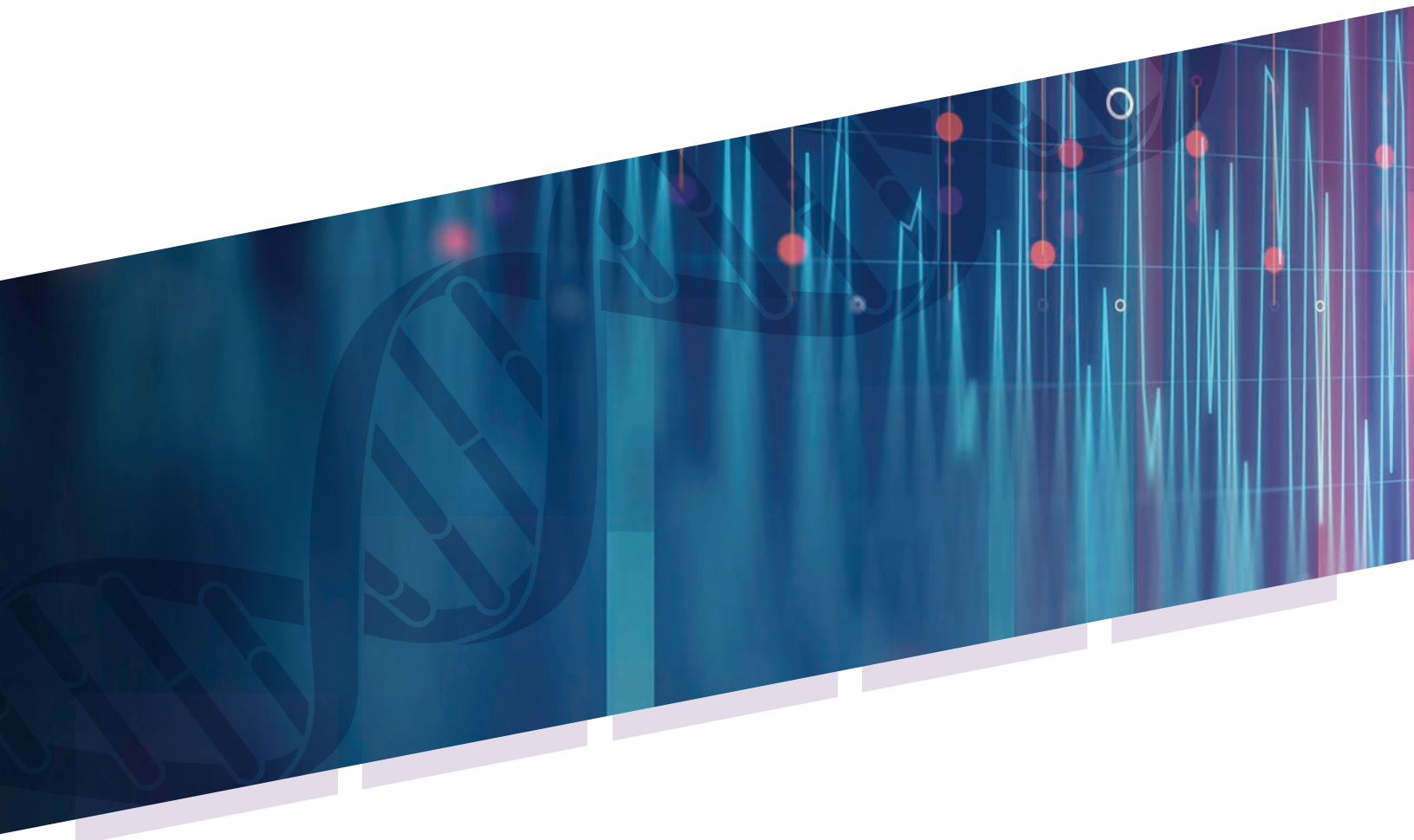
APPENDIX 2

Annual Report

The AMA's Annual Report is the subject of Board of Trustees Report 1 and was discussed in Reference Committee F. The House of Delegates accepted the report and filed it as information. No other action was required or taken.



