

**American Medical  
Association Foundation**

**Financial Statements and  
Independent Auditors' Report**

**June 30, 2017 and 2016**

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# MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
American Medical Association Foundation  
Chicago, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the American Medical Association Foundation which comprise the statements of financial position, as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Medical Association Foundation, as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MILLER, COOPER & CO., LTD.

A handwritten signature in black ink that reads "Miller, Cooper & Co., Ltd." in a cursive script.

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Certified Public Accountants

Deerfield, Illinois  
December 18, 2017

## **FINANCIAL STATEMENTS**

**American Medical Association Foundation**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2017 and 2016

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| <u>ASSETS</u>   | <u>2017</u>          | <u>2016</u>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Cash and cash equivalents   | \$ 1,013,233         | \$ 674,611           |
| Contributions receivable, net of allowance for uncollectible pledges<br>of \$26,471 and \$86,189 in 2017 and 2016, respectively | 991,791              | 631,216              |
| Investments   | <u>23,408,425</u>    | <u>21,822,181</u>    |
|   | <u>\$ 25,413,449</u> | <u>\$ 23,128,008</u> |
| <br><b><u>LIABILITIES AND NET ASSETS</u></b>  |                      |                      |
| <b>LIABILITIES</b>  |                      |                      |
| Accounts payable  | \$ 169,350           | \$ 116,587           |
| Accrued expenses  | <u>88,815</u>        | <u>76,966</u>        |
|   | 258,165              | 193,553              |
| <br><b>NET ASSETS</b>   |                      |                      |
| Unrestricted  | 18,373,754           | 16,786,352           |
| Temporarily restricted  | 1,816,622            | 1,637,422            |
| Permanently restricted  | <u>4,964,908</u>     | <u>4,510,681</u>     |
| Total net assets  | <u>25,155,284</u>    | <u>22,934,455</u>    |
|   | <u>\$ 25,413,449</u> | <u>\$ 23,128,008</u> |

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The accompanying notes are an integral part of these statements.

**American Medical Association Foundation**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2017

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <b>Revenues</b>   |                      |                                   |                                   |                      |
| Contributions and grants  | \$ 1,509,005         | \$ 375,485                        | \$ 87,708                         | \$ 1,972,198         |
| Investment income, net of expenses  | 285,323              | 35,810                            | 18,394                            | 339,527              |
| Net assets released from donor<br>restrictions                                  | 291,158              | (291,158)                         | -                                 | -                    |
| Net asset transfers   | 26,090               | (227,200)                         | 201,110                           | -                    |
|   | <u>2,111,576</u>     | <u>(107,063)</u>                  | <u>307,212</u>                    | <u>2,311,725</u>     |
| <b>Expenses</b>   |                      |                                   |                                   |                      |
| Grants and educational programs   | 1,182,924            | -                                 | -                                 | 1,182,924            |
| Management and general  | 856,954              | -                                 | -                                 | 856,954              |
| Fundraising   | 765,189              | -                                 | -                                 | 765,189              |
|   | <u>2,805,067</u>     | <u>-</u>                          | <u>-</u>                          | <u>2,805,067</u>     |
| Change in net assets before net realized<br>and unrealized gains on investments | (693,491)            | (107,063)                         | 307,212                           | (493,342)            |
| Net realized and unrealized gains<br>on investments                             | <u>2,280,893</u>     | <u>286,263</u>                    | <u>147,015</u>                    | <u>2,714,171</u>     |
| <b>CHANGE IN NET ASSETS</b>   | 1,587,402            | 179,200                           | 454,227                           | 2,220,829            |
| Net assets at beginning of year   | <u>16,786,352</u>    | <u>1,637,422</u>                  | <u>4,510,681</u>                  | <u>22,934,455</u>    |
| Net assets at end of year   | <u>\$ 18,373,754</u> | <u>\$ 1,816,622</u>               | <u>\$ 4,964,908</u>               | <u>\$ 25,155,284</u> |

The accompanying notes are an integral part of this statement.

