The American Board of Internal Medicine and Affiliated Foundation

Consolidated Financial Report
June 30, 2013

The American Board of Internal Medicine and Affiliated Foundation

Contents

McGladrey LLP

McGladrey

Independent Auditor's Report

To the Board of Directors
The American Board of Internal Medicine
and Affiliated Foundation
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The American Board of Internal Medicine and Affiliated Foundation which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years 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 audits. We conducted our audits 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 of 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 The American Board of Internal Medicine and Affiliated Foundation as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

McGladrey LLP

Blue Bell, Pennsylvania
October 31, 2013

The American Board of Internal Medicine and Affiliated Foundation

Consolidated Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
Assets		
Cash and Cash Equivalents	$ 24,853,841	$ 32,162,500
Accounts Receivable, net	532,540	1,712,042
Grants Receivable	1,432,727	-
Investments, at fair value	78,119,140	68,991,169
Investments, at fair value, deferred compensation plan	590,056	444,056
Prepaid Expenses	1,205,305	1,158,856
Property, net	3,128,073	3,578,703
Furniture and Equipment, net	6,216,450	3,165,745
Total assets	$ 116,078,132	$ 111,213,071
Liabilities and Net Assets		
Liabilities		
Accounts and grants payable and accrued expenses	$ 3,194,706	$ 2,819,340
Accrued compensation	3,866,325	3,597,423
Deferred revenue		
Certifying examinations	30,357,066	35,439,517
Maintenance of Certification	43,729,647	42,497,575
Deferred compensation	1,095,064	825,749
Deferred rents	3,143,995	2,555,963
Total liabilities	85,386,803	87,735,567
Commitments and Contingencies (Note 8)		
Net Assets		
Unrestricted	29,131,553	23,444,185
Temporarily restricted	1,559,776	33,319
Total net assets	30,691,329	23,477,504
Total liabilities and net assets	$ 116,078,132	$ 111,213,071

See Notes to Consolidated Financial Statements.

The American Board of Internal Medicine and Affiliated Foundation

Consolidated Statements of Activities
Years Ended June 30, 2013 and 2012

	2013	2012
Changes in unrestricted net assets:		
Revenues and gains		
Certification exams		
Internal medicine	$ 13,906,584	$ 13,265,333
Subspecialties and other	21,378,497	18,013,929
Credit card fees	(675,699)	(617,948)
	34,609,382	30,661,314
Maintenance of Certification Program		
Credentialing	3,260,816	3,117,974
Examination	12,240,623	11,109,960
SEP	4,178,997	3,634,087
Credit card fees	(376,876)	(352,880)
	19,303,560	17,509,141
Other revenue		
Investment income, net	7,347,816	1,274,178
Other income	1,224,097	1,051,255
	8,571,913	2,325,433
Total unrestricted revenues and gains	62,484,855	50,495,888
Net assets released from restrictions, satisfaction of program restrictions	1,184,215	34,333
Total unrestricted revenues, gains and other support	63,669,070	50,530,221
Operating expenses	57,981,702	54,408,947
Change in unrestricted net assets	5,687,368	(3,878,726)
Changes in temporarily restricted net assets:		
Grant revenue	2,710,672	45,154
Net assets released from restrictions	(1,184,215)	(34,333)
Change in temporarily restricted net assets	1,526,457	10,821
Change in net assets	7,213,825	(3,867,905)
Net assets, beginning	23,477,504	27,345,409
Net assets, ending	$ 30,691,329	$ 23,477,504

See Notes to Consolidated Financial Statements.

The American Board of Internal Medicine and Affiliated Foundation

Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 7,213,825	$ (3,867,905)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Reinvested dividends	(890,701)	(1,852,423)
Unrealized losses on investments, net	12,626,413	1,040,825
Realized gains on sale of investments, net	(19,344,507)	(502,646)
Depreciation and amortization	1,622,712	1,643,453
Deferred compensation expense	168,670	168,543
Deferred compensation interest adjustment	57,904	26,340
Deferred rents	588,032	650,763
Change in operating assets and liabilities:		
Increase in:		
Accounts receivable	1,179,502	(448,493)
Grants receivable	(1,432,727)	-
Prepaid expenses	(46,449)	(251,019)
Increase (decrease) in:		
Accounts and grants payable and accrued expenses	375,366	390,365
Accrued compensation	224,160	32,802
Deferred revenue	(3,850,379)	6,472,114
Deferred compensation	(58,517)	(66,376)
Net cash provided by (used in) operating activities	(1,566,698)	3,436,343
Cash Flows from Investing Activities		
Purchases of investments	(73,254,464)	(43,021)
Proceeds from sales and maturities of investments	71,735,288	3,786,179
Purchases of property, furniture and equipment	(4,222,787)	(1,662,582)
Net cash provided by (used in) investing activities	(5,741,963)	2,080,576
Net increase (decrease) in cash and cash equivalents	(7,308,659)	5,516,919
Cash and cash equivalents, beginning	32,162,500	26,645,581
Cash and cash equivalents, ending	$ 24,853,841	$ 32,162,500

See Notes to Consolidated Financial Statements.

