American Academy of Family Physicians Foundation and Subsidiary

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2019 and 2018

BKD LLP
CPAs & Advisors

American Academy of Family Physicians Foundation and Subsidiary

December 31, 2019 and 2018

Contents

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of American Academy of Family Physicians Foundation and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2019, 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, 2019, 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.

Emphasis of Matters

As described in *Note 2* to the consolidated financial statements, in 2019, American Academy of Family Physicians Foundation and Subsidiary adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), ASU 2018-08, *Not-for-Profit Entities* (Topic 958)*: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU 2016-18, *Statement of Cash Flows* (Topic 230)*: Restricted Cash.* Our opinion is not modified with respect to these matters.

Report on Summarized Consolidated Comparative Information

We have previously audited the December 31, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 20, 2019. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived.

BKD, LLP

Kansas City, Missouri
May 5, 2020

American Academy of Family Physicians Foundation and Subsidiary

Consolidated Statement of Financial Position

December 31, 2019

(with Comparative Totals for 2018)

	2019				Comparative
Assets	Foundation	Insurance Services	Eliminations	Consolidated Total	Totals for 2018
Cash and cash equivalents	$ 2,445,324	$ 1,107,314	$ -	$ 3,552,638	$ 1,586,443
Cash and cash equivalents - premium account	-	3,182,967	-	3,182,967	3,100,185
Accounts receivable	128,950	108,006	-	236,956	799,839
Prepaid expenses	34,901	21,754	-	56,655	65,368
Investments at fair value	16,574,797	-	-	16,574,797	15,157,538
Investment in subsidiary	1,276,610	-	(1,276,610)	-	-
Contributions receivable	70,167	-	-	70,167	123,546
Beneficial interest in trust assets	60,681	-	-	60,681	54,361
Deferred tax asset	-	170,200	-	170,200	-
Office equipment, furniture and fixtures, net of accumulated depreciation; 2019 - $878,867, 2018 - $851,024	25,122	19,572	-	44,694	66,974
	$ 20,616,552	$ 4,609,813	$ (1,276,610)	$ 23,949,755	$ 20,954,254
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	$ 1,148,014	$ 80,278	$ -	$ 1,228,292	$ 537,380
Premiums payable	-	2,596,448	-	2,596,448	3,100,590
Grant awards payable	146,500	-	-	146,500	133,173
Deferred revenue and advances	4,073	637,287	-	641,360	11,073
Liabilities under split-interest agreements	194,772	-	-	194,772	182,136
Deferred tax liability	-	-	-	-	2,700
Federal and state income taxes payable	-	19,190	-	19,190	114,028
Total liabilities	1,493,359	3,333,203	-	4,826,562	4,081,080
Net Assets					
Without donor restrictions					
Undesignated	3,286,016	1,276,610	(1,276,610)	3,286,016	3,205,670
Designated by the Board					
Endowment	10,923,779	-	-	10,923,779	9,492,005
Special projects and programs	69,265	-	-	69,265	114,692
Total net assets without donor restrictions	14,279,060	1,276,610	(1,276,610)	14,279,060	12,812,367
With donor restrictions	4,844,133	-	-	4,844,133	4,060,807
Total net assets	19,123,193	1,276,610	(1,276,610)	19,123,193	16,873,174
Total liabilities and net assets	$ 20,616,552	$ 4,609,813	$ (1,276,610)	$ 23,949,755	$ 20,954,254

American Academy of Family Physicians Foundation and Subsidiary

Consolidated Statement of Activities

Year Ended December 31, 2019

(with Comparative Totals for 2018)