**American Medical Association Foundation**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2016

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| <b>Revenues</b>   |                      |                                   |                                   |                      |
| Contributions and grants  | \$ 1,485,553         | \$ 203,820                        | \$ 112,404                        | \$ 1,801,777         |
| Investment income, net of expenses  | 389,055              | 48,935                            | 25,888                            | 463,878              |
| Net assets released from donor restrictions                                   | 629,573              | (629,573)                         | -                                 | -                    |
| Net asset transfers   | 26,520               | (243,046)                         | 216,526                           | -                    |
|   | <u>2,530,701</u>     | <u>(619,864)</u>                  | <u>354,818</u>                    | <u>2,265,655</u>     |
| <b>Expenses</b>   |                      |                                   |                                   |                      |
| Grants and educational programs   | 1,535,033            | -                                 | -                                 | 1,535,033            |
| Management and general  | 750,444              | -                                 | -                                 | 750,444              |
| Fundraising   | 695,869              | -                                 | -                                 | 695,869              |
|   | <u>2,981,346</u>     | <u>-</u>                          | <u>-</u>                          | <u>2,981,346</u>     |
| Change in net assets before net realized and unrealized losses on investments | (450,645)            | (619,864)                         | 354,818                           | (715,691)            |
| Net realized and unrealized losses on investments                             | <u>(751,144)</u>     | <u>(94,476)</u>                   | <u>(49,979)</u>                   | <u>(895,599)</u>     |
| <b>CHANGE IN NET ASSETS</b>   | (1,201,789)          | (714,340)                         | 304,839                           | (1,611,290)          |
| Net assets at beginning of year   | <u>17,988,141</u>    | <u>2,351,762</u>                  | <u>4,205,842</u>                  | <u>24,545,745</u>    |
| Net assets at end of year   | <u>\$ 16,786,352</u> | <u>\$ 1,637,422</u>               | <u>\$ 4,510,681</u>               | <u>\$ 22,934,455</u> |

The accompanying notes are an integral part of this statement.



**American Medical Association Foundation**  
**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2017 and 2016

|  | <u>2017</u>         | <u>2016</u>        |
|--|---------------------|--------------------|
| Cash flows from operating activities   |                     |                    |
| Change in net assets   | \$ 2,220,829        | \$ (1,611,290)     |
| Adjustments to reconcile change in net assets to net cash used in operating activities |                     |                    |
| Contributions restricted for long-term investment                                      | (87,708)            | (112,404)          |
| Investment income restricted for long-term investment                                  | (18,394)            | (25,888)           |
| Net realized and unrealized (gains) losses on investments                              | (2,714,171)         | 895,599            |
| (Decrease) increase in allowance for uncollectible pledges                             | (59,718)            | 17,495             |
| Increase in assets   |                     |                    |
| Contributions receivable   | (300,857)           | (155,643)          |
| Increase (decrease) in liabilities   |                     |                    |
| Accounts payable   | 52,763              | (40,349)           |
| Accrued expenses   | 11,849              | 15,503             |
|  | <u>(895,407)</u>    | <u>(1,016,977)</u> |
| Net cash used in operating activities  |                     |                    |
| Cash flows from investing activities   |                     |                    |
| Purchases of investments   | (6,395,399)         | (13,005,673)       |
| Sales of investments   | 7,523,326           | 13,400,515         |
|  | <u>1,127,927</u>    | <u>394,842</u>     |
| Net cash provided by investing activities  |                     |                    |
| Cash flows from financing activities   |                     |                    |
| Contributions restricted for long-term investment                                      | 87,708              | 112,404            |
| Investment income restricted for long-term investment                                  | 18,394              | 25,888             |
|  | <u>106,102</u>      | <u>138,292</u>     |
| Net cash provided by financing activities  |                     |                    |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                | <b>338,622</b>      | <b>(483,843)</b>   |
| Cash and cash equivalents, beginning of year   | <u>674,611</u>      | <u>1,158,454</u>   |
| Cash and cash equivalents, end of year   | <u>\$ 1,013,233</u> | <u>\$ 674,611</u>  |

The accompanying notes are an integral part of these statements.

# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE A - NATURE OF ORGANIZATION

The American Medical Association Foundation (the "Foundation") was established in 1957, as an Illinois not-for-profit corporation, to provide financial assistance to students enrolled in recognized schools or institutions of medical education and to promote the betterment of public health through financial support of scientific and medical research. Support is derived principally from contributions to the Foundation for Foundation-sponsored activities.

