

**American Academy of Family Physicians  
Foundation and Subsidiary**

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019



**American Academy of Family Physicians  
Foundation and Subsidiary  
December 31, 2020 and 2019**

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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, 2020, and the related consolidated statements of activities, functional expenses 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, 2020, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Summarized Consolidated Comparative Information***

We have previously audited the December 31, 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 5, 2020. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived.

### ***Consolidating Information***

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the 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 been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*BKD, LLP*

West Des Moines, Iowa  
May 4, 2021

# American Academy of Family Physicians Foundation and Subsidiary

## Consolidated Statement of Financial Position with Consolidating Information

December 31, 2020

(with Comparative Totals for 2019)

	2020				Comparative Totals for 2019
	Foundation	Insurance Services	Eliminations	Consolidated Total	
<b>Assets</b>					
Cash and cash equivalents	\$ 2,066,593	\$ 1,295,051	\$ -	\$ 3,361,644	\$ 3,552,638
Cash and cash equivalents - premium account	-	3,196,923	-	3,196,923	3,182,967
Accounts receivable - trade	-	23,865	-	23,865	108,006
Accounts receivable - support	141,925	-	-	141,925	128,950
Prepaid expenses	63,563	12,677	-	76,240	56,655
Investments at fair value	17,854,817	-	-	17,854,817	16,574,797
Investment in subsidiary	1,613,251	-	(1,613,251)	-	-
Contributions receivable	89,154	-	-	89,154	70,167
Beneficial interest in trust assets	64,356	-	-	64,356	60,681
Deferred tax asset	-	77,800	-	77,800	170,200
Office equipment, furniture and fixtures, net of accumulated depreciation; 2020 - \$828,186, 2019 - \$878,867	179,506	10,108	-	189,614	44,694
	<u>\$ 22,073,165</u>	<u>\$ 4,616,424</u>	<u>\$ (1,613,251)</u>	<u>\$ 25,076,338</u>	<u>\$ 23,949,755</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable and accrued expenses	\$ 578,022	\$ 65,480	\$ -	\$ 643,502	\$ 1,228,292
Premiums payable	-	2,615,070	-	2,615,070	2,596,448
Grant awards payable	75,718	-	-	75,718	146,500
Deferred revenue and advances	-	271,419	-	271,419	641,360
Liabilities under split-interest agreements	180,645	-	-	180,645	194,772
Federal and state income taxes payable	-	51,204	-	51,204	19,190
Total liabilities	<u>834,385</u>	<u>3,003,173</u>	<u>-</u>	<u>3,837,558</u>	<u>4,826,562</u>
<b>Net Assets</b>					
Without donor restrictions					
Undesignated	4,375,514	1,613,251	(1,613,251)	4,375,514	3,286,016
Designated by the Board					
Endowment	11,213,601	-	-	11,213,601	10,923,779
Special projects and programs	15,366	-	-	15,366	69,265
Total net assets without donor restrictions	<u>15,604,481</u>	<u>1,613,251</u>	<u>(1,613,251)</u>	<u>15,604,481</u>	<u>14,279,060</u>
With donor restrictions	<u>5,634,299</u>	<u>-</u>	<u>-</u>	<u>5,634,299</u>	<u>4,844,133</u>
Total net assets	<u>21,238,780</u>	<u>1,613,251</u>	<u>(1,613,251)</u>	<u>21,238,780</u>	<u>19,123,193</u>
Total liabilities and net assets	<u>\$ 22,073,165</u>	<u>\$ 4,616,424</u>	<u>\$ (1,613,251)</u>	<u>\$ 25,076,338</u>	<u>\$ 23,949,755</u>

**American Academy of Family Physicians  
Foundation and Subsidiary**  
**Consolidated Statement of Activities with Consolidating Information**  
**Year Ended December 31, 2020**  
**(with Comparative Totals for 2019)**