	2019				
	Foundation	Insurance Services	Eliminations	Consolidated Total	Comparative Totals for 2018
Net Assets Without Donor Restrictions					
Revenues, Gains and Other Support					
Grant revenue	$ 47,175	$ -	$ -	$ 47,175	$ 10,717
Corporate and chapter support	710,000	-	-	710,000	685,000
Individual contributions	513,051	-	-	513,051	509,434
Special events, net of direct expenses of $26,976 in 2019 and $29,351 in 2018	38,915	-	-	38,915	54,394
Investment return	2,157,313	-	-	2,157,313	(735,773)
Insurance agreement revenues	-	3,775,191	-	3,775,191	3,744,977
Net assets released from restrictions	948,797	-	-	948,797	378,060
Total revenues, gains and other support	4,415,251	3,775,191	-	8,190,442	4,646,809
Expenses and Losses					
Insurance services	-	2,388,768	-	2,388,768	2,390,556
Family Medicine Philanthropic Consortium	97,516	-	-	97,516	119,518
Center for the History of Family Medicine	189,185	-	-	189,185	190,952
Family Medicine Cares	256,041	-	-	256,041	324,246
Family Medicine Leads	331,903	-	-	331,903	352,616
Family Medicine Discovers	176,152	-	-	176,152	5,479
Research grants and awards	109,045	-	-	109,045	190,562
AAFP program grants	1,180,239	-	-	1,180,239	507,433
Program evaluation and support	230,104	-	-	230,104	187,654
Management and general	507,521		-	507,521	510,601
Fundraising and development	821,386	-	-	821,386	730,968
Total expenses and losses	3,899,092	2,388,768	-	6,287,860	5,510,585
Change in net assets without donor restrictions	516,159	1,386,423	-	1,902,582	(863,776)
Net Assets With Donor Restrictions					
Grant revenues	726,873	-	-	726,873	111,180
Corporate and chapter support	49,000	-	-	49,000	55,500
Individual contributions	231,374	-	-	231,374	323,745
Special events	195	-	-	195	-
Investment return	724,681	-	-	724,681	(229,279)
Net assets released from restrictions	(948,797)	-	-	(948,797)	(378,060)
Change in net assets with donor restrictions	783,326	-	-	783,326	(116,914)
Increase (Decrease) in Net Assets Before Earnings of Subsidiary and Dividends Paid	1,299,485	1,386,423	-	2,685,908	(980,690)
Earnings of Subsidiary	1,386,423	-	(1,386,423)	-	-
Dividends Paid	-	(1,325,000)	1,325,000	-	-
Increase (Decrease) in Net Assets	2,685,908	61,423	(61,423)	2,685,908	(980,690)
Net Assets, Beginning of Year as Originally Reported	16,873,174	1,651,076	(1,651,076)	16,873,174	17,853,864
Change in accounting principle (see *Note 2*)	(435,889)	(435,889)	435,889	(435,889)	-
Net Assets, Beginning of Year as Adjusted	16,437,285	1,215,187	(1,215,187)	16,437,285	17,853,864
Net Assets, End of Year	$ 19,123,193	$ 1,276,610	$ (1,276,610)	$ 19,123,193	$ 16,873,174

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
	$ 97,516	$ 189,185	$ 256,041	$ 331,903	$ 176,152	$ 109,045	$ 1,180,239	$ 230,104	$ 2,570,185	$ 507,521	$ 821,386	$ 2,388,768	$ 6,287,860