#### *Operational Initiatives (Unaudited)*

For more than a decade, the Foundation has experienced an annual operating deficit. To address this deficit and improve its financial position, the Board of Directors unanimously approved a 3-year strategic plan in February, 2016. The plan has two major goals:

#### **SIGNIFICANTLY STRENGTHEN IMPACT OF CHARITABLE PROGRAMS:**

*By the end of fiscal year 2019, the AMA Foundation will have focused programs of large scale and high impact, demonstrated by clearly defined outcome measures.*

#### **DEVELOP AND IMPLEMENT A MORE DYNAMIC AND SUSTAINABLE REVENUE MODEL:**

*By the end of fiscal year 2019, the AMA Foundation will have implemented a fiscal model that diversifies revenue and ensures financial stability in order to support our mission. This includes the elimination of the operating deficit.*

Significant progress has been made during the first year of the strategic plan. During the fiscal year ended June 30, 2017 the decrease in net assets before net realized and unrealized gains and losses on investments was \$493,342, \$222,349 favorable to the decrease in net assets for the prior year ended June 30, 2016. This improvement was the result of \$46,070 in higher revenues in fiscal year 2017 and \$176,279 in lower expenses. The Foundation is also launching its new enhanced program portfolio in fiscal year 2018. Through its new charitable Community Health Grants Program, the Foundation will increase health equity and improve health outcomes among vulnerable populations, particularly those who suffer from chronic diseases, through high-impact models of care with measurable outcomes. At the same time, through its Medical Education & Leadership Program, the Foundation is cultivating and supporting a diverse cohort of physician leaders who will work together in communities and with community organizations for the betterment of the nation's health.

# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE A - NATURE OF ORGANIZATION (Continued)

#### *Operational Initiatives (Unaudited)* (Continued)

As a result of these programmatic and financial enhancements, the charitable impact of the Foundation will significantly increase and its operating deficit will be eliminated by the end of fiscal year 2019. While the Foundation has developed its three year strategic plan and expects positive results for 2019, the Organization cannot guarantee future results, levels of activity, performance, or achievements, and it is reasonably possible that actual events may differ significantly from expectations.

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 1. Basis of Accounting

The financial statements of the Foundation are prepared using the accrual basis of accounting.

#### 2. Cash Equivalents

The Foundation considers all highly liquid investments with maturities of three months or less, at the date of purchase, to be cash equivalents.

#### 3. Investments

Investments are reported at their fair values in the statements of financial position (see Note C). Unrealized and realized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Investments are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near-term would affect investment balances and the amounts reported in the financial statements.

**American Medical Association Foundation**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Contributions

Contributions and grants, including unconditional promises to give, are measured at their fair values and are reported as increases in net assets and receivables, if not yet received.

The Foundation records unconditional promises to give expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Foundation determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectable.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are restricted as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted revenue.

The Foundation reports gifts of goods and equipment as unrestricted revenue unless explicit donor stipulations specify how the donated assets must be used. When applicable, gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue.

5. Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

**American Medical Association Foundation**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Investment Income

Investment income is allocated annually to permanently and temporarily restricted net assets if stipulated by the original donor. The allocation is based on the average permanently and temporarily restricted net asset balances for the year.

7. Expenses and Allocations

Expenses directly related to program activities are charged against the respective programs. Salaries and other operating expenses are allocated to the various programs on the basis of management's estimate of the proportionate share of services provided to each program.

8. Income Taxes

The Foundation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3).

Accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to evaluate tax positions by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities.

Management has analyzed the tax position taken by the Foundation and has concluded that as of June 30, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 9. Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash equivalents, and accounts payable and accrued expenses approximate fair value due to the nature of short maturity of these instruments. Investments are valued at fair value as described in Note C.

It is the Foundation's policy, in general, to measure nonfinancial assets and liabilities at fair value on a nonrecurring basis. These items are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (such as evidence of impairment) which, if material, are disclosed in the accompanying notes to the financial statements.

#### 10. Upcoming Accounting Change

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 is intended to reduce complexity by changing the way all not-for-profits classify net assets and prepare financial statements, which will result in more consistent and transparent financial reporting and disclosures for not-for-profits. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018. The amendments in ASU 2016-14 should be applied retrospectively in the year the ASU is first applied.