2017 ANNUAL REPORT

COLLABORATION. INNOVATION. RESULTS.

AMA
AMERICAN MEDICAL ASSOCIATION

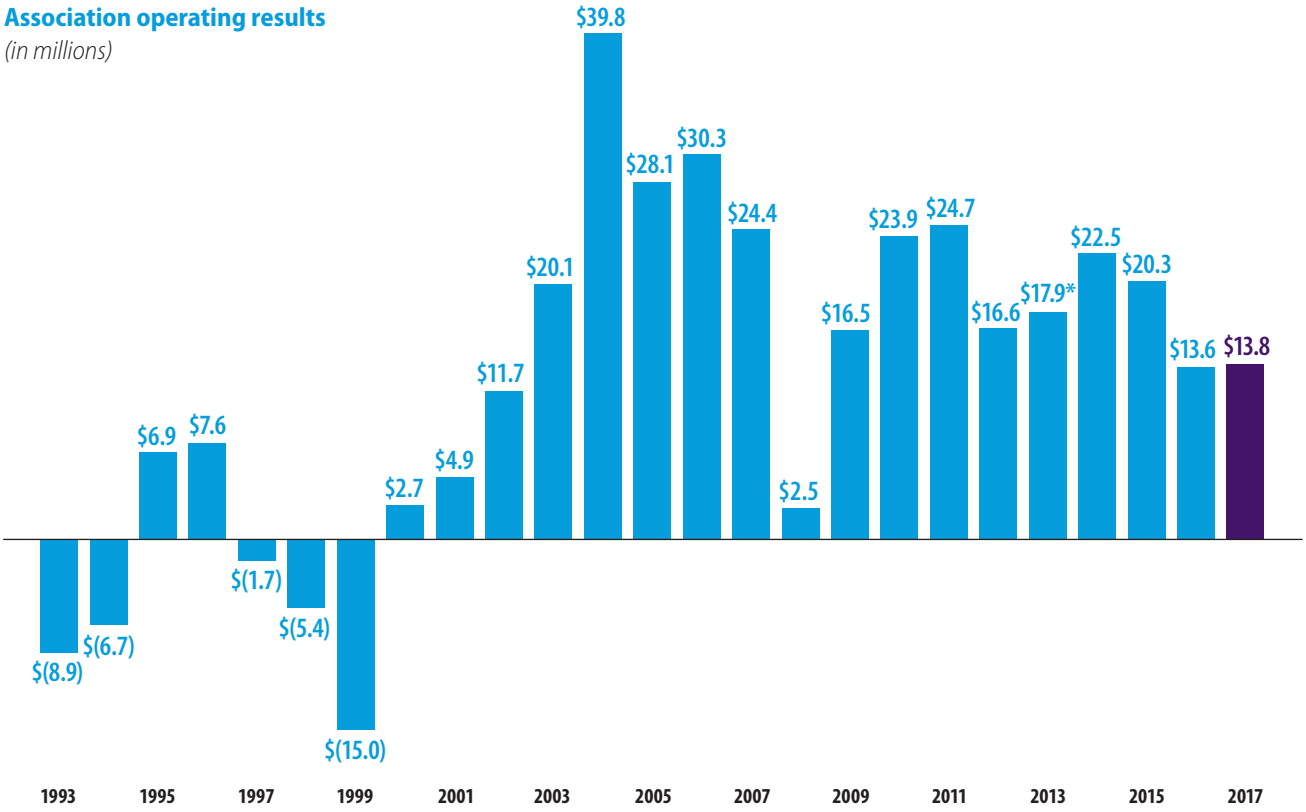
FINANCIAL HIGHLIGHTS

Years ended December 31

(Dollars in millions)	2017	2016
Revenues	**$ 347.6**	$ 323.7
Cost of products sold and selling expense	**28.2**	30.1
General and administrative expenses	**297.3**	272.3
Operating results before income taxes	**22.1**	21.3
Operating results	**13.8**	13.6
Non-operating items	**45.4**	24.1
Changes in defined benefit postretirement plans, other than periodic expense, net of tax	**11.4**	0.4
Change in unrestricted equity	**70.6**	38.1
Change in temporarily restricted equity	**0.1**	(0.1)
Change in association equity	**$ 70.7**	$ 38.0
Association equity at year-end	**$ 559.7**	$ 489.0
Employees at year-end	**1,033**	983

