

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

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2021 and 2020



**American Academy of Family Physicians
Foundation and Subsidiary
December 31, 2021 and 2020**

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of American Academy of Family Physicians Foundation and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flow for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of American Academy of Family Physicians Foundation and subsidiary as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of American Academy of Family Physicians Foundation and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about American Academy of Family Physicians Foundation and subsidiary's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 American Academy of Family Physicians Foundation and subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about American Academy of Family Physicians and subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the December 31, 2020, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BKD, LLP

West Des Moines, Iowa
April 27, 2022

**American Academy of Family Physicians
Foundation and Subsidiary**
Consolidated Statement of Financial Position with Consolidating Information
December 31, 2021
(with Comparative Totals for 2020)

	2021				Comparative Totals for 2020
Assets	Foundation	Insurance Services	Eliminations	Consolidated Total	
Cash and cash equivalents	\$ 1,839,670	\$ 1,292,238	\$ -	\$ 3,131,908	\$ 3,361,644
Cash and cash equivalents - premium account	-	3,068,127	-	3,068,127	3,196,923
Accounts receivable - trade	-	36,733	-	36,733	23,865
Accounts receivable - support	148,188	-	-	148,188	141,925
Prepaid expenses	73,067	12,732	-	85,799	76,240
Income tax receivable	-	61,428	-	61,428	-
Investments at fair value	21,178,546	-	-	21,178,546	17,854,817
Investment in subsidiary	1,707,154	-	(1,707,154)	-	-
Contributions receivable	51,319	-	-	51,319	89,154
Beneficial interest in trust assets	68,305	-	-	68,305	64,356
Deferred tax asset	-	87,300	-	87,300	77,800
Office equipment, furniture and fixtures, net of accumulated depreciation; 2021 - \$869,969, 2020 - \$828,186	141,181	21,650	-	162,831	189,614
	<u>\$ 25,207,430</u>	<u>\$ 4,580,208</u>	<u>\$ (1,707,154)</u>	<u>\$ 28,080,484</u>	<u>\$ 25,076,338</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	\$ 328,401	\$ 74,084	\$ -	\$ 402,485	\$ 643,502
Premiums payable	-	2,495,427	-	2,495,427	2,615,070
Grant awards payable	87,891	-	-	87,891	75,718
Deferred revenue and advances	-	303,543	-	303,543	271,419
Liabilities under split-interest agreements	188,057	-	-	188,057	180,645
Federal and state income taxes payable	-	-	-	-	51,204
Total liabilities	<u>604,349</u>	<u>2,873,054</u>	<u>-</u>	<u>3,477,403</u>	<u>3,837,558</u>
Net Assets					
Without donor restrictions					
Undesignated	5,448,834	1,707,154	(1,707,154)	5,448,834	4,375,514
Designated by the Board					
Endowment	12,769,840	-	-	12,769,840	11,213,601
Special projects and programs	15,366	-	-	15,366	15,366
Total net assets without donor restrictions	18,234,040	1,707,154	(1,707,154)	18,234,040	15,604,481
With donor restrictions	6,369,041	-	-	6,369,041	5,634,299
Total net assets	<u>24,603,081</u>	<u>1,707,154</u>	<u>(1,707,154)</u>	<u>24,603,081</u>	<u>21,238,780</u>
Total liabilities and net assets	<u>\$ 25,207,430</u>	<u>\$ 4,580,208</u>	<u>\$ (1,707,154)</u>	<u>\$ 28,080,484</u>	<u>\$ 25,076,338</u>

**American Academy of Family Physicians
Foundation and Subsidiary**
Consolidated Statement of Activities with Consolidating Information
December 31, 2021
(with Comparative Totals for 2020)