ASU 2016-14 is effective for the Foundation's June 30, 2019 financial statements and thereafter. Management is currently evaluating the effect that ASU 2016-14 will have on the Foundation's financial statements.

### NOTE C - FAIR VALUE MEASUREMENTS

Accounting standards establish a framework for measuring fair value. That framework 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 the accounting standards are described below:

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

# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE C - FAIR VALUE MEASUREMENTS (Continued)

- Level 2 Inputs to the valuation methodology include the following:
- \* 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.

The 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.

The following is a description of the valuation methodologies used for the Foundation's investments measured at fair value.

*Common stocks and equity mutual funds:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Fixed income, corporate bonds and U.S. government bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

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 the Foundation believes that 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.

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE C - FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth the Foundation's investments measured at fair value on a recurring basis and the basis of measurement as of June 30, 2017 and 2016:

|                               | Investments at Fair Value as of June 30, 2017                              |   |  |                      |
|-------------------------------|--|---|--|----------------------|
|                               | Quoted Prices in<br>Active Markets<br>For Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total                |
| Common stocks                 |  |   |  |                      |
| Consumer discretionary        | \$ 762,097   | \$ -  | \$ -   | \$ 762,097           |
| Consumer staples              | 480,220  | -   | -  | 480,220              |
| Energy                        | 656,949  | -   | -  | 656,949              |
| Financials                    | 1,510,685  | -   | -  | 1,510,685            |
| Healthcare                    | 1,227,460  | -   | -  | 1,227,460            |
| Industrials                   | 1,413,287  | -   | -  | 1,413,287            |
| Information technology        | 1,357,148  | -   | -  | 1,357,148            |
| Materials                     | 193,929  | -   | -  | 193,929              |
| Real estate                   | 100,815  | -   | -  | 100,815              |
| Utilities                     | 208,711  | -   | -  | 208,711              |
| Equity mutual funds           |  |   |  |                      |
| International                 | 6,515,815  | -   | -  | 6,515,815            |
| Large cap                     | 4,451,519  | -   | -  | 4,451,519            |
| Fixed income                  |  |   |  |                      |
| Treasury and federal agencies | -  | 1,994,638   | -  | 1,994,638            |
| State and municipal           | -  | 784,019   | -  | 784,019              |
| International                 | -  | 174,176   | -  | 174,176              |
| Corporate bonds               | -  | 1,576,957   | -  | 1,576,957            |
|                               | <u>\$ 18,878,635</u>   | <u>\$ 4,529,790</u>                                       | <u>\$ -</u>  | <u>\$ 23,408,425</u> |



## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE C - FAIR VALUE MEASUREMENTS (Continued)

|                               | Investments at Fair Value as of June 30, 2016                              |   |  |               |
|-------------------------------|--|---|--|---------------|
|                               | Quoted Prices in<br>Active Markets<br>For Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total         |
| Common stocks                 |  |   |  |               |
| Consumer discretionary        | \$ 1,805,614   | \$ -  | \$ -   | \$ 1,805,614  |
| Consumer staples              | 890,857  | -   | -  | 890,857       |
| Energy                        | 577,302  | -   | -  | 577,302       |
| Financials                    | 2,074,595  | -   | -  | 2,074,595     |
| Healthcare                    | 1,456,511  | -   | -  | 1,456,511     |
| Industrials                   | 1,136,313  | -   | -  | 1,136,313     |
| Information technology        | 2,018,418  | -   | -  | 2,018,418     |
| Materials                     | 579,790  | -   | -  | 579,790       |
| Telecommunications services   | 346,789  | -   | -  | 346,789       |
| Utilities                     | 475,224  | -   | -  | 475,224       |
| Equity mutual funds           |  |   |  |               |
| International                 | 2,566,839  | -   | -  | 2,566,839     |
| Fixed income                  |  |   |  |               |
| Treasury and federal agencies | -  | 2,974,555   | -  | 2,974,555     |
| State and municipal           | -  | 1,195,158   | -  | 1,195,158     |
| Non-government obligations    | -  | 1,972,904   | -  | 1,972,904     |
| International                 | -  | 452,089   | -  | 452,089       |
| Corporate bonds               | -  | 1,299,223   | -  | 1,299,223     |
|                               | \$ 13,928,252  | \$ 7,893,929  | \$ -   | \$ 21,822,181 |