Note 1. Organization and Summary of Significant Accounting Policies

Organization: The American Board of Internal Medicine ("ABIM") is a not-for-profit organization. The primary purpose of ABIM is the establishment and maintenance of standards of training, education and qualification of physicians practicing internal medicine within the United States. The assets of ABIM are generally available for operating purposes, with no restrictions by external donors, grantors or agencies.

The ABIM Foundation (the "Foundation") is a not-for-profit organization organized exclusively for charitable, educational and scientific purposes in order to benefit, perform the functions of, and carry out the purposes of ABIM and any other similar organizations operating in the United States. The assets of the Foundation are available for general operating purposes, with no significant restrictions by external donors, grantors or agencies.

The consolidated entities are collectively referred to as the "Organization" in these financial statements. A summary of the Organization's significant accounting policies is as follows:

Principles of Consolidation: The accounts of ABIM and the Foundation are included in the consolidated financial statements based upon ABIM's control and economic interest factors with the Foundation. All material intercompany balances and transactions have been eliminated.

Basis of Accounting: Revenue and expenses are recognized using the accrual basis of accounting.

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

Cash and Cash Equivalents: The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents equals fair value.

Accounts Receivable: Accounts receivable are stated at their estimated net realizable values. Accounts receivable do not bear interest. It is the Organization's policy to provide an allowance for doubtful accounts on its accounts receivable. The allowance is based on management's estimate of amounts that may not be collected. Delinquency of accounts receivable is generally not a significant issue because most accounts receivable relate to the Maintenance of Certification ("MOC") program. Management is generally able to collect amounts due or restrict a candidate from completing the MOC program in the event of non-payment. When management determines an account is not collectible it charges such write-off to either the allowance account when required or directly to bad debts expense. At June 30, 2013 and 2012, accounts receivable is recorded net of an allowance for doubtful accounts of $20,000.

Investment Valuation and Investment Income Recognition: Investments are presented in the financial statements at fair value in accordance with accounting principles generally accepted in the United States of America as-more fully described in Note 4.

Securities transactions are recorded on a trade-date basis. Realized gains and losses on securities transactions are determined on a specific identification basis. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Property, Furniture and Equipment, and Depreciation and Amortization: The Organization generally capitalizes eligible expenditures greater than $1,000. The Condominium is recorded at cost and is being depreciated over 25 years using the straight-line method. Leasehold improvements are stated at cost and are amortized over the shorter of their estimated useful life or the remaining lease term using the straight-line method. Furniture and equipment are stated at cost and are depreciated over five to seven years using the straight-line method.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Impairment of Long Lived Assets: The Organization reviews long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use and eventual disposition of the assets is less than its carrying amount. Impairment, if any, is assessed using discounted cash flows. No impairments have occurred to date.

Net Assets Classification: The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets – Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets – Temporarily restricted net assets result from grants whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets – Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor are otherwise removed by the Organization's actions. The Organization does not have any permanently restricted contributions.

Revenue Recognition: Revenues from certifying, subspecialty and other examinations are recognized when the applicable exam is administered. Deferred revenue, certifying examinations represents amounts received in advance of a scheduled exam date.

The major stages of the MOC process consist of self-study modules and the related final exam. The MOC program is a ten year program. Candidates pay an amount which consists of a credentialing fee, a self-study module ("SEP") fee and a secure examination fee. Upon entering the MOC program a candidate has ten years to complete the program and has access to SEP's during this period. ABIM recognizes credentialing fees as revenue upon a candidate entering the MOC program. SEP fees are recognized as revenue over 120 months, on a straight line basis. Secure exam revenues are recognized upon the candidate sitting for an exam, regardless of the result. Candidates are required to pay a fee each time they sit for a secure exam. Secure exam fees that are not utilized within ten years of entering the MOC program are forfeited.

Grant Revenue: Grant revenue consists of unconditional promises to give to ABIM. Grant revenue arising from unconditional promises to give which are expected to be received in approximately one year are recorded at their net realizable value. Grants receivable at June 30, 2013 are expected to be collected in approximately one year.

Grants are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor-imposed restrictions which are completely met in the same fiscal year are reported as temporarily restricted support with the associated amount reported as net assets released from restrictions.

Other Income: Other income consists primarily of other exam related service fees like shared exam data, and candidate exam analysis and rescoring. These fees are recorded as other income as the service is performed.

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Advertising: Advertising costs are expensed as incurred. Advertising expense was approximately $110,000 in 2013 and $85,000 in 2012.