Association operating results

(in millions)



* Pro forma operating results from 2013 exclude $33 million in nonrecurring charges relating to the AMA's headquarters relocation. The reported net operating loss, after including those charges, is $15.1 million.

2017 LETTER TO STAKEHOLDERS

Continuous improvement is perhaps the concept most responsible for pushing medical knowledge and professionalism forward. This year we write from the vantage point of an organization that has fully embraced this notion and is now seeing powerful results.

As demonstrated by a sweeping range of accomplishments delivered in 2017—from helping block multibillion dollar health insurance company mega-mergers in court to re-launching our web-based graduate competency training curriculum with its almost 20 percent increase in participation—the American Medical Association is having a measurable positive impact on the lives of patients and physicians.

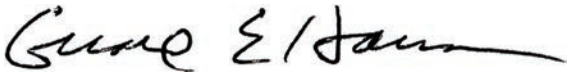
Standing as an innovative and proactive force, today we are an organization driven like no other by evidenced-based research, strategic analysis and insight, and our unmatched commitment to understanding and amplifying the physician voice in arenas that matter most: advocacy, health policy, technology, life-long learning, governance, medical ethics, public health and clinical care.

As you view the AMA's achievements from 2017, we are confident you will find the scale and relevance of our long-term investment in the nation's health inspiring. In 2017, for example, we saw collaboration soar as the AMA, working with such notable allies as the American Heart Association, the Mayo Clinic and Stanford University, to name but a few, was instrumental in launching successful initiatives such as Target: BP™ and the first-ever American Conference on Physician Health.

We developed a proof-based recruitment campaign, underscoring the power and importance of AMA membership in moving medicine forward. We saw our innovation ecosystem continue to expand and propel major efforts like the Integrated Health Model Initiative™, with its focus on interoperability and more effective patient care, into the marketplace with tremendous promise and a blue-chip roster of participants on board. And we continued fine tuning our strategy to articulate more fully the AMA's essential arcs of expertise: tools for the field, professional development and improved care for chronic disease.

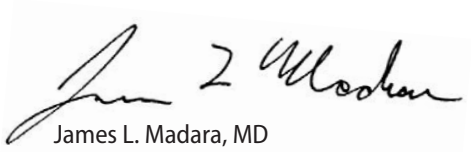
With our strong performance in 2017 including positive financial operating results for the 17th time in the last 18 years and an increase in membership for the seventh straight year, the AMA's sights are set on making even greater strides on the road ahead. In this report you will learn how our focus on results, innovation and collaboration have kept us on course for success.

We are privileged to be guided by a powerful mission to promote the art and science of medicine and the betterment of public health. In 2017 we protected access to coverage for millions of patients—going forward the AMA will continue developing significant ways to make health care delivery efficient, sustainable and fair, and we will continue working relentlessly to make patients' and physicians' lives better.



Gerald E. Harmon, MD
Chair, Board of Trustees

Georgia A. Tuttle, MD
Finance Committee Chair, Board of Trustees



James L. Madara, MD
Executive Vice President and Chief Executive Officer

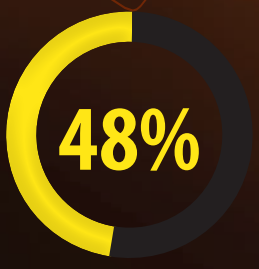
RESULTS THAT MATTER: WHERE WE MADE OUR MARK

Putting patients before politics

In 2017 the AMA empowered physicians and patients to contact Congress and to work with us to help preserve coverage for the 20 million Americans who gained coverage through the Affordable Care Act. We launched the website **patientsbeforepolitics.org** to cut through the noise surrounding this all-important debate on access to health insurance. Generating more than 7 million actions—including calls, emails and social interactions—this grassroots campaign resonated loudly and helped shape the health care debate on Capitol Hill.