See Notes to Consolidated Financial Statements

American Academy of Family Physicians Foundation and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	American Academy 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	4	-	-	-	-	-	53,000	-	53,004	-	-	-	53,004
Chapter grants	75,000	-	-	-	-	-	-	-	75,000	-	-	-	75,000
Disaster relief disbursements	-	-	-	-	-	-	-	24,443	24,443	-	-	-	24,443
Emerging Leader Institute scholarships and awards	-	-	-	48,000	-	-	-	-	48,000	-	-	-	48,000
Externship grants	-	-	-	-	-	28,125	-	-	28,125	-	-	-	28,125
Family Medicine Cares USA clinic grants	-	-	75,000	-	-	-	-	-	75,000	-	-	-	75,000
Family Medicine Interest Group	-	-	-	-	-	-	24,300	-	24,300	-	-	-	24,300
Familydoctor.org	-	-	-	-	-	-	100,000	-	100,000	-	-	-	100,000
Fellowships, lectureships and awards	-	2,018	-	-	-	-	-	6,000	8,018	-	-	-	8,018
Immunization awards	-	-	-	-	-	-	-	4,720	4,720	-	-	-	4,720
International disbursements	-	-	49,814	-	-	-	-	-	49,814	-	-	-	49,814
National conference scholarships	-	-	-	128,400	-	-	-	-	128,400	-	-	-	128,400
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
Telehealth study	-	-	-	-	-	-	60,133	-	60,133	-	-	-	60,133
Salaries	-	-	-	-	-	-	-	-	-	-	-	762,824	762,824
Payroll taxes	-	-	-	-	-	-	-	-	-	-	-	53,644	53,644
Profit sharing plan and 401(k) plan	-	-	-	-	-	-	-	-	-	-	-	62,126	62,126
Board of trustees	-	-	-	1,468	4,976	-	-	12,899	19,343	60,919	17,231	-	97,493
Professional services	-	-	-	-	-	-	-	-	-	28,114	12,583	18,297	58,994
Contracted fees for service	40,310	166,646	147,748	153,043	190	160,618	-	113,906	782,461	318,205	387,516	-	1,488,182
Advertising and promotion	-	9,036	443	3,882	-	368	-	-	13,729	-	26,232	541,865	581,826
Office expenses	-	925	432	253	-	415	-	134	2,159	1,234	6,820	1,856	12,069
Information technology	-	432	-	-	-	-	-	-	432	336	36,666	42,165	79,599
Rent - office expense	-	-	-	-	-	-	-	-	-	-	-	78,880	78,880
Travel	-	4,126	10,794	1,444	60	-	-	5,437	21,861	22,979	9,585	10,814	65,239
Conferences and meetings	4,129	1,058	290	12,032	253	887	-	-	18,649	61,566	103,567	-	183,782
Depreciation	-	-	-	-	-	-	-	18,842	18,842	-	-	9,931	28,773
Insurance	-	3,069	3,302	-	-	-	-	-	6,371	7,512	-	141,387	155,270
Design and printing	75	75	2,851	3,069	-	50	-	-	6,120	5,888	115,078	-	127,086
Training and development	-	898	-	-	-	99	-	1,152	2,149	2,586	15,291	4,423	24,449
Credit card fees and bank charges	-	-	-	-	-	-	-	-	-	1,262	399	-	1,661
Commission and royalty	-	-	-	-	-	-	-	-	-	-	-	75,865	75,865
Income tax	-	-	-	-	-	-	-	-	-	-	-	487,307	487,307
Other	-	2,669	572	1,025	-	-	-	121	4,387	-	-	99,172	103,559
	$ 119,518	$ 190,952	$ 324,246	$ 352,616	$ 5,479	$ 190,562	$ 507,433	$ 187,654	$ 1,878,460	$ 510,601	$ 730,968	$ 2,390,556	$ 5,510,585

See Notes to Consolidated Financial Statements

American Academy of Family Physicians Foundation and Subsidiary

Consolidated Statement of Cash Flows

Year Ended December 31, 2019

(with Comparative Totals for 2018)