Credit and Market Risk: Credit risk arises from the potential for an issuer or the other counterparty to default on its contractual obligation. Market risk is the risk that the market value of an investment will fluctuate as a result of changes in market price. Financial instruments which potentially subject the Organization to concentrations of credit and market risk consist principally of cash and cash equivalents and investments. The Organization regularly maintains amounts on deposit in excess of insured limits. The Organization believes it limits its credit exposure by placing its cash and cash equivalents with high credit quality financial institutions. Investments include the risk that market value will change. The Organization mitigates this risk by the adoption and execution of what management believes to be are prudent investment policies and procedures.

Due to the level or 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 changes could materially affect the amounts reported in the consolidated statement of financial position.

Recently Issued Accounting Pronouncements: In October 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-04, *Technical Corrections and Improvements*. The amendments in this Update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2013, except for amendments in this update where there was no transition guidance which were immediately effective upon issuance. The adoption of immediately effective amendments was not significant to these financial statements.

In October 2012, the FASB issued guidance which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The adoption of this guidance will not have a significant impact on these financial statements.

Subsequent Events: The Organization has evaluated its subsequent events (events occurring after June 30, 2013) through October 31, 2013, which represents the date the financial statements were available to be issued, and determined that there were no material subsequent events requiring adjustment to, or disclosure in, the financial statements for the year ended June 30, 2013.

Note 2. Income Taxes

The Internal Revenue Service has granted the Organization, which is not a private foundation, exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accounting principles generally accepted in the United States of America requires the Organization to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken any uncertain tax positions that more likely than not would not be sustained upon examination by a tax authority. Management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax exempt status and has taken no uncertain tax positions that require adjustments to the financial statements. Accordingly, no provision for income taxes has been made in the accompanying financial statements. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

Note 3. Investments

The investment portfolio consists of the following at June 30:

Description	2013 Fair Value	2013 Cost
Mutual funds:		
Short Term Treasury Fund	$ 236,133	$ 238,354
Short-term Corporate Bond Fund	5,251,430	5,288,023
TIFF Multi-Asset Fund	50,552,500	48,473,092
Investment partnerships:		
TIFF Keystone Fund, L.P.	22,079,077	20,794,007
	78,119,140	74,793,476
Money market funds	8,960,426	8,960,426
	87,079,566	83,753,902
Less money market funds reported as cash	8,960,426	8,960,426
	$ 78,119,140	$ 74,793,476

Description	2012 Fair Value	2012 Cost
Mutual funds:		
Intermediate-Term Corporate Bond Fund	$ 19,920,007	$ 19,013,217
Total International Stock Index Fund	8,611,512	6,316,054
Total Stock Market Index Fund	39,129,760	27,039,891
Short Term Treasury Fund	112,787	113,103
Short-term Corporate Bond Fund	1,217,103	1,160,653
	68,991,169	53,642,918
Money market funds	8,991,589	8,991,589
	77,982,758	62,634,507
Less money market funds reported as cash	8,991,589	8,991,589
	$ 68,991,169	$ 53,642,918

Note 3. Investments (Continued)

Investment income, net, includes the following:

	2013	2012
Realized gains on sale of investments, net	$ 19,479,136	$ 502,646
Unrealized losses on investments, net	(12,531,552)	(1,040,825)
Interest and dividends	679,293	1,889,383
Investment fees	(279,061)	(77,026)
	$ 7,347,816	$ 1,274,178

Investments attributable to deferred compensation invested in various participant directed investments are as follows:

	2013	2012
Balance, beginning	$ 444,056	$ 568,817
Employee deferrals	106,543	107,611
Employee withdrawals	(18,446)	(258,712)
Increase in fair value	57,903	26,340
Balance, ending	$ 590,056	$ 444,056

Note 4. Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 4. Fair Value Measurements (Continued)

The Organization follows the FASB's guidance for *Investments in Certain Entities That Calculate Net Asset Value per Share* (or its equivalent). This guidance states that if the Organization has the ability to redeem its investments with the investee at the net asset value per share in the near term (three months following June 30, 2013), the fair value measurement of the investment is categorized as a Level 2 fair value measurement. If the Foundation does not have the ability to redeem its investment at the net asset value per share in the near term due to a provision that allows redemptions at other times than those defined as in the near term or funds that are in a lock up, gate, or other redemption restriction, the investment is categorized as a Level 3 fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value. There have been no changes in the methodologies used during the year ended June 30, 2013.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. Certain mutual funds held are deemed to be actively traded. However, the Organization has an investment in the Investment Fund for Foundation Multi-Asset Fund. Since the Organization holds units in the fund, and because the units are not traded on an open exchange, they are classified within Level 2 of the valuation hierarchy.

Pooled separate accounts: Valued at NAV per unit based on quoted market prices of underlying investments.