Battling an epidemic

The **AMA Opioid Task Force** made strong inroads in helping the nation's physicians battle one of the deadliest epidemics of our time. We can now report that, in addition to the AMA developing resources and advocating for practical policy changes, we saw meaningful progress: fewer opioids being prescribed, prescription drug monitoring program use increasing, and more physicians certified to provide office-based treatment for opioid disorder.



HEALTH REFORM DEBATE: DOMINANT SHARE OF VOICE IN THE MEDIA AMONG TOP 10 ADVOCACY PEERS

Based on the AMA's "Health Reform Share of Voice Analysis" (Jan. 1–Sept. 30, 2017)

Having physicians' backs

The AMA was instrumental in helping stop two separate health insurance company mega-mergers. The courts listened when organized medicine advocated for competition—not consolidation—in health insurance markets. Blocking the proposed Anthem-Cigna merger alone **saved physicians at least $500 million in payments annually**.

But the AMA's effectiveness in protecting physicians' interests didn't end there. Our legal teams and policy experts worked together to achieve important victories defending physicians' right to free speech, and medical staff representation and independence. They also delivered more than 130 state legislative and regulatory wins on issues ranging from unfair health insurer practices to the promotion of meaningful medical liability reform.

Making an impact

The JAMA Network™ continues to increase the amount of content produced, formats distributed, audience engagement, and the impact our content has on research and practice. In 2017 *JAMA Oncology* registered a debut impact factor of 16.6—the highest ever debut for a journal in clinical medicine—reflecting that journal's immediate impact and impressive engagement. *JAMA Cardiology*, our other new specialty journal, will receive its debut impact factor in 2018.

JAMA Network downloads	**70 million+**
Times *JAMA* content viewed	**31 million+**
Podcasts downloaded and listened to	**2 million+**
JAMA*'s impact factor	**44.4**
JAMA Oncology* debut impact factor	**16.6**

* The impact factor, which is a publishing industry standard, is a measure of the frequency with which the average article in a journal has been cited in a particular year.

Expanding our reach

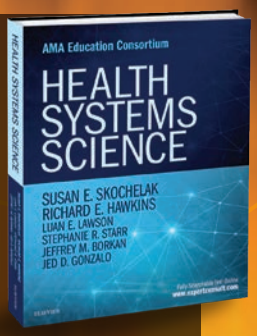
2017 earned media metrics

98,823
Total placements across all mediums in national, local, trade and new media outlets

$560 million
Estimated publicity value

$60 billion+
Estimated traditional and online media impressions across print publications, radio, television, news services, news websites and blogs

Establishing health systems science



Having helped health systems science gain recognition as the third pillar of medical education, alongside basic and clinical science, the AMA is now seeing future physicians acquire the non-clinical background needed to succeed in medicine today. Underscoring this movement, *Health Systems Science*, first edition, developed by the AMA and the Accelerating Change in Medical Education Consortium, has already been adopted by 12 medical schools in the United States and sold thousands of copies around the world.

Helping physicians optimize payments

By surveying 1,000 practicing physicians involved in practice decisions related to the Centers for Medicare & Medicaid Services (CMS) Quality Payment Program, The AMA revealed that, under the new rules of the Medicare and CHIP Reauthorization Act of 2015, **90 percent of physicians didn't know what steps to take next**. Based on the valuable insights our research yielded, the AMA developed educational and training resources to help physicians and their practices carve successful paths forward (if participating in the CMS Merit-based Incentive Payment System), and launched a comprehensive marketing and communications campaign to create awareness among physicians about this new payment program.