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE C - FAIR VALUE MEASUREMENTS (Continued)

Total investment returns for 2017 and 2016 are summarized as follows:

|  |                     |                     |
|--|---------------------|---------------------|
| Investment income, net of expenses         | <u>2017</u>         | <u>2016</u>         |
| Dividends and interest                     | \$ 455,184          | \$ 568,202          |
| Investment management fees                 | <u>(115,657)</u>    | <u>(104,324)</u>    |
|  | <u>\$ 339,527</u>   | <u>\$ 463,878</u>   |
| Net realized gains (losses)                | \$ 1,806,293        | \$ (170,250)        |
| Net unrealized gains (losses)              | <u>907,878</u>      | <u>(725,349)</u>    |
| Net realized and unrealized gains (losses) | <u>\$ 2,714,171</u> | <u>\$ (895,599)</u> |

#### NOTE D - INVESTMENTS

Investments consisted of the following as of June 30, 2017 and 2016:

|                     | <u>2017</u>          |                      | <u>2016</u>          |                      |
|---------------------|----------------------|----------------------|----------------------|----------------------|
|                     | <u>Cost</u>          | <u>Fair Value</u>    | <u>Cost</u>          | <u>Fair Value</u>    |
| Common stocks       | \$ 7,199,105         | \$ 7,911,301         | \$ 10,090,332        | \$ 11,361,414        |
| Equity mutual funds | 9,524,726            | 10,967,334           | 2,786,120            | 2,566,838            |
| Fixed income        | <u>4,551,433</u>     | <u>4,529,790</u>     | <u>7,764,392</u>     | <u>7,893,929</u>     |
|                     | <u>\$ 21,275,264</u> | <u>\$ 23,408,425</u> | <u>\$ 20,640,844</u> | <u>\$ 21,822,181</u> |

At June 30, 2017 and 2016, \$841,286 and \$268,991 of cash and cash equivalents were included in the investment brokerage account, respectively, which are included in cash and cash equivalents on the statements of financial position.

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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#### NOTE D - INVESTMENTS (Continued)

The following table reflects the maturity dates of fixed income securities at their fair value as of June 30, 2017:

|            |    |                         |
|------------|----|-------------------------|
| 2018       | \$ | 359,166                 |
| 2019       |    | 628,204                 |
| 2020       |    | 729,572                 |
| 2021       |    | 911,537                 |
| 2022       |    | 277,297                 |
| Thereafter |    | <u>1,624,014</u>        |
|            | \$ | <u><u>4,529,790</u></u> |

#### NOTE E - PLEDGES RECEIVABLE, NET

Future collections of pledges receivable are anticipated as follows as of June 30, 2017:

| <u>Fiscal year ending</u><br><u>June 30,</u> |    |                       |
|--|----|-----------------------|
| 2018   | \$ | 691,537               |
| 2019   |    | 168,274               |
| 2020   |    | 121,934               |
| 2021   |    | 24,886                |
| 2022   |    | <u>20,933</u>         |
|  |    | 1,027,564             |
| Discount                                     |    | (9,302)               |
| Allowance for uncollectible pledges          |    | <u>(26,471)</u>       |
|  | \$ | <u><u>991,791</u></u> |

The discount rate used was 1.89% and 1.01% for pledges received during the years ended June 30, 2017 and 2016, respectively.

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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#### NOTE F - TEMPORARILY RESTRICTED NET ASSETS

The Foundation receives grants and contributions restricted for education and research programs. Temporarily restricted net assets are available for the following purposes as of June 30:

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Arthur N. Wilson Scholarships for Students from Southeast Alaska   | \$ 426              | \$ 8,391            |
| General Scholarship Fund Awards                                    | 575                 | 115,767             |
| Grants for research on women in medicine program                   | 173,683             | 166,417             |
| Funds for health literacy programs and tools                       | -                   | 932                 |
| Grants for community health programs                               | 9,343               | 9,835               |
| Minority scholar awards  | 18,578              | -                   |
| Grants for physicians of tomorrow scholarship program              | 114,705             | 94,858              |
| Grants for the study of cardiovascular disorders                   | 6,010               | 45,469              |
| National Business Group Health                                     | -                   | 10,000              |
| Dr. Richard Allen Williams and Genita Evangelista Johnson/ABC Fund | 91,019              | 92,621              |
| Grants for the study of neoplastic disorders                       | -                   | 74,093              |
| Group honor funds  | 1,061,113           | 696,995             |
| Grants for other trusts and research                               | 341,170             | 322,044             |
|  | <u>\$ 1,816,622</u> | <u>\$ 1,637,422</u> |

