# American Academy of Family Physicians Foundation and Subsidiary

Auditor’s Report and Consolidated Financial Statements

December 31, 2014 and 2013

BKD LLP
CPAs & Advisors

# American Academy of Family Physicians Foundation and Subsidiary
## December 31, 2014 and 2013

## Contents

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# 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, 2014, 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, 2014 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 Consolidated Comparative Information***

We have previously audited the December 31, 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 19, 2014. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the consolidated 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 17, 2015

# American Academy of Family Physicians Foundation and Subsidiary

## Consolidating Statement of Financial Position

## December 31, 2014

## (with Comparative Totals for 2013)

| Assets | 2014 Foundation | 2014 Insurance Services | 2014 Eliminations | 2014 Consolidated Total | Comparative Totals for 2013 |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 2,943,533 | $ 953,587 | $ - | $ 3,897,120 | $ 7,198,283 |
| Cash and cash equivalents - premium account | - | 3,372,859 | - | 3,372,859 | 3,216,818 |
| Accounts receivable | 272,878 | 654,484 | - | 927,362 | 935,000 |
| Prepaid expenses | 101,582 | 49,826 | - | 151,408 | 186,081 |
| Investments at fair value | 15,283,483 | - | - | 15,283,483 | 14,151,634 |
| Investment in subsidiary | 1,534,951 | - | (1,534,951) | - | - |
| Beneficial interest in trust assets | 56,108 | - | - | 56,108 | 41,969 |
| Income tax receivable | - | - | - | - | 6,355 |
| Deferred tax asset | - | 40,200 | - | 40,200 | 35,600 |
| Office equipment, furniture and fixtures, net of accumulated depreciation; 2014 - $770,725, 2013 - $745,378 | 468 | 45,713 | - | 46,181 | 62,335 |
| | $ 20,193,003 | $ 5,116,669 | $ (1,534,951) | $ 23,774,721 | $ 25,834,075 |

### Liabilities and Net Assets

| | Foundation | Insurance Services | Eliminations | Consolidated Total | Comparative Totals for 2013 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Accounts payable and accrued expenses | $ 1,215,457 | $ 186,338 | $ - | $ 1,401,795 | $ 1,238,583 |
| Premiums payable | - | 3,372,096 | - | 3,372,096 | 3,216,989 |
| Grant awards payable | 378,543 | - | - | 378,543 | 549,098 |
| Deferred revenue and advances | 1,175,943 | - | - | 1,175,943 | 3,653,216 |
| Liabilities under split-interest agreements | 70,122 | - | - | 70,122 | 74,269 |
| Deferred tax liability | - | 16,600 | - | 16,600 | 2,400 |
| Federal and state income taxes payable | - | 6,684 | - | 6,684 | - |
| Total liabilities | 2,840,065 | 3,581,718 | - | 6,421,783 | 8,734,555 |
| **Net Assets** | | | | | |
| Unrestricted: | | | | | |
| Undesignated | 2,717,327 | 1,534,951 | (1,534,951) | 2,717,327 | 3,342,257 |
| Board designated | 11,462,466 | - | - | 11,462,466 | 10,861,083 |
| Total unrestricted | 14,179,793 | 1,534,951 | (1,534,951) | 14,179,793 | 14,203,340 |
| Temporarily restricted | 1,503,364 | - | - | 1,503,364 | 1,469,751 |
| Permanently restricted | 1,669,781 | - | - | 1,669,781 | 1,426,429 |
| Total net assets | 17,352,938 | 1,534,951 | (1,534,951) | 17,352,938 | 17,099,520 |
| Total liabilities and net assets | $ 20,193,003 | $ 5,116,669 | $ (1,534,951) | $ 23,774,721 | $ 25,834,075 |