	2019				
	Foundation	Insurance Services	Eliminations	Consolidated Total	Comparative Totals for 2018
Operating Activities					
Change in net assets	$ 2,685,908	$ 1,386,423	$ (1,386,423)	$ 2,685,908	$ (980,690)
Items not requiring (providing) operating cash flows					
Depreciation	18,842	9,000	-	27,842	28,773
Net realized and unrealized (gains) losses on investments	(2,328,476)	-	-	(2,328,476)	1,266,314
(Gain) loss on split-interest agreements	(38,086)	-	-	(38,086)	14,104
Contributions of investment securities	(11,806)	-	-	(11,806)	(5,306)
Contributions and investment income received restricted for long-term investment	(160,466)	-	-	(160,466)	(166,693)
Change in investment in subsidiary	(61,423)	-	61,423	-	-
Deferred income taxes	-	(5,926)	-	(5,926)	2,900
Changes in					
Accounts receivable	64,795	(67,689)	-	(2,894)	(43,669)
Prepaid expenses and other	33,337	(2,962)	-	30,375	(18,228)
Contributions receivable	53,379	-	-	53,379	(39,525)
Accounts payable and accrued expenses	701,505	(10,593)	-	690,912	(481,775)
Premiums payable	-	84,827	-	84,827	(26,248)
Grant awards payable	13,327	-	-	13,327	(118,154)
Deferred revenue and advances	(7,000)	11,232	-	4,232	(39,776)
Federal and state income taxes payable	-	(94,838)	-	(94,838)	266,753
Net cash provided by (used in) operating activities	963,836	1,309,474	(1,325,000)	948,310	(341,220)
Investing Activities					
Purchase of office equipment, furniture and fixtures	-	(5,562)	-	(5,562)	(5,259)
Purchase of investments	(16,347,890)	-	-	(16,347,890)	(4,484,913)
Sales and maturities of investments	16,205,439	-	-	16,205,439	6,004,519
Net cash provided by (used in) investing activities	(142,451)	(5,562)	-	(148,013)	1,514,347
Financing Activities					
Proceeds from contributions and investment income restricted for long-term investment	160,466	-	-	160,466	166,693
Payments on annuities	(9,026)	-	-	(9,026)	(7,963)
Cash dividends paid	-	(1,325,000)	1,325,000	-	-
Net cash provided by (used in) financing activities	151,440	(1,325,000)	1,325,000	151,440	158,730
Increase (Decrease) in Cash and Cash Equivalents	972,825	(21,088)	-	951,737	1,331,857
Cash and Cash Equivalents, Beginning of Year	1,485,172	4,311,369	-	5,796,541	4,464,684
Cash and Cash Equivalents, End of Year	$ 2,457,997	$ 4,290,281	$ -	$ 6,748,278	$ 5,796,541
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position					
Cash and cash equivalents	$ 2,445,324	$ 1,107,314	$ -	$ 3,552,638	$ 1,586,443
Cash and cash equivalents - premium account	-	3,182,967	-	3,182,967	3,100,185
Cash in investments	12,673	-	-	12,673	1,109,913
	$ 2,457,997	$ 4,290,281	$ -	$ 6,748,278	$ 5,796,541
Supplemental Cash Flows Information					
Income taxes paid	$ -	$ 604,464	$ -	$ 604,464	$ 215,917

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 intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, 2019 and 2018, cash and cash equivalents consisted primarily of deposit accounts and a money market account with a financial institution.

At December 31, 2019, the Organization's deposit accounts exceeded federally insured limits by approximately $6,409,000.

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

Investments and Investment Return

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

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, 2019 and 2018; 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, 2019 and 2018. 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 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, 2019 and 2018.

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.

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
Conditional gifts, with or without restriction	
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.e.,* the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value

Nature of the Gift	Value Recognized
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.

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 were no individually significant contributions in 2019 and 2018.

Grant Awards Payable

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

Grant Revenue and Deferred Revenue

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

Insurance Revenues

Revenues are based upon broker and service agreements between Insurance Services and the insurance companies that provide coverage.

Disaggregation of Revenue

The following table presents Insurance Services' revenues disaggregated by the timing of such revenue recognized during the year ended December 31, 2019:

	2019
Timing of revenue and recognition	
At a point in time	$ 1,212,699
Over a period of time	2,562,492
Total	$ 3,775,191

Insurance Services 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.

Significant Judgments

Revenue from the administrative services performed is recognized over time. Revenue is recognized based on the amount of consideration that Insurance Services expects to receive from the insurance company for the services performed in the corresponding period. Additionally, the allocation of transaction price is 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

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.

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.

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 $488,000 and $542,000 for the years ended December 31, 2019 and 2018, respectively.

Subsequent Events

Subsequent events have been evaluated through May 5, 2020, which is the date the consolidated financial statements were available to be issued.

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of our investment portfolio.

Note 2: Change in Accounting Principles

Revenue from Contracts with Customers

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.