	2020				Comparative Totals for 2019
	Foundation	Insurance Services	Eliminations	Consolidated Total	
<b><u>Net Assets Without Donor Restrictions</u></b>					
<b>Revenues, Gains and Other Support</b>					
Grant revenue	\$ 170	\$ -	\$ -	\$ 170	\$ 47,175
Corporate and chapter support	920,000	-	-	920,000	710,000
Individual contributions	503,717	-	-	503,717	513,051
Special events, net of direct expenses of \$4,511 in 2020 and \$26,976 in 2019	36,734	-	-	36,734	38,915
Investment return	885,250	-	-	885,250	2,157,313
Loss on asset disposal	(12,561)	-	-	(12,561)	-
Insurance agreement revenues	-	4,265,847	-	4,265,847	3,775,191
Net assets released from restrictions	2,320,649	-	-	2,320,649	948,797
Total revenues, gains and other support	4,653,959	4,265,847	-	8,919,806	8,190,442
<b>Expenses and Losses</b>					
Insurance services	-	2,554,206	-	2,554,206	2,388,768
Family Medicine Philanthropic Consortium	118,642	-	-	118,642	97,516
Center for the History of Family Medicine	111,524	-	-	111,524	189,185
Family Medicine Cares	1,246,973	-	-	1,246,973	256,041
Family Medicine Leads	230,269	-	-	230,269	331,903
Family Medicine Discovers	259,076	-	-	259,076	176,152
Research grants and awards	43,244	-	-	43,244	109,045
AAFP program grants	1,527,099	-	-	1,527,099	1,180,239
Program evaluation and support	247,223	-	-	247,223	230,104
Management and general	458,894	-	-	458,894	507,521
Fundraising and development	797,235	-	-	797,235	821,386
Total expenses and losses	5,040,179	2,554,206	-	7,594,385	6,287,860
Change in net assets without donor restrictions	(386,220)	1,711,641	-	1,325,421	1,902,582
<b><u>Net Assets With Donor Restrictions</u></b>					
Grant revenues	2,287,941	-	-	2,287,941	726,873
Corporate and chapter support	100,500	-	-	100,500	49,000
Individual contributions	390,681	-	-	390,681	231,374
Special events	-	-	-	-	195
Investment return	331,693	-	-	331,693	724,681
Net assets released from restrictions	(2,320,649)	-	-	(2,320,649)	(948,797)
Change in net assets with donor restrictions	790,166	-	-	790,166	783,326
<b>Increase (Decrease) in Net Assets Before Earnings of Subsidiary and Dividends Paid</b>	403,946	1,711,641	-	2,115,587	2,685,908
<b>Earnings of Subsidiary</b>	1,711,641	-	(1,711,641)	-	-
<b>Dividends Paid</b>	-	(1,375,000)	1,375,000	-	-
<b>Increase (Decrease) in Net Assets</b>	2,115,587	336,641	(336,641)	2,115,587	2,685,908
<b>Net Assets, Beginning of Year as Originally Reported</b>	19,123,193	1,276,610	(1,276,610)	19,123,193	16,873,174
Change in accounting principle (see <i>Note 2</i> )	-	-	-	-	(435,889)
<b>Net Assets, Beginning of Year as Adjusted</b>	19,123,193	1,276,610	(1,276,610)	19,123,193	16,437,285
<b>Net Assets, End of Year</b>	\$ 21,238,780	\$ 1,613,251	\$ (1,613,251)	\$ 21,238,780	\$ 19,123,193

# American Academy of Family Physicians Foundation and Subsidiary

## Consolidated Statement of Functional Expenses Year Ended December 31, 2020

American Academy of Family Physicians Foundation													
	Family Medicine Philanthropic Consortium	Center for the History of Family Medicine	Family Medicine Cares	Family Medicine Leads	Family Medicine Discovers	Research Grants and Awards	AAFP Program Grants	Program Evaluation and Support	Total Program Expenses	Management and General	Fundraising and Development	AAFP Insurance Services	Total Expenses
Center for Diversity and Health Equity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Center for Global Health Initiatives	-	-	-	-	-	-	45,000	-	45,000	-	-	-	45,000
Chapter Executive Leadership Program	-	-	-	-	-	-	53,000	-	53,000	-	-	-	53,000
Chapter grants	69,250	-	-	-	-	-	-	-	69,250	-	-	-	69,250
Disaster relief disbursements	-	-	-	-	-	-	-	20,000	20,000	-	-	-	20,000
Emerging Leader Institute scholarships and awards	-	-	-	45,000	-	-	-	2,000	47,000	-	-	-	47,000
Externship grants	-	-	-	-	-	26,250	-	-	26,250	-	-	-	26,250
Family Medicine Cares USA clinic grants	-	-	64,220	-	-	-	-	-	64,220	-	-	-	64,220
Family Medicine Cares COVID-19 emergency grants	-	-	995,000	-	-	-	-	-	995,000	-	-	-	995,000
Family Medicine Student Grant Program	-	-	-	-	-	-	82,900	-	82,900	-	-	-	82,900
Family Medicine Discovers - RADPSdi	-	-	-	-	79,212	-	-	-	79,212	-	-	-	79,212
Familydoctor.org	-	-	-	-	-	-	100,000	-	100,000	-	-	-	100,000
Fellowships, lectureships and awards	-	579	-	-	-	-	-	-	579	-	-	-	579
Migraine prevention and treatment	-	-	-	-	-	-	47,532	-	47,532	-	-	-	47,532
National conference scholarships	-	-	-	72,540	-	-	-	-	72,540	-	-	-	72,540
Physician Well-being, Resiliency and Burnout	-	-	-	-	-	-	25,000	-	25,000	-	-	-	25,000
Population Health/Healthy Interventions	-	-	-	-	-	-	50,000	-	50,000	-	-	-	50,000
Robert Graham Center Policy Center	-	-	-	-	-	-	57,000	-	57,000	-	-	-	57,000
Resident service awards	-	-	33,000	-	-	-	-	-	33,000	-	-	-	33,000
Leading Change for Physician Well-being	-	-	-	-	-	-	966,667	-	966,667	-	-	-	966,667
Salaries	-	-	-	-	-	-	-	-	-	-	-	780,573	780,573
Payroll taxes	-	-	-	-	-	-	-	-	-	-	-	43,678	43,678
Profit sharing plan and 401(k) plan	-	-	-	-	-	-	-	-	-	-	-	74,848	74,848
Board of trustees	-	-	-	-	-	-	-	2,175	2,175	8,100	2,850	-	13,125
Professional services	-	1,524	-	-	305	-	-	-	1,829	34,262	152	24,543	60,786
Contracted fees for service	49,200	98,894	149,859	110,013	179,559	16,994	-	196,181	800,700	374,998	587,907	-	1,763,605
Advertising and promotion	60	1,540	250	-	-	-	-	-	1,850	1,794	7,890	616,987	628,521
Office expenses	130	173	749	961	-	-	-	235	2,248	2,327	37,381	2,084	44,040
Information technology	-	2,765	-	-	-	-	-	384	3,149	3,861	47,559	24,496	79,065
Rent - office space	-	-	-	-	-	-	-	-	-	-	-	80,068	80,068
Travel	-	-	100	525	-	-	-	1,418	2,043	14,580	8,084	570	25,277
Conferences and meetings	-	68	-	187	-	-	-	-	255	3,941	40,010	-	44,206
Depreciation	-	-	-	-	-	-	-	24,681	24,681	-	-	6,285	30,966
Insurance	-	3,190	2,201	-	-	-	-	-	5,391	7,588	-	119,429	132,408
Design and printing	2	919	1	145	-	-	-	-	1,067	2,837	37,456	-	41,360
Training and development	-	1,107	-	-	-	-	-	149	1,256	1,144	1,271	545	4,216
Credit card fees and bank charges	-	-	1,165	-	-	-	-	-	1,165	24	14,463	-	15,652
Commission and royalty	-	-	-	-	-	-	-	-	-	-	-	71,042	71,042
Income tax	-	-	-	-	-	-	-	-	-	-	-	613,900	613,900
Other	-	765	428	898	-	-	-	-	2,091	3,438	12,212	95,158	112,899
	<u>\$ 118,642</u>	<u>\$ 111,524</u>	<u>\$ 1,246,973</u>	<u>\$ 230,269</u>	<u>\$ 259,076</u>	<u>\$ 43,244</u>	<u>\$ 1,527,099</u>	<u>\$ 247,223</u>	<u>\$ 3,784,050</u>	<u>\$ 458,894</u>	<u>\$ 797,235</u>	<u>\$ 2,554,206</u>	<u>\$ 7,594,385</u>