# American Academy of Family Physicians Foundation and Subsidiary

## Consolidating Statement of Activities

### Year Ended December 31, 2014

### (with Comparative Totals for 2013)

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Foundation | Insurance Services | Eliminations | Consolidated Total | Comparative Totals for 2013 |
| **Unrestricted Net Assets** | | | | | |
| **Revenues, Gains and Other Support** | | | | | |
| Grant revenue | $ 38,014 | $ - | $ - | $ 38,014 | $ 71,235 |
| Corporate and chapter support | 680,000 | - | - | 680,000 | 915,000 |
| Individual contributions | 541,794 | - | - | 541,794 | 518,711 |
| Special events, net of direct expenses of $46,991 in 2014 and $29,919 in 2013 | 34,804 | - | - | 34,804 | 40,091 |
| Investment return | 509,305 | - | - | 509,305 | 1,708,985 |
| Insurance agreement revenues | - | 3,896,258 | - | 3,896,258 | 3,803,999 |
| Net assets released from restrictions | 2,988,900 | - | - | 2,988,900 | 2,593,824 |
| Total revenues, gains and other support | 4,792,817 | 3,896,258 | - | 8,689,075 | 9,651,845 |
| **Expenses and Losses** | | | | | |
| Insurance services | - | 2,850,004 | - | 2,850,004 | 2,800,355 |
| Board, general, staff and administration | 542,126 | - | - | 542,126 | 483,198 |
| Family Medicine Philanthropic Consortium | 84,203 | - | - | 84,203 | 78,602 |
| Center for the History of Family Medicine | 213,429 | - | - | 213,429 | 211,473 |
| Family Medicine Cares | 294,320 | - | - | 294,320 | 234,061 |
| Family Medicine Leads | 667 | - | - | 667 | - |
| Grant awards and administration | 625,457 | - | - | 625,457 | 673,405 |
| Individual development | 676,797 | - | - | 676,797 | 732,063 |
| Professional and corporate affairs | 181,743 | - | - | 181,743 | 193,257 |
| Peers for Progress | 2,088,741 | - | - | 2,088,741 | 1,649,737 |
| Programs, other | 1,155,135 | - | - | 1,155,135 | 1,209,476 |
| Total expenses and losses | 5,862,618 | 2,850,004 | - | 8,712,622 | 8,265,627 |
| Change in unrestricted net assets | (1,069,801) | 1,046,254 | - | (23,547) | 1,386,218 |
| **Temporarily Restricted Net Assets** | | | | | |
| Grant revenues | 2,734,457 | - | - | 2,734,457 | 2,300,890 |
| Corporate and chapter support | 45,238 | - | - | 45,238 | 10,000 |
| Individual contributions | 189,280 | - | - | 189,280 | 250,355 |
| Special events | 2,134 | - | - | 2,134 | 3,152 |
| Investment return | 51,404 | - | - | 51,404 | 243,189 |
| Net asset transfer | - | - | - | - | 220,912 |
| Net assets released from restrictions | (2,988,900) | - | - | (2,988,900) | (2,593,824) |
| Change in temporarily restricted net assets | 33,613 | - | - | 33,613 | 434,674 |
| **Permanently Restricted Net Assets** | | | | | |
| Corporate and chapter support | 34,000 | - | - | 34,000 | 36,000 |
| Individual contributions | 142,388 | - | - | 142,388 | 38,966 |
| Investment return | 66,964 | - | - | 66,964 | 40,670 |
| Net asset transfer | - | - | - | - | (220,912) |
| Change in permanently restricted net assets | 243,352 | - | - | 243,352 | (105,276) |
| **Increase (Decrease) in Net Assets Before Earnings of Subsidiary and Dividends Paid** | (792,836) | 1,046,254 | - | 253,418 | 1,715,616 |
| **Earnings of Subsidiary** | 1,046,254 | - | (1,046,254) | - | - |
| **Dividends Paid** | - | (1,010,000) | 1,010,000 | - | - |
| **Increase in Net Assets** | 253,418 | 36,254 | (36,254) | 253,418 | 1,715,616 |
| **Net Assets, Beginning of Year** | 17,099,520 | 1,498,697 | (1,498,697) | 17,099,520 | 15,383,904 |
| **Net Assets, End of Year** | $ 17,352,938 | $ 1,534,951 | $ (1,534,951) | $ 17,352,938 | $ 17,099,520 |