	2021			Comparative Totals for 2020	
	Foundation	Insurance Services	Eliminations	Consolidated Total	
<u>Net Assets Without Donor Restrictions</u>					
Revenues, Gains and Other Support					
Grant revenue	\$ 8,176	\$ -	\$ -	\$ 8,176	\$ 170
Corporate and chapter support	810,000	-	-	810,000	920,000
Individual contributions	551,746	-	-	551,746	503,717
Special events, net of direct expenses of \$6,204 in 2021 and \$4,511 in 2020	35,101	-	-	35,101	36,734
Investment return	2,386,290	-	-	2,386,290	885,250
Loss on asset disposal	-	-	-	-	(12,561)
Insurance agreement revenues	-	3,944,563	-	3,944,563	4,265,847
Net assets released from restrictions	1,565,462	-	-	1,565,462	2,320,649
Total revenues, gains and other support	5,356,775	3,944,563	-	9,301,338	8,919,806
Expenses and Losses					
Insurance services	-	2,425,660	-	2,425,660	2,554,206
Family Medicine Philanthropic Consortium	84,072	-	-	84,072	118,642
Center for the History of Family Medicine	123,902	-	-	123,902	111,524
Family Medicine Cares	368,681	-	-	368,681	1,246,973
Family Medicine Leads	203,621	-	-	203,621	230,269
Family Medicine Discovers	268,315	-	-	268,315	259,076
Research grants and awards	45,572	-	-	45,572	43,244
AAFP program grants	1,658,808	-	-	1,658,808	1,527,099
Program evaluation and support	271,324	-	-	271,324	247,223
Management and general	442,472	-	-	442,472	458,894
Fundraising and development	779,352	-	-	779,352	797,235
Total expenses and losses	4,246,119	2,425,660	-	6,671,779	7,594,385
Change in net assets without donor restrictions	1,110,656	1,518,903	-	2,629,559	1,325,421
<u>Net Assets With Donor Restrictions</u>					
Grant revenues	1,052,452	-	-	1,052,452	2,287,941
Corporate and chapter support	54,500	-	-	54,500	100,500
Individual contributions	292,628	-	-	292,628	390,681
Investment return	900,624	-	-	900,624	331,693
Net assets released from restrictions	(1,565,462)	-	-	(1,565,462)	(2,320,649)
Change in net assets with donor restrictions	734,742	-	-	734,742	790,166
Increase (Decrease) in Net Assets Before Earnings of Subsidiary and Dividends Paid	1,845,398	1,518,903	-	3,364,301	2,115,587
Earnings of Subsidiary	1,518,903	-	(1,518,903)	-	-
Dividends Paid	-	(1,425,000)	1,425,000	-	-
Increase (Decrease) in Net Assets	3,364,301	93,903	(93,903)	3,364,301	2,115,587
Net Assets, Beginning of Year	21,238,780	1,613,251	(1,613,251)	21,238,780	19,123,193
Net Assets, End of Year	<u>\$ 24,603,081</u>	<u>\$ 1,707,154</u>	<u>\$ (1,707,154)</u>	<u>\$ 24,603,081</u>	<u>\$ 21,238,780</u>