See Notes to Consolidated Financial Statements

# American Academy of Family Physicians Foundation and Subsidiary

## Consolidated Statement of Functional Expenses Year Ended December 31, 2019

American Academy of Family Physicians Foundation													
	Family Medicine Philanthropic Consortium	Center for the History of Family Medicine	Family Medicine Cares	Family Medicine Leads	Family Medicine Discovers	Research Grants and Awards	AAFP Program Grants	Program Evaluation and Support	Total Program Expenses	Management and General	Fundraising and Development	AAFP Insurance Services	Total Expenses
Center for Diversity and Health Equity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Center for Global Health Initiatives	-	-	-	-	-	-	45,000	-	45,000	-	-	-	45,000
Chapter Executive Leadership Program	-	-	-	-	-	-	53,000	-	53,000	-	-	-	53,000
Chapter grants	67,500	-	-	-	-	-	-	-	67,500	-	-	-	67,500
Disaster relief disbursements	-	-	-	-	-	-	-	2,000	2,000	-	-	-	2,000
Emerging Leader Institute scholarships and awards	-	-	-	48,000	-	-	-	-	48,000	-	-	-	48,000
Externship grants	-	-	-	-	-	23,750	-	-	23,750	-	-	-	23,750
Family Medicine Cares USA clinic grants	-	-	75,000	-	-	-	-	-	75,000	-	-	-	75,000
Family Medicine Interest Group	-	-	-	-	-	-	75,000	-	75,000	-	-	-	75,000
Familydoctor.org	-	-	-	-	-	-	100,000	-	100,000	-	-	-	100,000
Fellowships, lectureships and awards	-	2,500	5,000	-	-	-	-	14,295	21,795	-	-	-	21,795
International disbursements	-	-	14,824	-	-	-	-	-	14,824	-	-	-	14,824
Migraine prevention and treatment	-	-	-	-	-	-	84,117	-	84,117	-	-	-	84,117
National conference scholarships	-	-	-	129,000	-	-	-	-	129,000	-	-	-	129,000
Physician Health First Initiative	-	-	-	-	-	-	75,000	-	75,000	-	-	-	75,000
Population Health/Healthy Interventions	-	-	-	-	-	-	50,000	-	50,000	-	-	-	50,000
Resident service awards	-	-	33,000	-	-	-	-	-	33,000	-	-	-	33,000
Reimagining Ask and Act	-	-	-	-	-	-	598,122	-	598,122	-	-	-	598,122
Salaries	-	-	-	-	-	-	-	-	-	-	-	775,717	775,717
Payroll taxes	-	-	-	-	-	-	-	-	-	-	-	46,635	46,635
Profit sharing plan and 401(k) plan	-	-	-	-	-	-	-	-	-	-	-	67,472	67,472
Board of trustees	-	-	-	1,222	-	-	-	13,777	14,999	54,783	17,541	-	87,323
Professional services	-	-	-	-	3,484	-	-	-	3,484	30,444	9,368	19,493	62,789
Contracted fees for service	27,212	147,718	117,345	127,519	170,180	85,128	-	173,519	848,621	356,197	509,015	-	1,713,833
Advertising and promotion	-	5,851	13	3,909	79	-	-	-	9,852	-	23,274	488,471	521,597
Office expenses	7	679	902	420	-	100	-	147	2,255	2,639	6,680	4,390	15,964
Information technology	-	1,176	-	-	-	-	-	-	1,176	336	39,657	39,967	81,136
Rent - office space	-	-	-	-	-	-	-	-	-	-	-	78,880	78,880
Travel	-	4,322	6,358	2,155	2,409	-	-	6,978	22,222	22,395	18,631	12,513	75,761
Conferences and meetings	2,570	1,462	-	17,006	-	-	-	106	21,144	22,643	111,216	-	155,003
Depreciation	-	-	-	-	-	-	-	18,842	18,842	-	-	9,000	27,842
Insurance	-	3,089	3,302	-	-	-	-	-	6,391	7,530	-	155,329	169,250
Design and printing	227	10,284	239	2,672	-	67	-	107	13,596	3,350	66,649	-	83,595
Training and development	-	1,439	-	-	-	-	-	134	1,573	6,186	4,917	631	13,307
Credit card fees and bank charges	-	-	-	-	-	-	-	-	-	52	13,251	-	13,303
Commission and royalty	-	-	-	-	-	-	-	-	-	-	-	71,350	71,350
Income tax	-	-	-	-	-	-	-	-	-	-	-	503,700	503,700
Other	-	10,665	58	-	-	-	-	199	10,922	966	1,187	115,220	128,295
	<u>\$ 97,516</u>	<u>\$ 189,185</u>	<u>\$ 256,041</u>	<u>\$ 331,903</u>	<u>\$ 176,152</u>	<u>\$ 109,045</u>	<u>\$ 1,180,239</u>	<u>\$ 230,104</u>	<u>\$ 2,570,185</u>	<u>\$ 507,521</u>	<u>\$ 821,386</u>	<u>\$ 2,388,768</u>	<u>\$ 6,287,860</u>