# American Academy of Family Physicians Foundation and Subsidiary

## Consolidating Statement of Cash Flows

### Year Ended December 31, 2014

### (with Comparative Totals for 2013)

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Foundation | Insurance Services | Eliminations | Consolidated Total | Comparative Totals for 2013 |
| **Operating Activities** | | | | | |
| Change in net assets | $ 253,418 | $ 1,046,254 | $ (1,046,254) | $ 253,418 | $ 1,715,616 |
| Items not requiring (providing) operating cash flows | | | | | |
| Depreciation | 9,597 | 20,305 | - | 29,902 | 56,072 |
| Net realized and unrealized gains on investments | (398,503) | - | - | (398,503) | (1,780,939) |
| Gain on split-interest agreements | (6,405) | - | - | (6,405) | (2,562) |
| Contributions and investment income received restricted for long-term investment | (163,210) | - | - | (163,210) | (76,911) |
| Change in investment in subsidiary | (36,254) | - | 36,254 | - | - |
| Deferred income taxes | - | 9,600 | - | 9,600 | (26,366) |
| Change in | | | | | |
| Accounts receivable | (21,948) | 29,586 | - | 7,638 | (87,748) |
| Prepaid expenses | 66,616 | (31,943) | - | 34,673 | (36,713) |
| Accounts payable and accrued expenses | 161,341 | 1,871 | - | 163,212 | 308,526 |
| Premiums payable | - | 155,107 | - | 155,107 | 77,540 |
| Grant awards payable | (170,555) | - | - | (170,555) | (718,288) |
| Deferred revenue and advances | (2,477,273) | - | - | (2,477,273) | (1,569,695) |
| Federal and state income taxes payable | - | 13,039 | - | 13,039 | (34,532) |
| Net cash provided by (used in) operating activites | (2,783,176) | 1,243,819 | (1,010,000) | (2,549,357) | (2,176,000) |
| **Investing Activities** | | | | | |
| Purchase of office equipment, furniture and fixtures | - | (13,748) | - | (13,748) | (27,591) |
| Purchase of investments | (7,634,877) | - | - | (7,634,877) | (5,439,069) |
| Sales and maturities of investments | 6,889,650 | - | - | 6,889,650 | 5,085,625 |
| Net cash used in investing activities | (745,227) | (13,748) | - | (758,975) | (381,035) |
| **Financing Activities** | | | | | |
| Proceeds from contributions and investment income restricted for long-term investment | 163,210 | - | - | 163,210 | 76,911 |
| Cash dividends paid | - | (1,010,000) | 1,010,000 | - | - |
| Net cash provided by (used in) financing activities | 163,210 | (1,010,000) | 1,010,000 | 163,210 | 76,911 |
| **Increase (Decrease) in Cash and Cash Equivalents** | (3,365,193) | 220,071 | - | (3,145,122) | (2,480,124) |
| **Cash and Cash Equivalents, Beginning of Year** | 6,308,726 | 4,106,375 | - | 10,415,101 | 12,895,225 |
| **Cash and Cash Equivalents, End of Year** | $ 2,943,533 | $ 4,326,446 | $ - | $ 7,269,979 | $ 10,415,101 |
| **Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position** | | | | | |
| Cash and cash equivalents | $ 2,943,533 | $ 953,587 | $ - | $ 3,897,120 | $ 7,198,283 |
| Cash and cash equivalents - premium account | - | 3,372,859 | - | 3,372,859 | 3,216,818 |
| | $ 2,943,533 | $ 4,326,446 | $ - | $ 7,269,979 | $ 10,415,101 |
| **Supplemental Cash Flows Information** | | | | | |
| Income taxes paid | $ - | $ 649,651 | $ - | $ 649,651 | $ 678,587 |

## 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, 2014 and 2013, cash and cash equivalents consisted primarily of deposit accounts and a money market account with a financial institution.