American Academy of Family Physicians Foundation and Subsidiary

Consolidated Statement of Functional Expenses Year Ended December 31, 2021

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	-	-	-	-	-	-	55,000	-	55,000	-	-	-	55,000
Chapter grants	48,500	-	-	-	-	-	-	-	48,500	-	-	-	48,500
Disaster relief disbursements	-	-	-	-	-	-	-	26,000	26,000	-	-	-	26,000
Emerging Leader Institute scholarships and awards	-	-	-	46,500	-	-	-	3,000	49,500	-	-	-	49,500
Externship grants	-	-	-	-	-	25,000	-	-	25,000	-	-	-	25,000
Family Medicine Cares USA clinic grants	-	-	148,648	-	-	-	-	-	148,648	-	-	-	148,648
Family Medicine Student Grant Program	-	-	-	-	-	-	96,600	-	96,600	-	-	-	96,600
Family Medicine Discovers - RADPSdi	-	-	-	-	80,000	-	-	-	80,000	-	-	-	80,000
International Disbursements	-	-	10,000	-	-	-	-	-	10,000	-	-	-	10,000
Familydoctor.org	-	-	-	-	-	-	100,000	-	100,000	-	-	-	100,000
Fellowships, lectureships and awards	-	1,500	-	-	-	-	-	4,500	6,000	-	-	-	6,000
National conference scholarships	-	-	-	73,190	-	-	-	-	73,190	-	-	-	73,190
Robert Graham Center Policy Center	-	-	-	-	-	-	75,000	-	75,000	-	-	-	75,000
Resident service awards	-	-	29,000	-	-	-	-	-	29,000	-	-	-	29,000
Incorporating Lifestyle Medicine into Practice	-	-	-	-	-	-	220,541	-	220,541	-	-	-	220,541
Leading Change for Physician Well-being	-	-	-	-	-	-	966,667	-	966,667	-	-	-	966,667
Salaries	-	-	-	-	-	-	-	-	-	-	-	772,204	772,204
Payroll taxes	-	-	-	-	-	-	-	-	-	-	-	41,062	41,062
Profit sharing plan and 401(k) plan	-	-	-	-	-	-	-	-	-	-	-	73,918	73,918
Board of trustees	-	-	-	-	-	-	-	2,050	2,050	2,500	2,275	-	6,825
Professional services	-	1,137	-	-	1,491	-	-	-	2,628	27,128	-	24,413	54,169
Contracted fees for service	35,512	99,793	177,404	81,232	185,874	20,572	-	191,420	791,807	381,830	562,084	-	1,735,721
Advertising and promotion	-	200	(250)	-	-	-	-	-	(50)	-	30,231	611,825	642,006
Office expenses	-	2,720	396	823	105	-	-	4,353	8,397	1,901	41,982	265	52,545
Information technology	-	3,855	-	-	-	-	-	148	4,003	2,246	48,365	22,886	77,500
Rent - office space	-	-	-	-	-	-	-	-	-	-	-	78,880	78,880
Travel	-	-	2,981	690	845	-	-	106	4,622	3,565	2,491	-	10,678
Conferences and meetings	-	(1,064)	277	70	-	-	-	-	(717)	(2,106)	21,791	-	18,968
Depreciation	-	885	-	-	-	-	-	37,440	38,325	-	-	3,458	41,783
Insurance	-	3,423	-	-	-	-	-	-	3,423	7,477	-	93,903	104,803
Design and printing	-	5,564	17	221	-	-	-	1,726	7,528	2,869	42,625	-	53,022
Training and development	-	2,852	-	-	-	-	-	451	3,303	2,966	650	363	7,282
Credit card fees and bank charges	-	-	-	-	-	-	-	-	-	3,878	13,400	-	17,278
Commission and royalty	-	-	-	-	-	-	-	-	-	-	-	66,902	66,902
Income tax	-	-	-	-	-	-	-	-	-	-	-	550,000	550,000
Other	60	3,037	208	895	-	-	-	130	4,330	8,218	13,458	85,581	111,587
	<u>\$ 84,072</u>	<u>\$ 123,902</u>	<u>\$ 368,681</u>	<u>\$ 203,621</u>	<u>\$ 268,315</u>	<u>\$ 45,572</u>	<u>\$ 1,658,808</u>	<u>\$ 271,324</u>	<u>\$ 3,024,295</u>	<u>\$ 442,472</u>	<u>\$ 779,352</u>	<u>\$ 2,425,660</u>	<u>\$ 6,671,779</u>

See Notes to Consolidated Financial Statements

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	
	\$ 118,642	\$ 111,524	\$ 1,246,973	\$ 230,269	\$ 259,076	\$ 43,244	\$ 1,527,099	\$ 247,223	\$ 3,784,050	\$ 458,894	\$ 797,235	\$ 2,554,206	\$ 7,594,385

**American Academy of Family Physicians
Foundation and Subsidiary**
Consolidated Statement of Cash Flows with Consolidating Information
Year Ended December 31, 2021
(with Comparative Totals for 2020)