**American Academy of Family Physicians  
Foundation and Subsidiary**  
**Consolidated Statement of Cash Flows with Consolidating Information**  
**Year Ended December 31, 2020**  
**(with Comparative Totals for 2019)**

	2020					Comparative Totals for 2019
	Foundation	Insurance Services	Eliminations	Consolidated Total		
<b>Operating Activities</b>						
Change in net assets before dividends paid	\$ 2,115,587	\$ 1,711,641	\$ (1,711,641)	\$ 2,115,587	\$ 2,685,908	
Items not requiring (providing) operating cash flows						
Depreciation	24,681	6,285	-	30,966	27,842	
Net realized and unrealized gains on investments	(890,127)	-	-	(890,127)	(2,328,476)	
Gain on split-interest agreements	(8,803)	-	-	(8,803)	(38,086)	
Contributions of investment securities	(79,495)	-	-	(79,495)	(11,806)	
Contributions and investment income received restricted for long-term investment	(330,016)	-	-	(330,016)	(160,466)	
Change in investment in subsidiary	(336,641)	-	336,641	-	-	
Deferred income taxes	-	92,400	-	92,400	(5,926)	
Loss on asset disposal	12,561	-	-	12,561	-	
Changes in						
Accounts receivable	-	84,141	-	84,141	(2,894)	
Prepaid expenses and other	(34,044)	12,971	-	(21,073)	30,375	
Contributions receivable	(18,987)	-	-	(18,987)	53,379	
Accounts payable and accrued expenses	(569,992)	(14,798)	-	(584,790)	690,912	
Premiums payable	-	18,622	-	18,622	84,827	
Grant awards payable	(70,782)	-	-	(70,782)	13,327	
Deferred revenue and advances	(4,073)	(365,868)	-	(369,941)	4,232	
Federal and state income taxes payable	-	32,014	-	32,014	(94,838)	
Net cash provided by (used in) operating activities	(190,131)	1,577,408	(1,375,000)	12,277	948,310	
<b>Investing Activities</b>						
Purchase of office equipment, furniture and fixtures	(191,626)	(715)	-	(192,341)	(5,562)	
Purchase of investments	(1,826,584)	-	-	(1,826,584)	(16,347,890)	
Sales and maturities of investments	1,527,960	-	-	1,527,960	16,205,439	
Net cash used in investing activities	(490,250)	(715)	-	(490,965)	(148,013)	
<b>Financing Activities</b>						
Proceeds from contributions and investment income restricted for long-term investment	330,016	-	-	330,016	160,466	
Payments on annuities	(8,745)	-	-	(8,745)	(9,026)	
Cash dividends paid	-	(1,375,000)	1,375,000	-	-	
Net cash provided by (used in) financing activities	321,271	(1,375,000)	1,375,000	321,271	151,440	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(359,110)	201,693	-	(157,417)	951,737	
<b>Cash and Cash Equivalents, Beginning of Year</b>	2,457,997	4,290,281	-	6,748,278	5,796,541	
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,098,887	\$ 4,491,974	\$ -	\$ 6,590,861	\$ 6,748,278	
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position</b>						
Cash and cash equivalents	\$ 2,066,593	\$ 1,295,051	\$ -	\$ 3,361,644	\$ 3,552,638	
Cash and cash equivalents - premium account	-	3,196,923	-	3,196,923	3,182,967	
Cash in investments	19,319	-	-	19,319	12,673	
	\$ 2,085,912	\$ 4,491,974	\$ -	\$ 6,577,886	\$ 6,748,278	
<b>Supplemental Cash Flows Information</b>						
Income taxes paid	\$ -	\$ 489,487	\$ -	\$ 489,487	\$ 604,464	

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

### **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 of America. 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 interOrganization 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 consolidated 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, 2020 and 2019, cash and cash equivalents consisted primarily of deposit accounts and a money market account with a financial institution.

At December 31, 2020, the Organization's deposit accounts exceeded federally insured limits by approximately \$6,152,000.