At December 31, 2014, the Organization's deposit accounts exceeded federally insured limits by approximately $4,180,000. The money market account, which is not covered by FDIC insurance, had a balance of approximately $2,720,000 at December 31, 2014.

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 statement 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 monthly 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 consolidated statement 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, 2014 and 2013; 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, 2014 and 2013. 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.

Approximately 17% of all individual contributions were received from one donor in 2014. There were no individually significant contributions in 2013.

### *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 2011.

### *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 $609,000 and $492,000 for the years ended December 31, 2014 and 2013, respectively.

### *Subsequent Events*

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

## Note 2: Investments and Investment Return

Investments at December 31 consisted of the following:

| | 2014 | 2013 |
|---|---|---|
| Money markets accounts | $ 740,183 | $ 439,931 |
| Common and preferred stock | 7,185,635 | 7,084,289 |
| Equity mutual funds | 1,743,489 | 1,818,652 |
| Fixed income mutual funds | 1,859,515 | 1,636,966 |
| Corporate bonds | 1,467,460 | 1,226,139 |
| Treasury and federal agency obligations | 1,087,370 | 808,143 |
| Pooled investment funds | 1,175,420 | 1,104,694 |
| Hedge fund | 24,411 | 32,820 |
| | $ 15,283,483 | $ 14,151,634 |

Total investment return is comprised of the following:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividend income | $ 307,663 | $ 286,594 |
| Realized gains | 746,048 | 498,172 |
| Unrealized gains (losses) | (347,545) | 1,282,767 |
| Investment fees and expenses | (84,898) | (77,251) |
| Change in value of split-interest agreements | 6,405 | 2,562 |
| | $ 627,673 | $ 1,992,844 |

## 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 $51,593 and $53,220 as of December 31, 2014 and 2013, respectively, and are included in investments in the Foundation's consolidated statement of financial position. The Foundation has recorded a liability at December 31, 2014 and 2013, of $33,640 and $35,614, 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 $56,108 and $41,969, which represents the fair value of the trust assets at December 31, 2014 and 2013, 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 $99,481 and $95,743 as of December 31, 2014 and 2013, 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 $36,482 and $38,655 as of December 31, 2014 and 2013, 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:

| | 2014 | 2013 |
|---|---|---|
| General endowment | $ 10,261,959 | $ 9,791,095 |
| Center for the History of Family Medicine endowment | 1,016,526 | 958,784 |
| Panther endowment | 34,009 | - |
| Total board-designated endowments | 11,312,494 | 10,749,879 |
| Family Medicine Cares USA | 17,490 | 4,558 |
| Family Medicine Philanthropic Consortium | 117,116 | 106,646 |
| Research committee mentorships | 15,366 | - |
| | $ 11,462,466 | $ 10,861,083 |

### *Temporarily Restricted Net Assets*

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

| | 2014 | 2013 |
|---|---|---|
| Resident Service Award | $ 483,428 | $ 467,442 |
| Center for the History of Family Medicine | 408,154 | 365,734 |
| Family Medicine Cares | 62,795 | 102,585 |
| Family Medicine Leads | 54,595 | - |
| Stern Lectureship | 105,091 | 102,313 |
| Special projects | 113,766 | 115,222 |
| Charitable remainder trusts | 60,034 | 59,576 |
| Pooled income fund | 62,999 | 57,088 |
| Disaster relief fund | 41,749 | 39,319 |
| Ruth Ostergaard Children's fund | 23,828 | 25,878 |
| Immunization program | 7,216 | 7,216 |
| Other | 79,709 | 127,378 |
| | $ 1,503,364 | $ 1,469,751 |

