1,758,451
Contributions	44,500	-	74,966	119,466
Appropriation of endowment assets for expenditures	-	(600)	-	(600)
Other transfers	15,000	220,912	(220,912)	15,000
Endowment net assets, December 31, 2013	$ 10,749,879	$ 469,732	$ 1,426,429	$ 12,646,040

During 2013, the Foundation determined that prior earnings on one endowment fund had not been accounted for in accordance with KPMIFA. Accordingly, the Foundation transferred $220,912 from permanently restricted net assets to temporarily restricted net assets.

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at December 31 consisted of:

	2013	2012
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or KPMIFA	$ 1,426,429	$ 1,531,705
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under KPMIFA with purpose restrictions	$ 469,732	$ 27,953

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or KPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies of this nature at December 31, 2013 and 2012.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to grow the principal of the funds while assuming a tolerable level of investment risk. The Foundation expects its endowment funds to provide an average rate of return of approximately 7.5% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

When specified, the Foundation follows the donor's stipulations in the endowment agreement regarding the appropriation of endowment earnings. For board-designated funds, earnings are being reinvested until determined expendable by the board. For donor funds, earnings are being reinvested until the endowment reaches a point that the earnings would support the intended purpose of the endowment in perpetuity.

Note 6: Conditional Grants

In May 2007, the Foundation entered into an agreement with Eli Lilly and Company Foundation, Inc. (Lilly) whereby Lilly agreed to grant $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.

In December 2010, the Foundation entered into a grant agreement with Bristol-Myers Squibb Foundation, Inc. that provides for a grant of up to $5,239,876 in three annual payments, in support of a demonstration project to be led by the PFP management team. The grant expires December 31, 2014.

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, 2013, the Foundation had received $20,239,876 under these grant agreements and $16,916,256 in expenses had been incurred. The balance of $3,323,620 and $5,076,741 is included in deferred revenue at December 31, 2013 and 2012, respectively.

Note 7: Related Party Transactions

The Organization and the American Academy of Family Physicians (the "Academy"), are related parties that are not financially interrelated organizations.

The Academy provides certain services to the Foundation under an administrative services agreement. The administrative services agreement includes services such as day-to-day executive, administrative, legal, accounting, clerical and other services in connection with the operations of the Foundation. The Foundation reimburses the Academy for direct costs under the agreement. In addition, the Foundation pays the Academy an additional service fee equal to 22.2% of the annual direct costs. Fees paid under the administrative services agreement were $1,806,361 and $1,419,640 for 2013 and 2012, respectively. The Foundation also paid $1,051,522 in 2013 and $1,419,640 in 2012 for grants and related costs to the Academy.

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:

	2013	2012
Dues check-off (pass through donations)	$ 199,802	$ 190,071
Contributions directed through the Academy	71,621	55,510
Center for the History of Family Medicine support	15,000	15,000
Other	50,018	68,557
	$ 336,441	$ 329,138

Foundation accounts receivable included revenues and other support from the Academy of $141,972 and $88,774 at December 31, 2013 and 2012, respectively. Accounts payable includes $582,747 and $836,307 at December 31, 2013 and 2012, respectively, due to the Academy by the Foundation for services and other items.

Insurance Services remitted reimbursements to the Academy for common administrative costs (postage, internet, telephone) and marketing expenses in the amount of $162,813 in 2013 and $165,445 in 2012. The amount due to the Academy was $58 and $4,034 as of December 31, 2013 and 2012, respectively, for these common administrative and marketing expenses.

Insurance Services also leases office space from the Academy. The current lease expires in September 2014 and the remaining future minimum lease payments total $56,228 for the year ending December 31, 2014. Rent expense under this operating lease was $84,342 for each year ended December 31, 2013 and 2012.

The Academy, as the contract holder, controls certain plans administered by Insurance Services. Insurance Services administers Academy-sponsored life insurance plans and, pursuant to a royalty agreement relating thereto, incurred costs to the Academy of $66,973 and $56,418 for the years ended December 31, 2013 and 2012, respectively. At December 31, 2013, there was approximately $36,000 of royalty accrued within accounts payable and accrued liabilities. There were no amounts due under this agreement at December 31, 2012.