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

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

### ***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, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

Investment return that is initially restricted by donor stipulation, and for which the restriction will be satisfied in the same year, is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions 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 investment 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 consist 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 are collectible at December 31, 2020 and 2019; 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, 2020 and 2019. The insurance carrier and the insured are located throughout the United States of America.

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

### ***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 15 years.

### ***Long-lived Asset Impairment***

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

### ***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### Contributions

Contributions are provided to the Foundation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Foundation overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received, are recorded as revenue with donor restrictions and then released from restriction.

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

There was one significant contribution in the amount of \$1 million in 2020. There were no individually significant contributions in 2019.

### ***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 the Organization and the insurance companies that provide coverage. See *Note 2* for additional information about the Organization's revenue.

### ***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.

The Organization files tax returns in the U.S. federal jurisdiction.

Insurance Services is a for-profit entity. Income taxes are provided for the tax effects of transactions reported in the consolidated 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.

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

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.

### ***Functional Allocation of Expenses***

The costs of supporting activities have been allocated to the various programs in the consolidated statement of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, administration and fundraising categories based on time expended, usage and other methods.

### ***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 \$580,000 and \$488,000 for the years ended December 31, 2020 and 2019, respectively.

### ***Reclassifications***

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation. These reclassifications had no effect on net earnings.

### ***Subsequent Events***

Subsequent events have been evaluated through May 4, 2021, which is the date the consolidated financial statements were available to be issued.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### Note 2: Revenue from Contracts with Customers

#### ***Change in Accounting Principle***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) that replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Organization adopted this standard on January 1, 2019 using a modified retrospective approach with the cumulative effect of initially applying the new standard recognized in retained earnings at the beginning of the year of adoption. The cumulative impact of adopting Topic 606 on January 1, 2019 was a decrease in retained earnings within stockholder's equity of \$435,889. Comparative prior period information has not been adjusted and continues to be reported in accordance with previous revenue recognition guidance in ASC Topic 605 – *Revenue Recognition*. The Organization has applied the new standard to all contracts not complete at the date of adoption.

The Organization's adoption of Topic 606 resulted in a change to the timing of revenue recognition. The following is a detailed discussion of revenue and related recognition thereof.

Prior to the adoption of Topic 606, commission and fee revenue for all lines of business were generally recognized on the date on which the insured was invoiced or the effective date of the policy, whichever was later. Cancellations, refunds, audits or other adjustments were recognized when they took place.



# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### ***Performance Obligations***

#### *Commission revenue from brokerage services*

Commission revenues received in connection with successful writing of an insurance certificate or policy are now recognized at a point in time for the amount of commission expected from the policy for the insurance period. Contracts provide for an initial commission rate and a renewal commission rate for which management has evaluated these distinct performance obligations and split the transaction price based on their relative fair value. The overall impact of these changes is not significant on a full-year basis to revenue. Cancellations, refunds, audits or other adjustments are recognized when the amounts are known.

#### *Commission and fee revenue from administrative services*

The Organization earns commission and fee revenue related to services other than securing insurance coverage, more specially, these services include: claim administration services, underwriting services, preparation of insurance certificates, maintenance of enrollment records and reports, processing of contributions notices to insureds, preparation of premium statements and other certificate holder services. While there are a variety of activities performed, the overall nature of the obligation is to provide integrated administration services to the customer. The arrangement represents a stand-ready obligation to perform these activities on an as-needed basis. The customer obtains value from each period of service, and each time increment, *i.e.*, each month. Accordingly, the ongoing administration services represent a “series” in accordance with ASC 606 and are deemed one performance obligation and are recognized over the effective insurance or contribution period. The commission and fee revenue from administrative services are a series of distinct services that are treated as a single performance obligation. Revenue for the placement of these policies is recognized over time for the amount of consideration expected to be received for these services.

#### *Supplemental marketing commissions*

The Organization earns supplemental marketing revenues for the amount of marketing expenses including but not limited to the periodic newsletter and other multiple Organization solicitation materials. These revenues are recognized at a point in time as the marketing expenses are incurred. There was no impact on revenues from the adoption of Topic 606 for the supplemental marketing commissions.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### ***Disaggregation of Revenue***

The following table presents the Organization's revenues disaggregated by the timing of such revenue recognized during the years ended December 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Timing of revenue and recognition		
At a point in time	\$ 3,095,745	\$ 1,212,699
Over a period of time	<u>1,170,102</u>	<u>2,562,492</u>
Total	<u>\$ 4,265,847</u>	<u>\$ 3,775,191</u>

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the type of insurance policy, contingent commissions, and general economic factors that could adversely affect the insurance market.

### ***Contract Balances***

The following table provides information about the Organization's receivables, contract assets and contract liabilities from contracts with customers:

	<b>2020</b>	<b>2019</b>
Accounts receivable, beginning of year	\$ 108,006	\$ 606,094
Accounts receivable, end of year	\$ 23,865	\$ 108,006
Contract liabilities, beginning of year	\$ 637,287	\$ -
Contract liabilities, end of year	\$ 271,419	\$ 637,287

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### ***Significant Judgments***

Revenue from the administrative services performed is recognized over time. Revenue is recognized based on the amount of consideration that the Organization expects to receive from the insurance Organization for the services performed in the corresponding period. Additionally, the allocation of transaction price between the revenues from brokerage and revenues from administrative services was based on significant judgment utilizing the adjusted market assessment approach.