### *Permanently Restricted Net Assets*

Permanently restricted net assets at December 31 are restricted to:

| | 2014 | 2013 |
|---|---|---|
| Investment in perpetuity, the income of which is expendable to support | | |
| National Conference Scholarships (McCord endowment) | $ 117,733 | $ 114,084 |
| Ruth Ostergaard Children's fund | 97,488 | 95,488 |
| Robert Graham Center | 376,576 | 322,225 |
| Family Medicine Leads (Lopez endowment) | 87,860 | - |
| Research (Lopez Pollina endowment) | 106,707 | 179,571 |
| Endowment requiring income to be added to the permanently restricted balance until $50,000 is accumulated | 5,910 | 38,380 |
| Investment in perpetuity, the income of which is expendable upon board approval to support Center for the History of Family Medicine | 863,480 | 676,681 |
| Charitable remainder trusts | 14,027 | - |
| | $ 1,669,781 | $ 1,426,429 |

### *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 by donors.

| | 2014 | 2013 |
|---|---|---|
| Peers for Progress | $ 2,239,060 | $ 1,753,120 |
| Cities for Life | 174,858 | 233,385 |
| Special projects | 169,526 | 213,621 |
| Family Medicine Cares | 144,946 | 132,211 |
| Immunization program | 228,938 | 126,667 |
| Disaster relief | 270 | 75,808 |
| Highlight on Diabetes | 3,160 | 31,514 |
| Resident Service Award | 16,500 | 16,500 |
| Stern Lectureship | 1,308 | - |
| Ruth Ostergaard Children's fund | 7,000 | - |
| Other | 3,334 | 10,998 |
| | $ 2,988,900 | $ 2,593,824 |

## Note 5: Endowment

The Foundation's endowment consists of eight 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, 2014 and 2013, was:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **December 31, 2014** | | | | |
| Donor-restricted | $ - | $ 469,994 | $ 1,655,754 | $ 2,125,748 |
| Board-designated | 11,312,494 | - | - | 11,312,494 |
| Total endowment funds | $ 11,312,494 | $ 469,994 | $ 1,655,754 | $ 13,438,242 |
| **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 |

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

## December 31, 2014 and 2013

Changes in endowment net assets for the years ended December 31, 2014 and 2013 were:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, January 1, 2013 | $ 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 |
| Investment return | | | | |
| Investment income | 154,410 | 26,064 | 812 | 181,286 |
| Net appreciation (depreciation) | 272,814 | (17,602) | 66,115 | 321,327 |
| Total investment return | 427,224 | 8,462 | 66,927 | 502,613 |
| Contributions | 147,826 | - | 162,398 | 310,224 |
| Appropriation of endowment assets for expenditures | - | (8,200) | - | (8,200) |
| Other transfers | (12,435) | - | - | (12,435) |
| Endowment net assets, December 31, 2014 | $ 11,312,494 | $ 469,994 | $ 1,655,754 | $ 13,438,242 |

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:

| | 2014 | 2013 |
|---|---|---|
| Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or KPMIFA | $ 1,655,754 | $ 1,426,429 |
| Temporarily restricted net assets | | |
| Portion of perpetual endowment funds subject to a time restriction under KPMIFA with purpose restrictions | $ 469,994 | $ 469,732 |

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, 2014 and 2013.

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 March 31, 2015.

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, 2014, the Foundation had received $20,239,620 under these grant agreements and $19,155,060 in expenses had been incurred. The balance of $1,084,560 and $3,323,620 is included in deferred revenue at December 31, 2014 and 2013, 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 $1,801,737 and $1,806,361 for 2014 and 2013, respectively. The Foundation also paid $598,469 in 2014 and $1,051,522 in 2013 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:

| | 2014 | 2013 |
|---|---|---|
| Dues check-off (pass through donations) | $ 228,341 | $ 199,802 |
| Contributions directed through the Academy | 95,508 | 71,621 |
| Center for the History of Family Medicine support | 15,000 | 15,000 |
| Other | 108,935 | 50,018 |
| | $ 447,784 | $ 336,441 |

Foundation accounts receivable included revenues and other support from the Academy of $54,972 and $141,972 at December 31, 2014 and 2013, respectively. Accounts payable includes $420,261 and $582,747 at December 31, 2014 and 2013, 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 $157,600 and $162,813 in 2014 and 2013, respectively. The amount due to the Academy was $1,501 and $58 as of December 31, 2014 and 2013, respectively, for these common administrative and marketing expenses.