Fixed annuity contracts: Fixed annuity contracts are valued at fair value by the custodian by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. As transactions occur at contract value, fair value is determined annually for financial statement purposes only. In determining the reasonableness of the methodology, management evaluates a variety of factors including review of existing contracts, economic conditions, industry and market developments, and overall credit ratings. Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).

Investment partnerships: Investment partnerships are not traded on an open exchange and the fair values of these funds are not readily determinable. These investments are valued at fair value based on the applicable percentage ownership of the underlying funds' net assets as of the measurement date, as determined by the Organization. In determining fair value, the Organization utilizes valuations provided by the underlying investment funds. The underlying investment funds value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective alternative investment fund and may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Organization's investments in alternative investments generally represents the amount the Organization would expect to receive if it were to liquidate its investment in the alternative investment funds excluding any redemption charges that may apply. These investments are included in Level 3 of the valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 4. Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and 2012:

	Assets at Fair Value at June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds:				
Bond funds	$ 5,251,430	$ -	$ -	$ 5,251,430
Government obligations funds	236,133	-	-	236,133
Money market funds	8,960,426	-	-	8,960,426
TIFF Multi-Asset Fund	-	50,552,500	-	50,552,500
Pooled separate accounts:				
Equity funds	-	369,447	-	369,447
Bond funds	-	64,646	-	64,646
Real estate funds	-	51,953	-	51,953
Fixed annuity contracts:				
TIAA Traditional Annuity	-	-	104,010	104,010
Investment partnerships:				
TIFF Keystone Fund, L.P.	-	-	22,079,077	22,079,077
	$ 14,447,989	$ 51,038,546	$ 22,183,087	$ 87,669,622
Liabilities				
457(b) plan liability	$ -	$ 486,046	$ 104,010	$ 590,056

	Assets at Fair Value at June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Mutual funds:				
Bond funds	$ 21,137,110	$ -	$ -	$ 21,137,110
Government obligations funds	112,787	-	-	112,787
Equity funds	47,741,272	-	-	47,741,272
Money market funds	8,991,589	-	-	8,991,589
Pooled separate accounts:				
Equity funds	-	261,095	-	261,095
Bond funds	-	66,549	-	66,549
Real estate funds	-	20,096	-	20,096
Fixed annuity contracts:				
TIAA Traditional Annuity	-	-	96,316	96,316
	$ 77,982,758	$ 347,740	$ 96,316	$ 78,426,814
Liabilities				
457(b) plan liability	$ -	$ 347,740	$ 96,316	$ 444,056

Note 4. Fair Value Measurements (Continued)

The Organization assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Organization's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. There were no significant transfers among levels 1, 2, and 3 during the year.

The table below sets forth a summary of changes in the fair value of ABIM's Level 3 assets for the years ended June 30, 2013 and 2012:

	Fixed Annuity Contracts	Investment Partnerships
Balance, July 1, 2011	$ 99,771	$ -
Purchases and issuances	7,566	-
Sales and settlements	(11,021)	-
Balance, June 30, 2012	96,316	-
Purchases and issuances	7,694	20,794,007
Sales and settlements	-	-
Unrealized appreciation	-	1,285,070
Balance, June 30, 2013	$ 104,010	$ 22,079,077

The total change in unrealized gain (loss) included in the consolidated statements of activities during the years ended June 30, 2013 and 2012, attributable to level 3 investments held at June 30, 2013 and 2012, approximated the net unrealized gain (loss), by major class, in the preceding rollforwards of changes in level 3 assets.

The following tables set forth a summary of the fair value of investments in certain entities that calculate net asset value per share (or its equivalent):

		Assets at Fair Value at June 30, 2013			
Investments		Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:					
Equity funds	(a)	$ 369,447	$ -	Immediate	None
Bond funds	(b)	64,646	-	Immediate	None
Real estate funds	(c)	51,953	-	One per calendar quarter	None
Mutual funds:					
TIFF Multi-Asset Fund	(d)	50,552,500	-	Immediate	Up to 7 days
Investment partnerships:					
TIFF Keystone Fund, L.P.	(e)	22,079,077	-	Quarterly after expiration lock-up period. Entire amount is subject to lock-up through March 31, 2014	180 days
		$ 73,117,623			

Note 4. Fair Value Measurements (Continued)

		Assets at Fair Value at June 30, 2012			
Investments		Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Pooled separate accounts:					
Equity funds	(a)	$ 261,095	$ -	Immediate	None
Bond funds	(b)	66,549	-	Immediate	None
Real estate funds	(c)	20,096	-	One per calendar quarter	None
		$ 347,740			

(a) Investments in this category seek a favorable long-term rate of return through capital appreciation and investment income by investing primarily in a broadly diversified portfolio of foreign and domestic common stocks.

(b) Investments in this category seek high current income consistent with maintaining liquidity and preserving capital.

(c) Investments in this category seek favorable long-term returns primarily through rental income and appreciation of real estate investments.