### ***Accounting Policies and Practical Expedients Elected***

For incremental costs of obtaining a contract, the Organization elected a practical expedient, which permits an entity to recognize incremental costs to obtain a contract as an expense when incurred if the amortization period is less than one year. This election had an immaterial effect on the consolidated financial statements.

The Organization has elected to apply the portfolio approach to the contracts evaluated under ASC 606. A portfolio approach is permitted if it is reasonably expected that the approach's impact on the financial statements will not be materially different from the impact of applying the revenue standard on an individual contract basis. In order to use the portfolio approach, an entity must reasonably expect that the accounting result will not be materially different from the result of applying the standard to the individual contracts.

### **Note 3: Investments and Investment Return**

Investments at December 31 consisted of the following:

	<b>2020</b>	<b>2019</b>
Cash	\$ 19,319	\$ 12,673
Money market accounts	-	8,132
Equity mutual funds	13,337,673	12,202,286
Fixed income mutual funds	1,818,080	1,160,823
Corporate bonds	595,529	1,525,138
Treasury and federal agency obligations	1,361,100	905,443
Alternative investments	723,116	760,302
	<u>\$ 17,854,817</u>	<u>\$ 16,574,797</u>

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

**December 31, 2020 and 2019**

Total investment return is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 347,981	\$ 555,973
Realized gains	57,802	2,003,220
Unrealized gains (losses)	832,325	325,256
Investment fees and expenses	(29,968)	(40,541)
Change in value of split-interest agreements	<u>8,803</u>	<u>38,086</u>
	<u><u>\$ 1,216,943</u></u>	<u><u>\$ 2,881,994</u></u>

### **Note 4: 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 values of the trust assets were \$43,406 and \$45,583 as of December 31, 2020 and 2019, respectively, and are included in investments in the Foundation's consolidated statement of financial position. The Foundation has recorded a liability at December 31, 2020 and 2019 of \$23,562 and \$25,472, 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 \$64,356 and \$60,681, which represents the fair value of the trust assets at December 31, 2020 and 2019, 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.

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

The Foundation recognizes its remainder interest in the assets received as donor-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 \$123,265 and \$123,702 as of December 31, 2020 and 2019, respectively, and is included in “investments” in the consolidated statements of financial position. The present value of the estimated future payments is calculated using a discount rate ranging from 5.75 percent to 8.75 percent and applicable life expectancy tables. The estimated future liability of the pooled income fund was \$28,100 and \$31,126 as of December 31, 2020 and 2019, respectively, and is included in “liabilities under split-interest agreements” in the consolidated statements of financial position.

### ***Charitable Gift Annuity***

The Foundation has been the recipient of a gift annuity which requires future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at December 31, 2020 and 2019 of \$128,983 and \$138,174, respectively, which represents the present value of the future annuity obligations. The liability had been determined using a discount rate of 1.8 percent and a rate of return of 4.4 percent.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### Note 5: Net Assets With Donor Restrictions

#### *Net Assets With Donor Restrictions*

Net assets with donor restrictions at December 31 are restricted for the following purposes or periods:

Net Assets With Donor Restrictions	2020	2019
Subject to expenditure for specified purpose		
Center for the History of Family Medicine	\$ 15,664	\$ 15,664
Disaster Relief	41,576	65,277
Family Medicine Cares	574,640	551,869
Family Medicine Discovers	25,206	23,540
Family Medicine Leads	86,598	75,127
Lectureships	145,331	135,286
Special Projects	368,378	133,416
	<u>1,257,393</u>	<u>1,000,179</u>
Subject to the passage of time		
Assets held under split-interest agreements	<u>142,531</u>	<u>137,362</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donors for		
Center for the History of Family Medicine	1,096,584	940,137
Family Medicine Cares	67,451	53,840
Family Medicine Leads	90,912	48,829
Family Medicine Discovers	38,810	-
Lectureships	10,076	5,839
Robert Graham Policy Center	142,149	89,811
	<u>1,445,982</u>	<u>1,138,456</u>
Subject to NFP endowment spending policy and appropriation		
Center for the History of Family Medicine	1,193,208	1,133,178
Family Medicine Cares	210,275	209,275
Family Medicine Leads	660,440	412,709
Lectureships	50,778	50,778
Family Medicine Discovers	115,066	152,545
Robert Graham Policy Center	405,155	478,805
Unconditional promises to give, net - permanently restricted to Family Medicine Leads	<u>89,153</u>	<u>70,165</u>
	<u>2,724,075</u>	<u>2,507,455</u>
Not subject to spending policy and appropriation		
Beneficial interest in assets held by outside party	48,229	45,511
Beneficial interest in perpetual trusts held by outside party	<u>16,089</u>	<u>15,170</u>
	<u>64,318</u>	<u>60,681</u>
	<u>\$ 5,634,299</u>	<u>\$ 4,844,133</u>

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### ***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.