INNOVATION WITH PURPOSE: ADDRESSING UNMET NEEDS

Transforming health care

To unleash a new era of better and more effective patient care, the AMA in 2017 launched the ambitious **Integrated Health Model Initiative™** (IHMI), a collaborative effort across a broad expanse of health care and technology stakeholders.

While addressing critical chronic diseases, IHMI will enable care models and technical solutions to be built on truly meaningful data elements, such as patient function, state and goals—elements that will allow health care efforts to focus on outcomes and achieving patient wellness while facilitating unparalleled semantic interoperability. Released to the public in late 2017, IHMI closed the year with more than 1,000 participants and 17 collaborating organizations onboard and eagerly looking to make a difference.

AMA | Integrated Health Model INITIATIVE™

5.9 HRS

AMOUNT OF TIME PRIMARY CARE PHYSICIANS SPEND EACH WORKDAY ON DATA ENTRY AND OTHER EHR-RELATED TASKS

As revealed in a study co-authored by AMA senior staff and published in the *Annals of Family Medicine*

Putting our expertise and knowledge to work

In 2017 the AMA continued growing our innovation ecosystem in fertile new directions, and in ways that are radically expanding our understanding of the health care landscape's deep and complex interconnections.

Extending to include innovative forces like **Health2047**, our flagship Silicon Valley-based integrated innovation studio, and **MATTER**, a Chicago-based health technology incubator and home to more than 200 digital start-ups—the AMA ecosystem is providing us with spectacular insights and opportunities to improve health care.

One example of our ecosystem at work is Health2047's successful launch of **Akiri, Inc.™** (formerly Health2047 Switchco, Inc.), the new company working to bring the first network-as-a-service platform to the health care industry. Known as **Akiri Switch™**, this platform will enable health information to move seamlessly and securely throughout the U.S. health care system.

Bringing the physician voice to technology

Developed to match companies and developers with physician entrepreneurs, the **AMA Physician Innovation Network** officially launched in late 2017. In just three months some 2,070 users (companies and physicians) joined the network and more than 1,000 connection requests were generated. An excited digital health community offered clear signals that it's hungry for physician-driven innovations, publishing articles with titles like "Health IT Infrastructure Improves with AMA Collaboration Platform" *(HIT Infrastructure)* and "AMA's New Online Platform Looks to Bring Together Docs, Health Tech Companies" (*Healthcare Informatics*).

AMA DOC TALK

Placing new ideas in the spotlight

The AMA continued raising its profile with the most inspiring change-makers both inside and outside of health and medicine. The AMA was a global sponsor of TEDMED 2017, where we unveiled "**AMA Doc Talk**," a new podcast series that illuminates the very real challenge of helping physicians handle difficult conversations with patients.

Leading the adoption of digital medicine

In establishing the **Digital Medicine Payment Advisory Group**, the AMA again led the way in pushing for actionable, real-world solutions to help facilitate improved digital medicine adoption. This advisory group—composed of 14 recognized experts with years of hands-on experience integrating digital medicine services into clinical practice—is currently working to identify effective payment and coverage strategies with special emphasis placed on coding, coverage and payment for remote patient monitoring services.

POWERED BY COLLABORATION: TOGETHER WE ACCOMPLISH MORE

Ensuring safe, effective health technologies

Xcertia, the joint mobile health app collaborative pioneered by the AMA, the American Heart Association, DHX Group, and the Healthcare Information and Management Systems Society (or HIMSS), gained significant notice in 2017. Highlighted in *The Wall Street Journal*, Xcertia, with its 32 members—including IBM Watson, Accenture and the Mayo Clinic—is quickly progressing toward its goal of setting standards that foster safe, effective mobile health technologies.

TARGET: BP™

Moving millions toward blood pressure control

In collaboration with the American Heart Association (AHA) and the Ad Council, the AMA launched an evocative patient-facing high blood pressure campaign, which has already attracted more than 400,000 visitors to loweryourhbp.org and over $4.7 million in donated national media placements.