	2021					
	Foundation	Insurance Services	Eliminations	Consolidated Total	Comparative Totals for 2020	
Operating Activities						
Change in net assets before dividends paid	\$ 3,364,301	\$ 1,518,903	\$ (1,518,903)	\$ 3,364,301	\$ 2,115,587	
Items not requiring (providing) operating cash flows						
Depreciation	38,325	3,458	-	41,783	30,966	
Net realized and unrealized gains on investments	(2,289,614)	-	-	(2,289,614)	(890,127)	
Gain on split-interest agreements	(36,133)	-	-	(36,133)	(8,803)	
Contributions of investment securities	(34,052)	-	-	(34,052)	(79,495)	
Contributions and investment income received restricted for long-term investment	(160,794)	-	-	(160,794)	(330,016)	
Change in investment in subsidiary	(93,903)	-	93,903	-	-	
Deferred income taxes	-	(9,500)	-	(9,500)	92,400	
Loss on asset disposal	-	-	-	-	12,561	
Changes in						
Accounts receivable	(6,263)	(12,868)	-	(19,131)	71,166	
Prepaid expenses and other	7,678	(55)	-	7,623	(21,073)	
Contributions receivable	37,835	-	-	37,835	(18,987)	
Accounts payable and accrued expenses	(249,621)	8,604	-	(241,017)	(584,790)	
Premiums payable	-	(119,643)	-	(119,643)	18,622	
Grant awards payable	12,173	-	-	12,173	(70,782)	
Deferred revenue and advances	-	32,124	-	32,124	(369,941)	
Federal and state income taxes payable	-	(112,632)	-	(112,632)	32,014	
Net cash provided by (used in) operating activities	589,932	1,308,391	(1,425,000)	473,323	(698)	
Investing Activities						
Purchase of office equipment, furniture and fixtures	-	(15,000)	-	(15,000)	(192,341)	
Purchase of investments	(1,973,258)	-	-	(1,973,258)	(1,826,584)	
Sales and maturities of investments	1,005,533	-	-	1,005,533	1,527,960	
Net cash used in investing activities	(967,725)	(15,000)	-	(982,725)	(490,965)	
Financing Activities						
Proceeds from contributions and investment income restricted for long-term investment	160,794	-	-	160,794	330,016	
Payments on annuities	(9,770)	-	-	(9,770)	(8,745)	
Cash dividends paid	-	(1,425,000)	1,425,000	-	-	
Net cash provided by (used in) financing activities	151,024	(1,425,000)	1,425,000	151,024	321,271	
Decrease in Cash and Cash Equivalents	(226,769)	(131,609)	-	(358,378)	(170,392)	
Cash and Cash Equivalents, Beginning of Year	2,085,912	4,491,974	-	6,577,886	6,748,278	
Cash and Cash Equivalents, End of Year	\$ 1,859,143	\$ 4,360,365	\$ -	\$ 6,219,508	\$ 6,577,886	
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position						
Cash and cash equivalents	\$ 1,839,670	\$ 1,292,238	\$ -	\$ 3,131,908	\$ 3,361,644	
Cash and cash equivalents - premium account	-	3,068,127	-	3,068,127	3,196,923	
Cash in investments	19,473	-	-	19,473	19,319	
	\$ 1,859,143	\$ 4,360,365	\$ -	\$ 6,219,508	\$ 6,577,886	
Supplemental Cash Flows Information						
Income taxes paid	\$ -	\$ 671,612	\$ -	\$ 671,612	\$ 489,487	

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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 inter-organization 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. Uninvested cash and cash equivalents included in investment accounts, including endowment accounts and assets limited to use are considered to be cash and cash equivalents. At December 31, 2021 and 2020, cash and cash equivalents consisted primarily of deposit accounts and a money market account with a financial institution.

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

At December 31, 2021, the Organization's deposit accounts exceeded federally insured limits by approximately \$5,774,000.

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

Investments

The Organization measures securities, other than investments that qualify for the equity method of accounting, at fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments.

Net Investment Return

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 method.

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, 2021 and 2020; therefore, no allowance for uncollectible accounts has been established.

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020. The insurance carrier and the insured are located throughout the United States of America.

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 10 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, 2021 and 2020.

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, 2021 and 2020

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:

<u>Nature of the Gift</u>	<u>Value Recognized</u>
<u>Conditional gifts, with or without restriction</u>	
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
<u>Unconditional gifts, with or without restriction</u>	
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, 2021 and 2020

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 2021.