After the adoption of ASC 606, revenue is earned as follows:

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 overall impact of these changes is not significant on a full-year basis to revenue, but in certain instances, Topic 606 will slow down revenue recognition, and for others, Topic 606 will have no impact. 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 company 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.

The following table presents the related effect of the adoption of Topic 606 on the December 31, 2019 consolidated statement of financial position, consolidated statement of income and retained earnings and consolidated statement of cash flows:

	December 31, 2019		
	Statement of Financial Position		
	As Reported	Effect of Adoption	Balances Without Adoption of Topic 606
Assets			
Accounts receivable	$ 108,006	$ (575,305)	$ 683,311
Deferred tax asset	170,200	166,974	3,226
Total assets	4,609,813	(408,331)	5,018,144
Liabilities and Stockholder's Equity			
Premiums payable	$ 2,596,448	$ (588,969)	$ 3,185,417
Unearned revenues	637,287	637,287	-
Total current liabilities	3,333,203	48,318	3,284,885
Net assets without donor restrictions - undesignated	1,276,610	(456,649)	1,733,259
Total liabilities and net assets	4,609,813	(408,331)	5,018,144

	December 31, 2019		
	Statement of Activities		
	As Reported	Effect of Adoption	Balances Without Adoption of Topic 606
Revenues from insurance agreements	$ 3,775,191	$ (20,760)	$ 3,795,951
Change in net assets without donor restrictions	1,386,423	(20,760)	1,407,183
Net assets, beginning of year	1,215,187	(435,889)	1,651,076

	December 31, 2019		
	Statement of Cash Flows		
	As Reported	Effect of Adoption	Balances Without Adoption of Topic 606
Net income	$ 1,386,423	$ (20,760)	$ 1,407,183
Changes in			
Accounts receivable	(67,689)	9,529	(77,218)
Unearned revenues	11,232	11,232	-

Contributions Received and Contributions Made

On January 1, 2019, the Foundation adopted FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, using a modified-prospective method of adoption to agreements that were not completed as of or entered into after the effective date. The core guidance in ASU 2018-08 provided clarification on the determination of a contribution versus an exchange transaction and if determined to be a contribution, clarification on the presence of a condition with governs when the revenue is recognized.

This change had no impact on previously reported total change in net assets.

Statement of Cash Flows

In 2019, the Foundation changed its method of accounting for restricted cash by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end of the period balances on the statement of cash flows. This change was applied retrospectively to all periods presented which resulted in the statement of cash flows:

	December 31, 2018		
	Statement of Cash Flows		
	As Reported	Effect of Adoption	Balances Without Adoption of Topic 230
Purchase of investments	$ (4,484,913)	$ 1,109,913	$ (5,594,826)
Net cash provided by investing activities	1,514,347	1,109,913	404,434
Increase in Cash and Restricted Cash	1,331,857	1,109,913	221,944
Cash and Restricted Cash, Beginning of Year	4,464,684	-	4,464,684
Cash and Restricted Cash, End of Year	5,796,541	1,109,913	4,686,628

Note 3: Investments and Investment Return

Investments at December 31 consisted of the following:

	2019	2018
Cash	$ 12,673	$ 1,109,913
Money market accounts	8,132	-
Common and preferred stock	-	6,043,839
Equity mutual funds	12,202,286	3,040,636
Fixed income mutual funds	1,160,823	786,893
Corporate bonds	1,525,138	1,730,302
Treasury and federal agency obligations	905,443	1,081,131
Pooled investment funds	-	1,364,824
Alternative investments	760,302	-
	$ 16,574,797	$ 15,157,538

Total investment return is comprised of the following:

	2019	2018
Interest and dividend income	$ 555,973	$ 402,448
Realized gains	2,003,220	851,519
Unrealized gains (losses)	325,256	(2,117,833)
Investment fees and expenses	(40,541)	(87,082)
Change in value of split-interest agreements	38,086	(14,104)
	$ 2,881,994	$ (965,052)

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 $45,583 and $42,482 as of December 31, 2019 and 2018, respectively, and are included in investments in the Foundation's consolidated statement of financial position. The Foundation has recorded a liability at December 31, 2019 and 2018 of $25,472 and $24,744, 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 $60,681 and $54,361, which represents the fair value of the trust assets at December 31, 2019 and 2018, respectively, is recorded as "beneficial interest in trust assets" on the consolidated statement of financial position.