Also, following the release of a new hypertension guideline in late 2017, the AMA and AHA provided solid guidance to physicians and care teams, generating more than 500,000 acts of engagement via a variety of platforms, including the AMA/AHA jointly produced Target: BP™ web platform, which contains vetted resources and information designed to make tighter blood pressure control achievable.

THE AMA IS PARTNERING WITH 11 RESIDENCY PROGRAMS LOOKING TO BRING ITS BURNOUT ASSESSMENT TO THEIR INSTITUTIONS

Providing new information to help reduce burnout in this critical but previously untapped area

ACPH 2017 | AMERICAN CONFERENCE ON PHYSICIAN HEALTH

Making physician health a priority

In October 2017 the AMA, together with Stanford University School of Medicine and the Mayo Clinic, launched the first-ever American Conference on Physician Health to rave reviews. Held in San Francisco, this inaugural event brought together more than 400 physicians, academics, researchers and thought leaders from around the country to share ideas and seek solutions to improve physician wellness.

In 2017 we held two Joy in Medicine™ conferences. These multi-stakeholder conferences brought together nearly 100 participants to discuss issues relevant to physician burnout, including interventions and ideas for change.

Prevent Diabetes **STAT**

Increasing prediabetes awareness

The AMA and the American Diabetes Association extended our ongoing collaboration to also include tech heavyweight Samsung. Together we created a first-of-its-kind mobile public awareness experience for U.S. adults. The initial five-week campaign far exceeded expectations by yielding 555,000 completed prediabetes risk assessments.

In addition, the AMA guided more than 40 health care organizations in developing prevention strategies for type 2 diabetes, including providing project support for those health systems seeking to establish their own CDC-recognized National Diabetes Prevention Program.

Helping physicians protect and serve patients

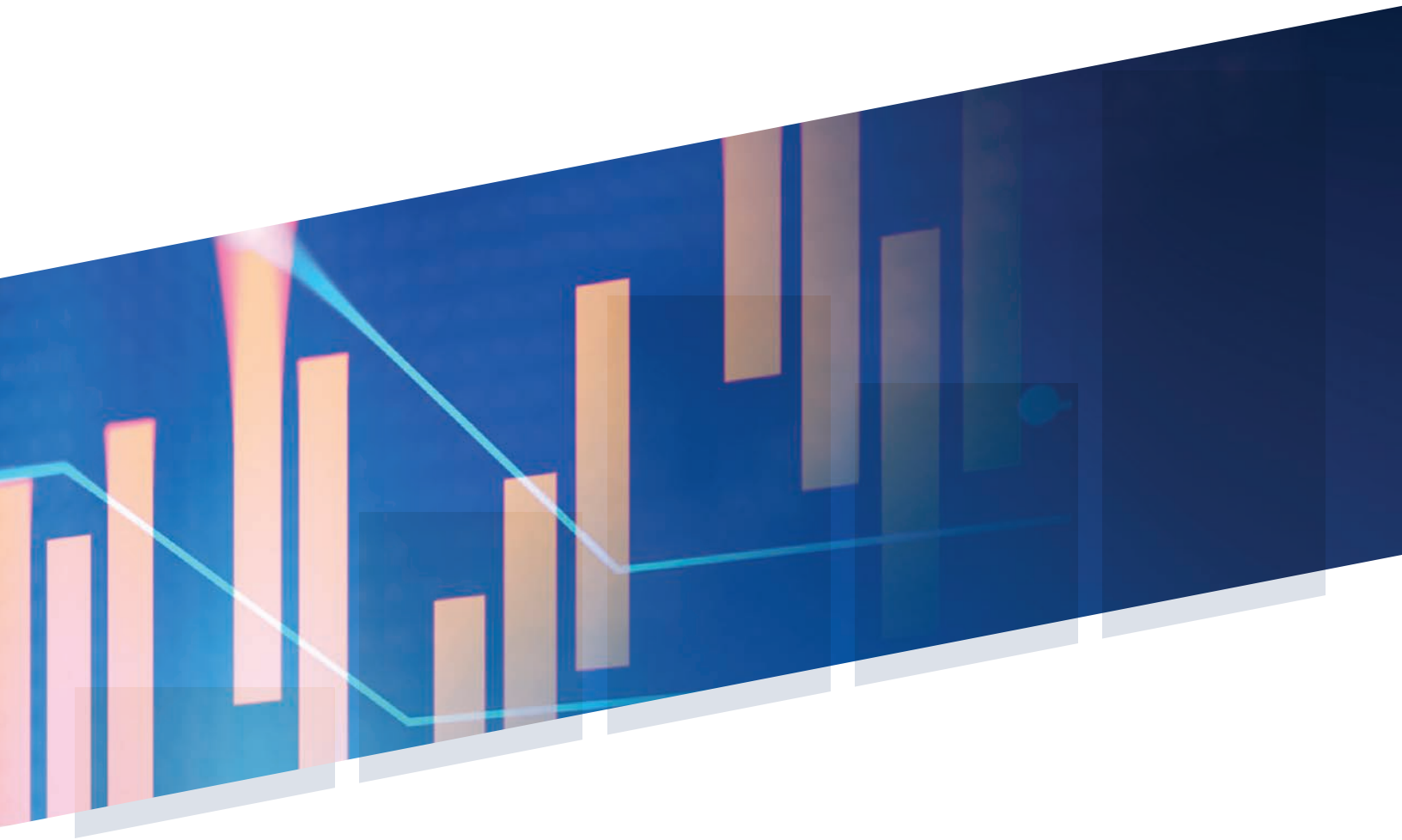
Working with Accenture, the AMA continued to help physicians enhance security for their patients by conducting a cybersecurity survey of 1,300 U.S. physicians. The survey revealed that four in five physicians have experienced a cyberattack in their practices. In response, the AMA is now providing information to assist physicians in improving cybersecurity measures.