(d) The Fund seeks to achieve a total return that, over a majority of market cycles, exceeds the Consumer Price Index plus 5% per annum by employing a globally diversified portfolio. The Fund rebalances segment weights in a manner designed to exploit capital markets' mean-reverting tendencies to the maximum extent in light of trading costs.

(e) The Fund's investment objective is to maximize annualized returns net of all costs over rolling 10-year periods while adhering to the Fund's risk parameters. The Fund expects to invest globally in multiple asset classes and in both publicly traded and privately placed securities, properties, and other assets, either directly or through investment funds, including private equity funds, private realty funds, natural resources funds, and hedge funds.

Note 5. Property

Property, net, consists of the following at June 30:

	2013	2012
Condominium	$ 2,356,268	$ 2,356,268
Less accumulated depreciation	(518,378)	(424,129)
	1,837,890	1,932,139
Leasehold improvements	4,173,413	4,173,413
Less accumulated amortization	(2,883,230)	(2,526,849)
	1,290,183	1,646,564
	$ 3,128,073	$ 3,578,703

Note 6. Furniture and Equipment

Furniture and equipment, net, consists of the following at June 30:

	2013	2012
Computer equipment	$ 2,070,512	$ 1,521,872
Computer software	5,612,216	2,125,133
Office furniture	2,216,784	2,211,838
Office equipment	582,437	544,592
Telephone equipment	333,269	333,269
	10,815,218	6,736,704
Less accumulated depreciation	(4,598,768)	(3,570,959)
	$ 6,216,450	$ 3,165,745

At June 30, 2013, computer software of approximately $4,073,000 had not yet been placed in service.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets of $1,559,776 and $33,319 at June 30, 2013 and 2012, respectively, are available for specific program and project expenses.

Note 8. Commitments and Contingencies

Building Lease: ABIM is party to a lease for office space in Philadelphia, Pennsylvania. The lease expires in October 2025 and contains options to extend the lease for three consecutive five-year renewal terms ending in October 2040. Approximate future minimum rental payments are as follows:

Years Ending June 30,	
2014	$ 1,683,000
2015	2,452,000
2016	2,502,000
2017	2,553,000
2018	2,604,000
Thereafter	77,647,000
	$ 89,441,000

The lease contains scheduled rent increases. Deferred rent includes the accumulated straight-line rent expense calculated in accordance with accounting principles generally accepted in the United States of America in excess of actual cash payments. Rent expense for this lease was approximately $3,259,000 in 2013 and $3,262,000 in 2012.

Equipment Leases: ABIM leases copy center and other office equipment under various operating lease agreements. The leases expire at various times through August 2014. Approximate future minimum rental payments required under these leases are as follows:

Years Ending June 30,	
2014	$ 408,000
2015	163,000
	$ 571,000

Rent expense for these leases was approximately $408,000 in 2013 and 2012.

Note 8. Commitments and Contingencies (Continued)

Deferred Compensation and Employment Contract: ABIM entered into an employment agreement with a key employee effective July 1, 2008. The agreement expired June 30, 2013. The terms of the agreement required ABIM to pay a base salary of approximately $574,000 per year plus additional annual incentive bonuses. In accordance with the employee's agreement, ABIM established an unfunded deferred compensation account on behalf of the employee and was required to credit the account based upon prescribed calculations. During 2013 and 2012, the employee elected to defer incentive bonus in the approximate amount of $59,000 in each year. The deferred compensation liability, inclusive of deferred annual incentive bonus, includes approximately $505,000 and $379,000 at June 30, 2013 and 2012, respectively, attributable to the employment contract with the employee. The employee resigned from employment effective June 30, 2013. ABIM paid the deferred compensation liability to this employee in July 2013.

ABIM entered into an employment agreement with a new key employee effective June 7, 2013. The agreement expires June 30, 2018. The terms of the agreement require ABIM to pay a base salary of at least $568,000 per year plus additional annual incentive bonuses. In accordance with the employee's agreement, ABIM established an unfunded deferred compensation account on behalf of the employee and is required to credit the account based upon prescribed calculations. There is no deferred compensation liability related to this employee at June 30, 2013.

ABIM has an unfunded deferred compensation plan for certain employees. The plan allows the group of employees to defer compensation on a tax-free basis up to statutory maximum limits. ABIM purchased participant directed investments related to the plan in the approximate amount of $107,000 and $108,000 during the years ended June 30, 2013 and 2012, respectively, and distributed approximately $19,000 and $259,000 to certain employees during the years ended June 30, 2013 and 2012, respectively. Deferred compensation liability includes approximately $590,000 and $444,000 at June 30, 2013 and 2012, respectively, attributable to the plan.

Pension Plan: The Organization makes contributions, on behalf of all employees who meet certain eligibility requirements, to employees' pension retirement accounts established under Section 403(b) of the Internal Revenue Code. The Organization contributes amounts equal to a percentage of participants' eligible salaries. Pension expense, including administrative fees, was approximately $2,158,000 in 2013 and $2,159,000 in 2012.