Pooled Income Fund

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

The Foundation recognizes its remainder interest in the assets received as 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 $123,702 and $106,554 as of December 31, 2019 and 2018, 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 $31,126 and $31,020 as of December 31, 2019 and 2018, 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, 2019 and 2018 of $138,174 and $126,372, 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.

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	2019	2018
Subject to expenditure for specified purpose		
Center for the History of Family Medicine	$ 15,664	$ 15,664
Disaster Relief	65,277	45,852
Family Medicine Cares	551,869	511,897
Family Medicine Discovers	23,540	22,645
Family Medicine Leads	75,127	85,917
Lectureships	135,286	113,791
Outside funded grants	-	2,583
Special Projects	133,416	129,567
	1,000,179	927,916
Subject to the passage of time		
Assets held under split-interest agreements	137,362	105,595
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donors for		
Center for the History of Family Medicine	940,137	599,263
Family Medicine Cares	53,840	18,582
Family Medicine Leads	48,829	15,240
Lectureships	5,839	-
Robert Graham Policy Center	89,811	-
	1,138,456	633,085
Subject to NFP endowment spending policy and appropriation		
Center for the History of Family Medicine	1,133,178	1,074,391
Family Medicine Cares	209,275	206,175
Family Medicine Leads	412,709	300,009
Lectureships	50,778	50,000
Research	152,545	126,866
Robert Graham Policy Center	478,805	467,584
Unconditional promises to give, net - permanently restricted to Family Medicine Leads	70,165	123,545
Underwater endowments	-	(8,720)
	2,507,455	2,339,850
Not subject to spending policy and appropriation		
Beneficial interest in assets held by outside party	45,511	40,771
Beneficial interest in perpetual trusts held by outside party	15,170	13,590
	60,681	54,361
	$ 4,844,133	$ 4,060,807

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.

	2019	2018
Satisfaction of purpose restrictions		
Disaster relief	$ 3,737	$ 26,288
Family Medicine Cares	90,640	130,315
Family Medicine Leads	100,514	88,100
Lectureships	1,500	1,500
Outside funded grants	2,587	42,710
Special projects	735,914	71,247
	934,892	360,160
Restricted-purpose spending-rate distributions and appropriations		
Family Medicine Cares	3,505	8,000
Family Medicine Leads	10,400	9,900
	13,905	17,900
	$ 948,797	$ 378,060

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.

The composition of net assets by type of endowment fund at December 31, 2019 and 2018, was:

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2019			
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	$ 10,923,775	$ 3,645,911	$ 14,569,686
December 31, 2018			
Board-designated endowment funds	$ 9,492,005	$ -	$ 9,492,005
Donor-designated endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity	-	2,348,571	2,348,571
Accumulated investment gains	-	624,364	624,364
Total endowment funds	$ 9,492,005	$ 2,972,935	$ 12,464,940

Changes in endowment net assets for the years ended December 31, 2019 and 2018 were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	$ 10,551,011	$ 3,015,002	$ 13,566,013
Investment return, net	(600,764)	(180,555)	(781,319)
Contributions	1,886	156,387	158,273
Appropriation of endowment assets for expenditures	(1,018)	(17,899)	(18,917)
Other transfers	(459,110)	-	(459,110)
Endowment net assets, December 31, 2018	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	$ 10,923,775	$ 3,645,911	$ 14,569,686

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, 2019 and 2018, funds with original gift values of $0 and $151,075; fair values of $0 and $142,355; and deficiencies of $0 and $8,720, 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.

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, 2019 and 2018.