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions		
Disaster relief	\$ 20,561	\$ 3,737
Family Medicine Cares	1,110,129	90,640
Family Medicine Discovers	4,073	-
Family Medicine Leads	47,000	100,514
Lectureships	-	1,500
Outside funded grants	-	2,587
Special projects	1,061,086	735,914
	<u>2,242,849</u>	<u>934,892</u>
 Restricted-purpose spending-rate distributions and appropriations		
Family Medicine Cares	-	3,505
Family Medicine Discovers	10,000	-
Family Medicine Leads	10,800	10,400
Robert Graham Policy Center	57,000	-
	<u>77,800</u>	<u>13,905</u>
	<u><u>\$ 2,320,649</u></u>	<u><u>\$ 948,797</u></u>

### ***Change in Donor Intent***

During 2020, amendments were made to two endowments allowing for the release of permanently restricted net assets to temporarily restricted net assets. The amount released from permanent restriction related to endowment amendments totaled \$112,479 in 2020.

Additionally, \$30,202 of temporarily restricted net assets were moved to a new purpose as a change in donor intent in 2020. This change in purpose was primarily to provide grants to assist with the Covid-19 pandemic.

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

### **Note 6: Endowment**

The Foundation's governing body is subject to the State of Kansas Prudent Management of Institutional Funds Act (KPMIFA). As a result, the Foundation classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, 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 Organization 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 Organization
7. Investment policies of the Organization

The Foundation's endowment consists of approximately thirteen 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.



# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

**December 31, 2020 and 2019**

The composition of net assets by type of endowment fund at December 31, 2020 and 2019, was:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>December 31, 2020</b>			
Board-designated endowment funds	\$ 11,213,598	\$ -	\$ 11,213,598
Donor-designated endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity	-	2,724,075	2,724,075
Accumulated investment gains	-	1,445,982	1,445,982
Total endowment funds	<u>\$ 11,213,598</u>	<u>\$ 4,170,057</u>	<u>\$ 15,383,655</u>
<b>December 31, 2019</b>			
Board-designated endowment funds	\$ 10,923,775	\$ -	\$ 10,923,775
Donor-designated endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity	-	2,507,457	2,507,457
Accumulated investment gains	-	1,138,454	1,138,454
Total endowment funds	<u>\$ 10,923,775</u>	<u>\$ 3,645,911</u>	<u>\$ 14,569,686</u>

Changes in endowment net assets for the years ended December 31, 2020 and 2019 were:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, January 1, 2019	\$ 9,492,005	\$ 2,972,935	\$ 12,464,940
Investment return, net	1,920,113	580,244	2,500,357
Contributions	985	106,637	107,622
Appropriation of endowment assets for expenditures	-	(13,905)	(13,905)
Other transfers	(489,328)	-	(489,328)
Endowment net assets, December 31, 2019	<u>10,923,775</u>	<u>3,645,911</u>	<u>14,569,686</u>
Investment return, net	769,088	287,482	1,056,570
Contributions	500	320,464	320,964
Appropriation of endowment assets for expenditures	(579)	(83,800)	(84,379)
Other transfers	(479,186)	-	(479,186)
Endowment net assets, December 31, 2020	<u>\$ 11,213,598</u>	<u>\$ 4,170,057</u>	<u>\$ 15,383,655</u>

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

### ***Investment and Spending Policies***

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 percent 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.

The Foundation has a spending policy of appropriating for expenditure each year 5.5 percent of its endowment fund's average fair value over the prior 13 quarters through June 30 of the preceding year in which expenditure is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 2 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

### ***Underwater Endowments***

The governing body of the Foundation has interpreted KPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of:

- a) the original value of initial and subsequent gift amounts donated to the fund and
- b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Foundation has interpreted KPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

At December 31, 2020 and 2019, funds with original gift values of \$0; fair values of \$0; and deficiencies of \$0, respectively, were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

**December 31, 2020 and 2019**

The Foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor stipulations or laws and regulations. The governing board did not appropriate for expenditure any funds from underwater endowment funds at December 31, 2020 and 2019.

### **Note 7: Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprising the following:

	<b>December 31, 2020</b>		
	<b>Foundation</b>	<b>Insurance Services</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,066,593	\$ 1,295,051	\$ 3,361,644
Accounts receivable	-	23,865	23,865
Operating investments	1,421,036	-	1,421,036
Promises to give	38,875	-	38,875
Endowment spending-rate distributions and appropriations	739,493	-	739,493
	<u>\$ 4,265,997</u>	<u>\$ 1,318,916</u>	<u>\$ 5,584,913</u>
	<b>December 31, 2019</b>		
	<b>Foundation</b>	<b>Insurance Services</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,445,324	\$ 1,107,314	\$ 3,552,638
Accounts receivable	128,950	108,006	236,956
Operating investments	924,325	-	924,325
Promises to give	35,000	-	35,000
Endowment spending-rate distributions and appropriations	753,850	-	753,850
	<u>\$ 4,287,449</u>	<u>\$ 1,215,320</u>	<u>\$ 5,502,769</u>

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

**December 31, 2020 and 2019**

The board-designated endowment of \$9,771,154 is subject to a spending rate set annually by the board of trustees. The approved spending rate for 2021 is 5.0 percent. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary.

As part of the Foundation's liquidity management plan, it invested excess cash in its pooled investment accounts.