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, 2021 and 2020

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 \$612,000 and \$580,000 for the years ended December 31, 2021 and 2020, respectively.

Reclassifications

Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the 2021 consolidated financial statement presentation. These reclassifications had no effect on net earnings.

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

Note 2: Revenue from Contracts with Customers

Performance Obligations

Commission revenue from brokerage services

Commission revenues received in connection with successful writing of an insurance certificate or policy are 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. 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. The portion of fees that will be earned in the future is deferred and reported as unearned revenue in the accompanying balance sheets.

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.

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020:

	2021	2020
Timing of revenue and recognition		
At a point in time	\$ 2,780,572	\$ 3,095,745
Over a period of time	<u>1,163,991</u>	<u>1,170,102</u>
Total	<u><u>\$ 3,944,563</u></u>	<u><u>\$ 4,265,847</u></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:

	2021	2020
Accounts receivable, beginning of year	\$ 23,865	\$ 108,006
Accounts receivable, end of year	\$ 36,733	\$ 23,865
Contract liabilities, beginning of year	\$ 271,419	\$ 637,287
Contract liabilities, end of year	\$ 303,543	\$ 271,419

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.

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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.

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: 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 \$46,467 and \$43,406 as of December 31, 2021 and 2020, respectively, and are included in investments in the Foundation's consolidated statement of financial position. The Foundation has recorded a liability at December 31, 2021 and 2020 of \$24,196 and \$23,562, 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 \$68,305 and \$64,356, which represents the fair value of the trust assets at December 31, 2021 and 2020, 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

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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 \$136,507 and \$123,265 as of December 31, 2021 and 2020, 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 \$25,205 and \$28,100 as of December 31, 2021 and 2020, 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, 2021 and 2020 of \$138,656 and \$128,983, 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, 2021 and 2020

Note 4: Net Assets

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	2021	2020
Subject to expenditure for specified purpose		
Center for the History of Family Medicine	\$ 15,664	\$ 15,664
Disaster Relief	56,309	41,576
Family Medicine Cares	573,829	574,640
Family Medicine Discovers	31,747	25,206
Family Medicine Leads	133,337	86,598
Lectureships	168,164	145,331
Special Projects	165,392	368,340
	<u>1,144,442</u>	<u>1,257,355</u>
Subject to the passage of time		
Assets held under split-interest agreements	<u>159,736</u>	<u>142,531</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donors for		
Center for the History of Family Medicine	1,460,236	1,096,584
Family Medicine Cares	106,622	67,451
Family Medicine Leads	201,150	90,912
Family Medicine Discovers	57,464	38,810
Lectureships	21,377	10,076
Special Projects	1,156	-
Robert Graham Policy Center	243,807	142,149
	<u>2,091,812</u>	<u>1,445,982</u>
Subject to NFP endowment spending policy and appropriation		
Center for the History of Family Medicine	1,251,133	1,193,208
Family Medicine Cares	212,700	210,275
Family Medicine Leads	822,847	660,440
Lectureships	50,778	50,778
Family Medicine Discovers	115,066	115,066
Robert Graham Policy Center	405,905	405,155
Unconditional promises to give, net - permanently restricted to Family Medicine Leads	46,317	89,153
	<u>2,904,746</u>	<u>2,724,075</u>
Not subject to spending policy and appropriation		
Beneficial interest in assets held by outside party	51,229	48,267
Beneficial interest in perpetual trusts held by outside party	17,076	16,089
	<u>68,305</u>	<u>64,356</u>
	<u>\$ 6,369,041</u>	<u>\$ 5,634,299</u>