Litigation: The Organization is involved in various litigation matters deemed to be incidental to the conduct of its operations. In addition, from time to time the Organization determines that certain physicians may not be qualified for certification. The Organization has an internal appeal process through which such physicians may seek review of such determinations. In certain instances, physicians pursuing internal appeals of adverse certification determinations have threatened to bring legal action against the Organization. Although the ultimate outcome of these matters is often unknown, management is of the opinion that any liability that might ensue would not materially affect the Organization's financial position or the results of its activities.

Hosting and Licensing Agreement: ABIM is party to an agreement with an internet technology provider for the licensing, marketing, distribution, integration, and support of products and services for performance assessment, improvement, and lifelong learning. Services are performed within defined projects, each with distinct terms. At June 30, 2011, ABIM had contractually committed to one project, with required monthly payments of $100,000 through January 1, 2012. The project term ended on March 31, 2012, at which point the project term automatically renewed for two additional three year terms at the previous monthly fee amount. Additional projects may be added during the term of the agreement. The master agreement term ends on September 2, 2018.

ABIM will be required to pay a breakup fee if it terminates the agreement without cause prior to the termination date. The breakup fee is equal to $500,000 between April 1, 2012 and April 1, 2014. There is no breakup fee after April 1, 2014.

Note 9. Functional Expenses

The cost of providing program and supporting services are summarized on a functional basis as follows:

	2013	2012
Program services	$ 45,541,338	$ 42,123,474
Supporting services	12,440,364	12,285,473
	$ 57,981,702	$ 54,408,947

The American Board of Internal Medicine and Affiliated Foundation

Consolidating Statement of Financial Position
June 30, 2013

	Foundation	ABIM	Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 590,391	24,263,450	$ -	$ 24,853,841
Accounts Receivable, net	-	532,540	-	532,540
Grants Receivable	1,432,727	401,242	(401,242)	1,432,727
Due (to) from Affiliate	(541,475)	541,475	-	-
Investments, at fair value	72,631,577	5,487,563	-	78,119,140
Investments, at fair value, deferred compensation plan	-	590,056	-	590,056
Prepaid Expenses	68,111	1,137,194	-	1,205,305
Property, net	1,837,889	1,290,184	-	3,128,073
Furniture and Equipment, net	29,393	6,187,057	-	6,216,450
Total assets	$76,048,613	$ 40,430,761	$ (401,242)	$116,078,132
Liabilities and Net Assets (Deficit)				
Liabilities				
Accounts and grants payable and accrued expenses	$ 1,919,036	$ 1,676,912	$ (401,242)	$ 3,194,706
Accrued compensation	287,858	3,578,467	-	3,866,325
Deferred revenue				
Certifying examinations	-	30,357,066	-	30,357,066
Maintenance of Certification	-	43,729,647	-	43,729,647
Deferred compensation	-	1,095,064	-	1,095,064
Deferred rents	-	3,143,995	-	3,143,995
Total liabilities	2,206,894	83,581,151	(401,242)	85,386,803
Net Assets (Deficit)				
Unrestricted	72,408,992	(43,678,681)	401,242	29,131,553
Temporarily restricted	1,432,727	528,291	(401,242)	1,559,776
Total net assets (deficit)	73,841,719	(43,150,390)	-	30,691,329
Total liabilities and net assets (deficit)	$76,048,613	$ 40,430,761	$ (401,242)	$116,078,132

The American Board of Internal Medicine and Affiliated Foundation

Consolidating Statement of Financial Position
June 30, 2012

	Foundation	ABIM	Eliminations	Consolidated
Assets				
Cash and Cash Equivalents	$ 573,470	$ 31,589,030	$ -	$ 32,162,500
Accounts Receivable, net	-	1,712,042	-	1,712,042
Grants Receivable (Payable)	(280,435)	280,435	-	-
Due (to) from Affiliate	(360,693)	360,693	-	-
Investments, at fair value	67,661,279	1,329,890	-	68,991,169
Investments, at fair value, deferred compensation plan	-	444,056	-	444,056
Prepaid Expenses	66,140	1,092,716	-	1,158,856
Property, net	1,932,139	1,646,564	-	3,578,703
Furniture and Equipment, net	49,770	3,115,975	-	3,165,745
Total assets	$ 69,641,670	$ 41,571,401	$ -	$ 111,213,071
Liabilities and Net Assets (Deficit)				
Liabilities				
Accounts and grants payable and accrued expenses	$ 523,687	$ 2,295,653	$ -	$ 2,819,340
Accrued compensation	246,317	3,351,106	-	3,597,423
Deferred revenue				
Certifying examinations	-	35,439,517	-	35,439,517
Maintenance of Certification	-	42,497,575	-	42,497,575
Deferred compensation	-	825,749	-	825,749
Deferred rents	-	2,555,963	-	2,555,963
Total liabilities	770,004	86,965,563	-	87,735,567
Net Assets (Deficit)				
Unrestricted	68,871,666	(45,707,917)	280,436	23,444,185
Temporarily restricted	-	313,755	(280,436)	33,319
Total net assets (deficit)	68,871,666	(45,394,162)	-	23,477,504
Total liabilities and net assets (deficit)	$ 69,641,670	$ 41,571,401	$ -	$ 111,213,071