### **Note 8: Related-Party Transactions**

The Organization and 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 percent of the aggregate allocated amount of the actual salaries, fringe benefits and payroll taxes and a flat fee of \$25,000 per year. Fees paid under the administrative services agreement were \$1,714,330 and \$1,721,819 for 2020 and 2019, respectively. The Foundation also paid \$1,677,164 in 2020 and \$1,500,227 in 2019 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:

	<b>2020</b>	<b>2019</b>
Dues check-off (pass through donations)	\$ 201,982	\$ 179,169
Contributions directed through the Academy	70,961	89,467
Contributions from the Academy to the Foundation	10,000	3,680
Center for the History of Family Medicine support	20,000	20,000
Other	20,255	45,210
	<u>\$ 323,198</u>	<u>\$ 337,526</u>

Foundation accounts receivable included revenues and other support from the Academy of \$92,438 and \$51,060 at December 31, 2020 and 2019, respectively. Accounts payable include \$557,893 and \$1,135,052 at December 31, 2020 and 2019, respectively, due to the Academy by the Foundation for services and other items.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Insurance Services remitted reimbursements to the Academy for common administrative costs (postage, internet and telephone) and marketing expenses in the amount of \$150,549 and \$133,206 in 2020 and 2019, respectively. The amount due to the Academy was \$- and \$- as of December 31, 2020 and 2019, 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 \$71,042 and \$71,350 for the years ended December 31, 2020 and 2019, respectively.

### Note 9: Operating Leases

Insurance Services entered into a noncancellable operating lease for office space with the Academy, which expires in 2024. 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, 2020 were:

2021	\$	78,880
2022		80,512
2023		82,144
2024		<u>55,488</u>
	\$	<u><u>297,024</u></u>

Rent expense under this operating lease was \$80,068 and \$78,880 respectively for the years ended December 31, 2020 and 2019.

### Note 10: Income Taxes

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

	<u>2020</u>	<u>2019</u>
Current expense	\$ 521,500	\$ 509,626
Deferred expense	<u>92,400</u>	<u>(5,926)</u>
Total income tax expense	<u><u>\$ 613,900</u></u>	<u><u>\$ 503,700</u></u>

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

**December 31, 2020 and 2019**

A reconciliation of income tax expense at the statutory rate to the Organization's actual income tax expense is shown below:

	<u>2020</u>	<u>2019</u>
Computed at the statutory rate (21%)	\$ 488,364	\$ 396,926
Changes resulting from:		
State income taxes - net of federal tax benefit	126,765	103,366
Other	<u>(1,229)</u>	<u>3,408</u>
Actual tax provision	<u>\$ 613,900</u>	<u>\$ 503,700</u>

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

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Accrued vacation	\$ 9,800	\$ 9,500
Unearned revenue	70,600	165,700
Deferred tax liability		
Book/tax difference on fixed assets	<u>(2,600)</u>	<u>(5,000)</u>
Net deferred tax asset	<u>\$ 77,800</u>	<u>\$ 170,200</u>

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

	<u>2020</u>	<u>2019</u>
Noncurrent deferred tax asset	\$ 77,800	\$ 170,200

### **Note 11: Commitments**

On December 31, 2019, Insurance Services entered into a two-year employment contract with the President of the Organization, effective January 1, 2020. This contract provides for a base compensation, including a fixed salary, along with incentive compensation based on dividends paid.

# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

### **Note 12: 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 percent) 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 percent) of compensation. Insurance Services contributed \$74,848 and \$67,472 to the plans in 2020 and 2019, respectively.

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

### **Note 13: 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

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### Recurring Measurements

The following tables present the fair value measurements of assets 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, 2020 and 2019:

	Fair Value	Fair Value Measurements Using			Investments Measured at NAV (A)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>December 31, 2020</b>					
Investments					
Equity mutual funds	\$ 13,337,673	\$ 13,337,673	\$ -	\$ -	\$ -
Fixed income mutual funds	1,818,080	1,818,080	-	-	-
Corporate bonds	595,529	-	595,529	-	-
Treasury and federal agency obligations	1,361,100	-	1,361,100	-	-
Alternative investments	723,116	-	-	-	723,116
Beneficial interest in trust assets	64,356	-	64,356	-	-
	17,899,854	\$ 15,155,753	\$ 2,020,985	\$ -	\$ 723,116
Cash and cash equivalents	19,319				
Total investments and beneficial interest in trusts	\$ 17,919,173				
<b>December 31, 2019</b>					
Investments					
Money market accounts	\$ 8,132	\$ 8,132	\$ -	\$ -	\$ -
Equity mutual funds	12,202,286	12,202,286	-	-	-
Fixed income mutual funds	1,160,823	1,160,823	-	-	-
Corporate bonds	1,525,138	-	1,525,138	-	-
Treasury and federal agency obligations	905,443	-	905,443	-	-
Alternative investments	760,302	-	-	-	760,302
Beneficial interest in trust assets	60,681	-	60,681	-	-
	16,622,805	\$ 13,371,241	\$ 2,491,262	\$ -	\$ 760,302
Cash and cash equivalents	12,673				
Total investments and beneficial interest in trusts	\$ 16,635,478				

- (A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.



# **American Academy of Family Physicians Foundation and Subsidiary**

## **Notes to Consolidated Financial Statements**

**December 31, 2020 and 2019**

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, 2020.

### ***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, 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 partner's 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.

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.

# American Academy of Family Physicians Foundation and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019

### ***Alternative Investments***

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	2020			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Period Notice
Life settlements funds	\$ 723,116	\$ -	Semi-annual	180 days

  

	2019			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Period Notice
Life settlements funds	\$ 760,302	\$ -	Semi-annual	180 days

Investments in alternative investments consist of open-ended investment fund specializing in the life settlements industry. Life settlements are financial transactions that involve the purchase of life insurance policies at a discount to their face value for investment purposes. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

### ***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.