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 $69,216 and $66,973 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, there were approximately $37,000 and $36,000 of royalty accrued within accounts payable and accrued liabilities.

## Note 8: Operating Leases

Insurance Services entered into a noncancellable operating lease for office space with the Academy which expires in 2019. This lease requires Insurance Services to pay additional rent, to be determined annually, for related operating expenses, taxes and other rent provisions. Rental payments include minimum rentals, plus a fixed monthly fee for certain utilities.

Future minimum lease payments at December 31, 2014 were:

| | |
|---|---|
| 2015 | $ 73,984 |
| 2016 | 75,616 |
| 2017 | 77,248 |
| 2018 | 78,880 |
| 2019 | 53,312 |
| | $ 359,040 |

Rent expense under this operating lease was $80,708 and $84,342, respectively, for the years ended December 31, 2014 and 2013.

## Note 9: Income Taxes

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

| | 2014 | 2013 |
|---|---|---|
| Current expense | $ 662,690 | $ 645,055 |
| Deferred benefit | 9,600 | (26,366) |
| Total income tax expense | $ 672,290 | $ 618,689 |

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

| | 2014 | 2013 |
|---|---|---|
| Deferred tax assets | | |
| Accrued vacation | $ 40,200 | $ 35,600 |
| Deferred compensation | - | 13,300 |
| | 40,200 | 48,900 |
| Deferred tax liability | | |
| Book/tax difference on fixed assets | (16,600) | (15,700) |
| Net deferred tax asset | $ 23,600 | $ 33,200 |

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

| | 2014 | 2013 |
|---|---|---|
| Deferred tax asset | $ 40,200 | $ 35,600 |
| Deferred tax liability | (16,600) | (2,400) |
| Net deferred tax asset | $ 23,600 | $ 33,200 |

## Note 10: 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 $82,149 and $82,134 to the plans, in 2014 and 2013, respectively.

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

## Note 11: 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.

| | 2014 | 2013 |
|---|---|---|
| Foundation | | |
| Program services | $ 4,526,240 | $ 4,138,582 |
| Administration | 542,126 | 483,196 |
| Fundraising | 794,252 | 843,494 |
| Insurance Services | 2,850,004 | 2,800,355 |
| | $ 8,712,622 | $ 8,265,627 |

## Note 12: 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 recognized in the accompanying consolidated statement 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, 2014 and 2013:

| | Fair Value | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **December 31, 2014** | | | | |
| Investments | | | | |
| Money markets accounts | $ 740,183 | $ 740,183 | $ - | $ - |
| Common and preferred stock | 7,185,635 | 7,185,635 | - | - |
| Equity mutual funds | 1,743,489 | 1,743,489 | - | - |
| Fixed income mutual funds | 1,859,515 | 1,859,515 | - | - |
| Corporate bonds | 1,467,460 | - | 1,467,460 | - |
| Treasury and federal agency obligations | 1,087,370 | - | 1,087,370 | - |
| Pooled investment funds | 1,175,420 | - | 1,175,420 | - |
| Hedge fund | 24,411 | - | - | 24,411 |
| Beneficial interest in trust assets | 56,108 | - | 56,108 | - |
| | $ 15,339,591 | $ 11,528,822 | $ 3,786,358 | $ 24,411 |

| | Fair Value | Fair Value Measurements Using: 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 mutual funds | 1,818,652 | 1,818,652 | - | - |
| Fixed income mutual funds | 1,636,966 | 1,636,966 | - | - |
| Corporate bonds | 1,226,139 | - | 1,226,139 | - |
| 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 | $ 10,979,838 | $ 3,180,945 | $ 32,820 |

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 statement 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, 2014.

***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. As the hedge fund is invested in alternative investment funds without observable inputs, the Foundation 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.