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE G - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

During 2017 and 2016, the following net assets were released from temporary donor restrictions by satisfying the stated restricted purposes, the passage of time or by occurrence of other events specified by donors:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Arthur N. Wilson Scholarships for Students from Southeast Alaska   | \$ 8,432          | \$ 5,688          |
| General Scholarship Fund Awards                                    | 97,081            | 279,356           |
| Grants for research on women in medicine program                   | 10,756            | 15,976            |
| Funds for health literacy programs and tools                       | -                 | 269               |
| Grants for community health programs                               | 36,124            | 54,389            |
| Grants for physicians of tomorrow scholarship program              | 24,012            | 23,739            |
| Grants for the study of cardiovascular disorders                   | 39,459            | 43,440            |
| Grants for the study of neoplastic disorders                       | 3,582             | 117,011           |
| Excellence in Medicine   | 2,352             | 3,834             |
| Dr. Richard Allen Williams and Genita Evangelista Johnson/ABC Fund | 11,426            | -                 |
| Group Honor Funds  | 35,039            | 61,620            |
| Grants for other trusts and research                               | 22,895            | 24,251            |
|  | <u>\$ 291,158</u> | <u>\$ 629,573</u> |

#### NOTE H - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include the following endowment funds:

The General Endowment Fund was established with a required initial matching contribution by the Foundation. Earnings on the endowment are available for unrestricted purposes.

The Named Funds are permanently restricted by the individual donors for the programs of their choosing including medical scholarship, community health programs, and unrestricted purposes.

# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

#### *Honor Funds*

When Honor Fund contributions reach \$100,000, a permanent endowment fund is established and the funds are transferred from temporarily restricted net assets to permanently restricted net assets. Until a Honor Fund reaches a balance of \$250,000, founding donors will direct how half of the endowment's earnings are utilized by determining which public health or medical education program the Honor Fund will support; the other half is reinvested for fund growth.

The Alliance Grassroots Honor Fund was established to help fund the Foundation's public health and medical education programs. The earnings of the Fund will support the Foundation's Physicians of Tomorrow scholarship program, specifically to students with an interest in and commitment to women's and/or children's health issues.

The Ohio Honor Fund was established to help fund the Foundation's public health and medical education programs. The earnings of the Fund provide support to Ohio medical students.

The Ronald M. Davis, MD Legacy Honor Fund was established to help fund the Foundation's public health and medical education programs. The earnings of the Fund will support pancreatic cancer research through the Foundation's Seed Grant Research Program.

The California / Ronald P. Bangasser, MD Memorial Honor Fund was established to help fund the Foundation's medical education programs. Once the Fund reaches \$250,000, the earnings of the Fund will provide support to medical students in California.

The North Central Medical Conference / Kenneth Viste, MD Memorial Honor Fund was established to help fund the Foundation's medical education programs. Once the Fund reaches \$250,000, the earnings of the Fund will support the Foundation's Physicians of Tomorrow scholarship program, supporting medical students in the North Central region of the United States.

The Medical Society of the State of New York / Dr. Duane and Joyce Cady Honor Fund was established to help fund the Foundation's medical education programs. The earnings of the Fund support the Foundation's Physicians of Tomorrow scholarship program, supporting medical students in New York.

# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

#### *Honor Funds* (Continued)

The International Medical Graduates Honor Fund was established to help fund the Foundation's health literacy programs. Once the Fund reaches \$250,000, the earnings of the Fund will support the Foundation's healthy community programs.

The Council on Medical Service Honor Fund was established to help fund the Foundation's public health or medical education programs. Once the Fund reaches \$250,000, the earnings of the Fund will support such programs as determined by the founding donors.

The Oklahoma Honor Fund was established to help fund the Foundation's medical education programs. Once the Fund reaches \$250,000, the earnings of the Fund will support the Foundation's Physicians of Tomorrow scholarship program, supporting medical students in Oklahoma.