The American Board of Internal Medicine and Affiliated Foundation

Consolidating Statement of Activities
Year Ended June 30, 2013

	Foundation	ABIM	Eliminations	Consolidated
Changes in unrestricted net assets:				
Revenues and gains				
Certification exams				
Internal medicine	$ -	$ 13,906,584	$ -	$ 13,906,584
Subspecialties and other	-	21,378,497	-	21,378,497
Credit card fees	-	(675,699)	-	(675,699)
	-	34,609,382	-	34,609,382
Maintenance of Certification Program				
Credentialing	-	3,260,816	-	3,260,816
Examination	-	12,240,623	-	12,240,623
SEP	-	4,178,997	-	4,178,997
Credit card fees	-	(376,876)	-	(376,876)
	-	19,303,560	-	19,303,560
Other revenue				
Investment income, net	7,313,345	34,471	-	7,347,816
Other income	101,357	1,122,740	-	1,224,097
	7,414,702	1,157,211	-	8,571,913
Total unrestricted revenues and gains	7,414,702	55,070,153	-	62,484,855
Net assets released from restrictions, satisfaction of program restrictions	1,067,273	241,136	(124,194)	1,184,215
Total unrestricted revenues, gains and other support	8,481,975	55,311,289	(124,194)	63,669,070
Operating expenses	4,944,649	53,282,053	(245,000)	57,981,702
Change in unrestricted net assets (deficit) from operations	3,537,326	2,029,236	120,806	5,687,368
Changes in temporarily restricted net assets:				
Grant revenue	2,500,000	455,672	(245,000)	2,710,672
Net assets released from restrictions	(1,067,273)	(241,136)	124,194	(1,184,215)
Change in temporarily restricted net assets (deficit)	1,432,727	214,536	(120,806)	1,526,457
Change in net assets (deficit)	4,970,053	2,243,772	-	7,213,825
Net assets (deficit), beginning	68,871,666	(45,394,162)	-	23,477,504
Net assets (deficit), ending	$ 73,841,719	$ (43,150,390)	$ -	$ 30,691,329

The American Board of Internal Medicine and Affiliated Foundation

Consolidating Statement of Activities
Year Ended June 30, 2012

	Foundation	ABIM	Eliminations	Consolidated
Changes in unrestricted net assets:				
Revenues and gains				
Certification exams				
Internal medicine	$ -	$ 13,265,333	$ -	$ 13,265,333
Subspecialties and other	-	18,013,929	-	18,013,929
Credit card fees	-	(617,948)	-	(617,948)
	-	30,661,314	-	30,661,314
Maintenance of Certification Program				
Credentialing	-	3,117,974	-	3,117,974
Examination	-	11,109,960	-	11,109,960
SEP	-	3,634,087	-	3,634,087
Credit card fees	-	(352,880)	-	(352,880)
	-	17,509,141	-	17,509,141
Other revenue				
Investment income, net	1,213,159	61,019	-	1,274,178
Other income	80,840	970,415	-	1,051,255
	1,293,999	1,031,434	-	2,325,433
Total unrestricted revenues and gains	1,293,999	49,201,889	-	50,495,888
Net assets released from restrictions, satisfaction of program restrictions	-	103,453	(69,120)	34,333
Total unrestricted revenues, gains and other support	1,293,999	49,305,342	(69,120)	50,530,221
Operating expenses	3,429,014	51,029,610	(49,677)	54,408,947
Change in unrestricted net assets (deficit)	(2,135,015)	(1,724,268)	(19,443)	(3,878,726)
Changes in temporarily restricted net assets:				
Grant revenue	-	94,831	(49,677)	45,154
Net assets released from restrictions	-	(103,453)	69,120	(34,333)
Change in temporarily restricted net assets (deficit)	-	(8,622)	19,443	10,821
Change in net assets (deficit)	(2,135,015)	(1,732,890)	-	(3,867,905)
Net assets (deficit), beginning	71,006,681	(43,661,272)	-	27,345,409
Net assets (deficit), ending	$ 68,871,666	$ (45,394,162)	$ -	$ 23,477,504

The American Board of Internal Medicine and Affiliated Foundation

Schedule of ABIM Changes in Unrestricted Net Assets (Deficit) from Operations
Year Ended June 30, 2013