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:

	December 31, 2019		
	Foundation	Insurance Services	Total
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
	$ 4,287,449	$ 1,215,320	$ 5,502,769

	December 31, 2018		
	Foundation	Insurance Services	Total
Cash and cash equivalents	$ 375,259	$ 1,211,184	$ 1,586,443
Accounts receivable	193,745	606,094	799,839
Operating investments	1,749,428	-	1,749,428
Promises to give	55,329	-	55,329
Endowment spending-rate distributions and appropriations	748,853	-	748,853
	$ 3,122,614	$ 1,817,278	$ 4,939,892

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.

The board-designated endowment of $10,923,775 is subject to a spending rate set annually by the board of directors. The approved spending rate for 2020 is 5.5 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 $1,721,819 and $1,674,461 for 2019 and 2018, respectively. The Foundation also paid $1,500,227 in 2019 and $493,383 in 2018 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:

	2019	2018
Dues check-off (pass through donations)	$ 179,169	$ 190,970
Contributions directed through the Academy	89,467	98,754
Contributions from the Academy to the Foundation	3,680	8,270
Center for the History of Family Medicine support	20,000	20,000
Other	45,210	63,077
	$ 337,526	$ 381,071

Foundation accounts receivable included revenues and other support from the Academy of $51,060 and $46,971 at December 31, 2019 and 2018, respectively. Accounts payable include $1,135,052 and $417,557 at December 31, 2019 and 2018, 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 $133,206 and $160,269 in 2019 and 2018, respectively. The amount due to the Academy was $0 and $4,432 as of December 31, 2019 and 2018, 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 $71,350 and $75,865 for the years ended December 31, 2019 and 2018, 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, 2019 were:

2020	$ 77,248
2021	78,880
2022	80,512
2023	82,144
2024	55,488
	$ 374,272

Rent expense under this operating lease was $78,880 for each of the years ended December 31, 2019 and 2018.

Note 10: Income Taxes

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

	2019	2018
Current expense	$ 509,626	$ 484,407
Deferred expense	(5,926)	2,900
Total income tax expense	$ 503,700	$ 487,307

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

	2019	2018
Computed at the statutory rate (21%)	$ 396,926	$ 386,398
Changes resulting from:		
Nondeductible meals and entertainment	-	235
State income taxes - net of federal tax benefit	103,366	100,442
Other	3,408	232
Actual tax provision	$ 503,700	$ 487,307

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

	2019	2018
Deferred tax assets		
Accrued vacation	$ 9,500	$ 3,200
Unearned revenue	165,700	-
Deferred tax liability		
Book/tax difference on fixed assets	(5,000)	(5,900)
Net deferred tax asset (liability)	$ 170,200	$ (2,700)

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

	2019	2018
Noncurrent deferred tax asset	$ 170,200	$ -
Noncurrent deferred tax liability	-	(2,700)
Net deferred tax asset (liability)	$ 170,200	$ (2,700)

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.

On December 31, 2018, Insurance Services entered into a separation agreement with an employee which is accrued as of December 31, 2018, in the accounts payable and accrued liability line item on the accompanying consolidated statement of financial position.

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 $67,472 and $62,126 to the plans in 2019 and 2018, 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

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, 2019 and 2018:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
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	$ 3,251,564	$ -
Cash and cash equivalents	12,673			
Total investments and beneficial interest in trusts	$ 16,635,478			

	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Investments				
Common and preferred stock	$ 6,043,839	$ 6,043,839	$ -	$ -
Equity mutual funds	3,040,636	3,040,636	-	-
Fixed income mutual funds	786,893	786,893	-	-
Corporate bonds	1,730,302	-	1,730,302	-
Treasury and federal agency obligations	1,081,131	-	1,081,131	-
Pooled investment funds	1,364,824	-	1,364,824	-
Beneficial interest in trust assets	54,361	-	54,361	-
	14,101,986	$ 9,871,368	$ 4,230,618	$ -
Cash and cash equivalents	1,109,913			
Total investments and beneficial interest in trusts	$ 15,211,899			

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, 2019.

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.

Alternative Investments

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.