The Illinois Honor Fund was established to help fund the Foundation's medical education programs. Once the Fund reaches \$250,000, the earnings of the Fund will provide support for Illinois medical students who are actively involved in organized medicine.

The Missouri Honor Fund was established to help fund the Foundation's public health programs. Once the Fund reaches \$250,000, the earnings of the Fund will provide support for Missouri patients through the Foundation's public health programs.

The Formica-Riggs New Jersey Honor Fund was established to help fund the Foundation's medical education programs. The earnings from the Fund support the Foundation's Physicians of Tomorrow scholarship program, and will become more closely designated to support medical students in New Jersey once it reaches \$250,000.

The LGBT Honor Fund was established to support AMA Foundation initiatives that address LGBT healthcare disparities. The earnings from the Fund will support fellowships that graduate specialists in LGBT Health once it reaches \$250,000.

The Mary Francis Alexander Fund was established to provide scholarships for medical students through the earnings of the Fund.

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

##### *Honor Funds* (Continued)

The Dr. Johnson F. Hammond Memorial Fund was established to provide an annual scholarship for a medical student of high moral character through the earnings of the Fund.

The Lurah L. Weaver Memorial Fund represents the residual value of the estate of Lurah L. Weaver. The terms of the will provide that only realized income from this Fund can be used for unrestricted purposes.

The balance of each of the permanently restricted funds as of June 30, 2017 and 2016 is as follows:

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| General Endowment Fund   | \$ 322,609          | \$ 322,609          |
| Named Funds  | 745,851             | 566,780             |
| Honor Funds  |                     |                     |
| Alliance Grassroots Honor Fund   | 315,458             | 295,571             |
| Ohio Honor Fund  | 347,942             | 335,587             |
| Ronald M. Davis, MD Legacy Honor Fund  | 332,527             | 308,362             |
| California / Ronald P. Bangasser, MD Memorial Honor Fund                       | 192,781             | 177,356             |
| North Central Medical Conference / Kenneth Viste, MD Memorial Honor Fund       | 200,388             | 186,079             |
| Medical Society of the State of New York / Dr. Duane and Joyce Cady Honor Fund | 307,025             | 300,108             |
| International Medical Graduates Honor Fund                                     | 159,460             | 150,734             |
| Council on Medical Service Honor Fund  | 135,821             | 120,392             |
| Oklahoma Honor Fund  | 155,372             | 143,223             |
| Illinois Honor Fund  | 187,264             | 170,557             |
| Missouri Honor Fund  | 257,818             | 202,050             |
| Formica Riggs New Jersey Honor Fund  | 138,171             | 115,123             |
| LGBT Honor Fund  | 150,725             | 110,852             |
| Mary Francis Alexander Fund  | 243,178             | 243,178             |
| Dr. Johnson F. Hammond Memorial Fund   | 107,758             | 97,360              |
| Lurah L. Weaver Memorial Fund  | 664,760             | 664,760             |
|  | <u>\$ 4,964,908</u> | <u>\$ 4,510,681</u> |



# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

#### Interpretation of Existing Relevant State Law

The Foundation has interpreted the Illinois Uniform Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment funds, (b) the original value of subsequent gifts to the permanent endowment funds, and (c) accumulations to the permanent endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, if any. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are expended for their related restricted purpose. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets and is to be used for unrestricted purposes is classified as unrestricted net assets.

#### Endowment Spending Policies

The Foundation has a policy of appropriating for expenditure for its various programs, including endowed programs, of up to 5% of the three-year average of the year-end market value of its total investment portfolio.

#### Endowment Investment Policies

The Foundation's current endowments do not have any specifically related investments. Amounts received from permanently restricted donations are pooled with other investments of the Foundation and are subject to the general investment policy of the Foundation as described below.

The Foundation's assets are invested for the sole purpose of improving the health of Americans through philanthropic support of quality programs in public health and medical education.

The investment policy attempts to establish an asset allocation that provides adequate returns at an acceptable level of risk while complying with all applicable state and federal laws and regulations.

The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term investment return objectives within prudent risk constraints.