	Total ABIM	Certification	Maintenance of Certification	Other
Changes in unrestricted net assets:				
Revenues and gains				
Certification exams				
Internal medicine	$ 13,906,584	$ 13,906,584	$ -	$ -
Subspecialties and other	21,378,497	21,378,497	-	-
Credit card fees	(675,699)	(675,699)	-	-
	34,609,382	34,609,382	-	-
Maintenance of Certification Program				
Credentialing	3,260,816	-	3,260,816	-
Examination	12,240,623	-	12,240,623	-
SEP	4,178,997	-	4,178,997	-
Credit card fees	(376,876)	-	(376,876)	-
	19,303,560	-	19,303,560	-
Other revenue				
Investment income, net	34,471	-	-	34,471
Other income	1,122,740	-	-	1,122,740
	1,157,211	-	-	1,157,211
Total unrestricted revenues and gains	55,070,153	34,609,382	19,303,560	1,157,211
Net assets released from restrictions, satisfaction of programs restrictions	241,136	-	-	241,136
Total unrestricted revenues, gains and other support	55,311,289	34,609,382	19,303,560	1,398,347
Operating expenses				
Staff expenses	25,525,693	-	-	25,525,693
Non staff expenses	27,756,360	9,224,450	5,144,984	13,386,926
	53,282,053	9,224,450	5,144,984	38,912,619
Allocation to program services	-	16,993,849	9,478,406	(26,472,255)
	53,282,053	26,218,299	14,623,390	12,440,364
Changes in unrestricted net assets (deficit) from operations	$ 2,029,236	$ 8,391,083	$ 4,680,170	$ (11,042,017)

The American Board of Internal Medicine and Affiliated Foundation

Consolidating Schedule of Administrative, Program and Project Expenses
Year Ended June 30, 2013

	Foundation	ABIM	Consolidated
Administrative expenses:			
Board of Directors, including all committee activities	$ 681,702	$ 1,017,558	$ 1,699,260
Insurance	12,923	289,740	302,663
Legal services, general	26,316	1,026,406	1,052,722
Accounting services	45,465	88,625	134,090
Payroll services	-	20,044	20,044
Marketing	-	18,688	18,688
Condominium	153,439	-	153,439
Consulting, other	9,000	2,704,765	2,713,765
Publications and subscriptions	1,221	225,079	226,300
Professional activities	-	2,694	2,694
Educational activities	-	8,687	8,687
Postage	-	88,377	88,377
Printing	-	76,050	76,050
Foundation activities	-	59,414	59,414
Computer services	-	598,513	598,513
Other	-	155,337	155,337
	930,068	6,379,977	7,310,043
Program and project expenses	2,193,292	767,201	2,960,493
	$ 3,123,358	$ 7,147,178	$ 10,270,536

The American Board of Internal Medicine and Affiliated Foundation

Consolidating Schedule of Staff Expenses
Year Ended June 30, 2013

	Foundation	ABIM	Consolidated
Salaries:			
Regular	$ 1,328,303	$ 18,469,145	$ 19,797,448
Overtime	-	90,981	90,981
Special severance payment	-	55,754	55,754
	1,328,303	18,615,880	19,944,183
Benefits:			
Payroll taxes	61,819	1,305,700	1,367,519
Insurance	125,156	2,546,900	2,672,056
Pension	125,622	2,032,504	2,158,126
Tuition reimbursement	14,864	70,416	85,280
Public transportation costs	8,160	161,334	169,494
Parking	-	51,505	51,505
	335,621	6,168,359	6,503,980
Other staff expenses:			
Recruiting and employment agency fees	139	420,202	420,341
Temporary help	17,176	42,277	59,453
Meals and lodging	659	146,965	147,624
Education	198	29,001	29,199
Other	6,219	103,009	109,228
	24,391	741,454	765,845
	$ 1,688,315	$ 25,525,693	$ 27,214,008

The American Board of Internal Medicine and Affiliated Foundation

Consolidating Schedule of Office Expenses
Year Ended June 30, 2013

	Foundation	ABIM	Consolidated
Office expenses:			
Rent	$ 103,382	$ 3,202,283	$ 3,305,665
Office maintenance	-	25,763	25,763
Office equipment	-	149,290	149,290
Office supplies	3,330	163,109	166,439
Office meetings	-	61,679	61,679
Duplicating	-	209,449	209,449
Telephone	-	169,378	169,378
Intranet/on-line services	-	104,550	104,550
Stationery and printing	792	465,727	466,519
Courier/mailings	2,135	43,501	45,636
Cleaning	-	57,503	57,503
Depreciation and amortization	2,352	1,508,085	1,510,437
Miscellaneous services	-	7,578	7,578
Payroll services	-	31,339	31,339
Electricity	12,923	25,857	38,780
Travel	621	-	621
Other expenses	7,442	14,657	22,099
	$ 132,977	$ 6,239,748	$ 6,372,725