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

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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>2021</u>	<u>2020</u>
Expiration of time restriction		
Pooled Income	\$ 11,959	\$ -
Satisfaction of purpose restrictions		
Disaster relief	29,303	20,561
Family Medicine Cares	135,662	1,110,129
Family Medicine Discovers	-	4,073
Family Medicine Leads	52,500	47,000
Lectureships	4,000	-
Special projects	<u>1,236,317</u>	<u>1,061,086</u>
	<u>1,469,741</u>	<u>2,242,849</u>
Restricted-purpose spending-rate distributions and appropriations		
Center for the History of Family Medicine	61,071	-
Family Medicine Cares	12,000	-
Family Medicine Discovers	10,000	10,000
Family Medicine Leads	12,650	10,800
Robert Graham Policy Center	<u>-</u>	<u>57,000</u>
	<u>95,721</u>	<u>77,800</u>
	<u>\$ 1,565,462</u>	<u>\$ 2,320,649</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, 2021 and 2020

Note 5: 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 eighteen 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, 2021 and 2020

The composition of net assets by type of endowment fund at December 31, 2021 and 2020, was:

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2021			
Board-designated endowment funds	\$ 12,769,840	\$ -	\$ 12,769,840
Donor-designated endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity	-	2,904,746	2,904,746
Accumulated investment gains	-	2,091,812	2,091,812
	<u>\$ 12,769,840</u>	<u>\$ 4,996,558</u>	<u>\$ 17,766,398</u>
Total endowment funds	<u>\$ 12,769,840</u>	<u>\$ 4,996,558</u>	<u>\$ 17,766,398</u>
December 31, 2020			
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
	<u>\$ 11,213,598</u>	<u>\$ 4,170,057</u>	<u>\$ 15,383,655</u>
Total endowment funds	<u>\$ 11,213,598</u>	<u>\$ 4,170,057</u>	<u>\$ 15,383,655</u>

Changes in endowment net assets for the years ended December 31, 2021 and 2020 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2020	\$ 10,923,775	\$ 3,645,911	\$ 14,569,686
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)
	<u>11,213,598</u>	<u>4,170,057</u>	<u>15,383,655</u>
Endowment net assets, December 31, 2020	<u>11,213,598</u>	<u>4,170,057</u>	<u>15,383,655</u>
Investment return, net	2,074,113	764,132	2,838,245
Contributions	360	137,224	137,584
Appropriation of endowment assets for expenditures	-	(34,650)	(34,650)
Other transfers	(518,231)	(40,205)	(558,436)
	<u>\$ 12,769,840</u>	<u>\$ 4,996,558</u>	<u>\$ 17,766,398</u>
Endowment net assets, December 31, 2021	<u>\$ 12,769,840</u>	<u>\$ 4,996,558</u>	<u>\$ 17,766,398</u>

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020, no funds had deficiencies.

American Academy of Family Physicians Foundation and Subsidiary

Notes to Consolidated Financial Statements

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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, 2021 and 2020.

Note 6: 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, comprise the following:

	December 31, 2021		
	Foundation	Insurance Services	Total
Cash and cash equivalents	\$ 1,839,670	\$ 1,292,238	\$ 3,131,908
Accounts receivable	148,188	36,733	184,921
Operating investments	2,197,192	-	2,197,192
Promises to give	51,319	-	51,319
Endowment spending-rate distributions and appropriations	922,486	-	922,486
	<u>\$ 5,158,855</u>	<u>\$ 1,328,971</u>	<u>\$ 6,487,826</u>
	December 31, 2020		
	Foundation	Insurance Services	Total
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>

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, 2021 and 2020

The board-designated endowment of \$12,769,840 is subject to a spending rate set annually by the board of trustees. The approved spending rate for 2021 and 2020 is 5.5 percent and 5 percent, respectively. 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 7: 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 \$1,657,886 and \$1,714,330 for 2021 and 2020, respectively. The Foundation also paid \$1,628,005 in 2021 and \$1,677,164 in 2020 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:

	2021	2020
Dues check-off (pass through donations)	\$ 181,884	\$ 201,982
Contributions directed through the Academy	81,359	70,961
Contributions from the Academy to the Foundation	-	10,000
Center for the History of Family Medicine support	20,000	20,000
Other	-	20,255
	<u>\$ 283,243</u>	<u>\$ 323,198</u>

Foundation accounts receivable included revenues and other support from the Academy of \$49,416 and \$92,438 at December 31, 2021 and 2020, respectively. Accounts payable include \$296,628 and \$557,893 at December 31, 2021 and 2020, 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 and telephone) and marketing expenses in the amount of \$219,491 and \$150,549 in 2021 and 2020, respectively.