Note 8: Income Taxes

The provision for federal and state income taxes consist of the following components for the years ended December 31:

	2013	2012
Current expense	$ 645,055	$ 649,447
Deferred benefit	(26,366)	(12,398)
Total income tax expense	$ 618,689	$ 637,049

The tax effects of temporary differences related to deferred taxes shown on the consolidated statements of financial position were:

	2013	2012
Deferred tax assets		
Accrued vacation	$ 35,600	$ 28,443
Deferred compensation	13,300	2,510
	48,900	30,953
Deferred tax liability		
Book/tax difference on fixed assets	(15,700)	(24,119)
Net deferred tax asset	$ 33,200	$ 6,834

The above net deferred tax asset is presented on the consolidated statements of financial position as follows:

	2013	2012
Deferred tax asset	$ 35,600	$ 28,443
Deferred tax liability	(2,400)	(21,609)
Net deferred tax asset	$ 33,200	$ 6,834

Note 9: Profit Sharing Plan and 401(k) Plan

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 for the Defined Contribution Plan is seven percent (7%) of each participant's annual salary. Additionally, Insurance Services has a 401(k) plan and Insurance Services matches employee contributions up to an additional four percent (4%) of compensation. Insurance Services contributed $82,134 in 2013 and $81,803 in 2012 to the plans.

Retirement benefits for the Foundation are provided under the administrative services agreement with the Academy.

Note 10: Functional Expenses

The costs of supporting activities have been allocated to the various programs in the consolidated statement of activities. Expenses summarized on a functional basis are shown below. Certain costs have been allocated among the program, administration and fundraising categories based on time expended, usage and other methods.

	2013	2012
Foundation		
Program services	$ 4,138,582	$ 5,109,618
Administration	483,196	504,207
Fundraising	843,494	783,444
Insurance Services	2,800,355	2,607,889
	$ 8,265,627	$ 9,005,158

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2013 and 2012:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Investments				
Money markets accounts	$ 439,931	$ 439,931	$ -	$ -
Common and preferred stock	7,084,289	7,084,289	-	-
Equity funds	1,818,652	1,818,652	-	-
Corporate bonds	2,863,105	-	2,863,105	-
Treasury and federal agency obligations	808,143	-	808,143	-
Pooled investment funds	1,104,694	-	1,104,694	-
Hedge fund	32,820	-	-	32,820
Beneficial interest in trust assets	41,969	-	41,969	-
	$ 14,193,603	$ 9,342,872	$ 4,817,911	$ 32,820

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Investments				
Money markets accounts	$ 651,194	$ 651,194	$ -	$ -
Common and preferred stock	6,191,288	6,191,288	-	-
Equity funds	1,149,918	1,149,918	-	-
Corporate bonds	1,888,455	-	1,888,455	-
Treasury and federal agency obligations	1,152,177	-	1,152,177	-
Pooled investment funds	921,434	-	921,434	-
Hedge fund	48,588	-	-	48,588
Beneficial interest in trust assets	36,321	-	36,321	-
	$ 12,039,375	$ 7,992,400	$ 3,998,387	$ 48,588

Following is a description of the valuation methodologies and inputs used for assets and measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2013.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as pooled investments and hedge fund, is determined using net asset value (or its equivalent) as a practical expedient. The pooled investment fund invests primarily in publicly traded mutual funds and a limited partnership. Investment income and realized and unrealized gains and losses from securities in the pooled investment fund are allocated monthly to the fund partners based on the relationship of the fair value of the interest of each partners' account to the total fair value of the pooled investment fund, as adjusted for additions to or deductions from those accounts. The Foundation has the ability to redeem the pooled investments at any time and has therefore categorized these investments as Level 2. The underlying investments of the hedge fund include a portfolio of alternative investments funds. The hedge fund is currently in liquidation with expected payouts through 2015, therefore, the Foundation does not expect to be able to redeem its investments with the investee within 12 months after the reporting date and has categorized the investment as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Beneficial Interest in Trust Assets

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.