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

##### Endowment Investment Policies (Continued)

The Foundation's short-term liquidity needs are expected to be provided through a combination of investment income and contributions. The Foundation's long-term investment rate of return goal is to earn an average annual rate of return over rolling five-year periods that exceeds the rate of inflation by at least 5% per year. Actual returns in any given year may vary from this amount.

#### Endowment Net Asset Composition and Changes in Endowment Net Assets as of and for the Years Ended June 30, 2017 and 2016:

|   | June 30, 2017 |                           |                           |              |
|---|---------------|---------------------------|---------------------------|--------------|
|   | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |
| Endowment net assets, beginning of year       | \$ -          | \$ 30,000                 | \$ 4,510,681              | \$ 4,540,681 |
| Investment return:                            |               |                           |                           |              |
| Investment income                             | -             | 12,039                    | 18,394                    | 30,433       |
| Net appreciation (realized and<br>unrealized) | -             | 96,243                    | 147,015                   | 243,258      |
| Total investment return                       | -             | 108,282                   | 165,409                   | 273,691      |
| Contributions                                 | -             | -                         | 87,708                    | 87,708       |
| Net asset transfers *                         | -             | -                         | 201,110                   | 201,110      |
| Expenditures                                  | -             | (47,078)                  | -                         | (47,078)     |
| Endowment net assets, end of year             | \$ -          | \$ 91,204                 | \$ 4,964,908              | \$ 5,056,112 |

\* In 2017, \$26,090 was transferred to unrestricted net assets for administrative and other expenses.

## American Medical Association Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

#### NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

##### Endowment Net Asset Composition and Changes in Endowment Net Assets as of and for the Years Ended June 30, 2017 and 2016: (Continued)

|   | June 30, 2016 |                           |                           |              |
|---|---------------|---------------------------|---------------------------|--------------|
|   | Unrestricted  | Temporarily<br>Restricted | Permanently<br>Restricted | Total        |
| Endowment net assets, beginning of year       | \$ -          | \$ 121,213                | \$ 4,205,842              | \$ 4,327,055 |
| Investment return:                            |               |                           |                           |              |
| Investment income                             | -             | 16,678                    | 25,888                    | 42,566       |
| Net depreciation (realized and<br>unrealized) | -             | (32,201)                  | (49,979)                  | (82,180)     |
| Total investment return                       | -             | (15,523)                  | (24,091)                  | (39,614)     |
| Contributions                                 | -             | -                         | 112,404                   | 112,404      |
| Net asset transfers *                         | -             | 18,742                    | 216,526                   | 235,268      |
| Expenditures                                  | -             | (94,432)                  | -                         | (94,432)     |
| Endowment net assets, end of year             | \$ -          | \$ 30,000                 | \$ 4,510,681              | \$ 4,540,681 |

\* In 2016, \$26,250 was transferred to unrestricted net assets for administrative and other expenses.

#### NOTE I - AFFILIATED ORGANIZATION

The Foundation and the American Medical Association (the "AMA") are organizations affiliated through common members of their respective boards. The Foundation receives some of its management, development and operating support from the AMA and reimburses the AMA for direct expenses incurred. The total amount of expenses incurred with the AMA for the years ended June 30, 2017 and 2016 was \$1,283,453 and \$1,247,074, respectively. Amounts due to the AMA, included in accounts payable and accrued expenses, was \$113,643 and \$99,734 as of June 30, 2017 and 2016, respectively.

# American Medical Association Foundation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### NOTE J - CONCENTRATIONS OF CREDIT RISK

#### 1. Uninsured cash

The Foundation maintains its cash balance at a banking institution in Chicago, Illinois. This balance is guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. The Foundation may, from time to time, have a balance in excess of FDIC insured deposit limits.

#### 2. Major Donors

The Foundation had one donor in 2017 and one donor in 2016 who accounted for approximately 24% and 11% of total contributions, respectively.

### NOTE K - IN-KIND CONTRIBUTIONS

The Foundation received certain administrative support services from the AMA. The Foundation recorded \$128,105 and \$108,531 for the years ended June 30, 2017 and 2016, respectively, for these services, as in-kind contributions and expenses.

### NOTE L - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 2017, the date that these financial statements were available to be issued. Management has determined that no events or transactions have occurred subsequent to the statement of financial position date that require disclosure in the financial statements.