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The Academy, as the contract holder, controls certain plans administered by Insurance Services. Insurance Services administers Academy-sponsored life insurance plans and, pursuant to a royalty agreement relating thereto, incurred costs to the Academy of \$66,902 and \$71,042 for the years ended December 31, 2021 and 2020, respectively.

Note 8: 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, 2021 were:

2022	\$ 80,512
2023	82,144
2024	<u>55,488</u>
	<u>\$ 218,144</u>

Rent expense under this operating lease was \$78,880 and \$80,068 respectively for the years ended December 31, 2021 and 2020.

Note 9: Income Taxes

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

	<u>2021</u>	<u>2020</u>
Current expense	\$ 559,500	\$ 521,500
Deferred expense	<u>(9,500)</u>	<u>92,400</u>
Total income tax expense	<u>\$ 550,000</u>	<u>\$ 613,900</u>

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

	<u>2021</u>	<u>2020</u>
Computed at the statutory rate (21%)	\$ 434,470	\$ 488,364
Changes resulting from:		
State income taxes - net of federal tax benefit	112,775	126,765
Other	<u>2,755</u>	<u>(1,229)</u>
Actual tax provision	<u>\$ 550,000</u>	<u>\$ 613,900</u>

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

	<u>2021</u>	<u>2020</u>
Deferred tax assets		
Accrued vacation	\$ 10,100	\$ 9,800
Unearned revenue	78,900	70,600
Deferred tax liability		
Book/tax difference on fixed assets	<u>(1,700)</u>	<u>(2,600)</u>
Net deferred tax asset	<u>\$ 87,300</u>	<u>\$ 77,800</u>

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

	<u>2021</u>	<u>2020</u>
Noncurrent deferred tax asset	\$ 87,300	\$ 77,800

Note 10: Commitments

During 2021, Insurance Services entered into a two-year employment contract with the President of the Organization, effective January 1, 2021. This contract provides for a base compensation, including a fixed salary, along with incentive compensation based on dividends paid.

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Note 11: 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 \$73,918 and \$74,848 to the plans in 2021 and 2020, respectively.

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

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

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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, 2021 and 2020:

	Fair Value Measurements Using				
	Quoted Prices				
		in Active	Significant	Significant	Investments
		Markets for	Other	Unobservable	Measured
		Identical	Observable	Inputs	at NAV (A)
	Fair Value	Assets	Inputs	Inputs	
		(Level 1)	(Level 2)	(Level 3)	
December 31, 2021					
Investments					
Equity mutual funds	\$ 16,006,767	\$ 16,006,767	\$ -	\$ -	\$ -
Fixed income mutual funds	1,681,597	1,681,597	-	-	-
Corporate bonds	2,363,410	-	2,363,410	-	-
Treasury and federal agency obligations	385,752	-	385,752	-	-
Alternative investments	721,547	-	-	-	721,547
Beneficial interest in trust assets	68,305	-	68,305	-	-
	21,227,378	<u>\$ 17,688,364</u>	<u>\$ 2,817,467</u>	<u>\$ -</u>	<u>\$ 721,547</u>
Cash and cash equivalents	19,473				
Total investments and beneficial interest in trusts	<u>\$ 21,246,851</u>				
December 31, 2020					
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	<u>\$ 15,155,753</u>	<u>\$ 2,020,985</u>	<u>\$ -</u>	<u>\$ 723,116</u>
Cash and cash equivalents	19,319				
Total investments and beneficial interest in trusts	\$ 17,919,173				

- (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.

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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, 2021.

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.

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.

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:

	2021			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Period Notice
Life settlements funds	\$ 721,547	\$ -	Semi-annual	180 days

	2020			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Period Notice
Life settlements funds	\$ 723,116	\$ -	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.

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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.

Note 13: Subsequent Events

Subsequent events have been evaluated through April 27, 2022, which is the date the consolidated financial statements were available to be issued.