LexisNexis® Risk Solutions and AMA Business Solutions, a subsidiary of the AMA, tackled the complex challenge of inaccurate and outdated provider directories. Our collaboration produced VerifyHCP™, a one-stop online interface that lets physicians and practice managers verify and update their data with vastly improved efficiency. Since launch, VerifyHCP has almost 200 provider plan participants and manages nearly 200,000 unique clinician profiles.

Putting future physicians ahead of the curve

In 2017 medical education leaders gathered for our AMA Change**MedEd**™ conference, which included presentations on the emergence of health systems science, innovative uses of technology and a range of other game-changing ideas.

To prepare tomorrow's physicians to thrive, the AMA Accelerating Change in Medical Education Consortium implemented multiple innovations, including an EHR learning platform that is now in use at five schools. Consortium leaders were also very active in 2017, making 45 presentations at 28 national conferences, and writing and publishing 16 papers in peer-reviewed scientific literature on various aspects of the group's groundbreaking work.



2017 MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

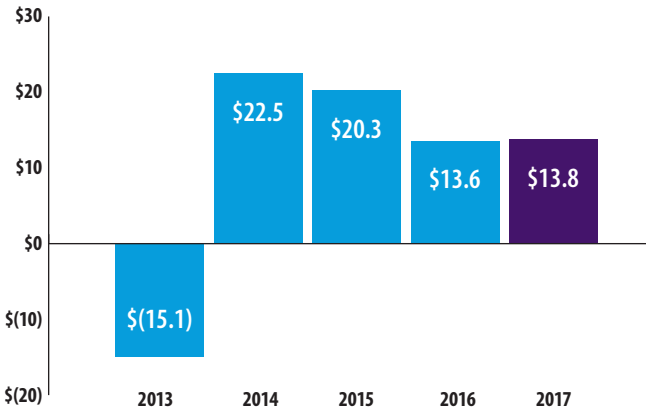
(Columnar and chart amounts in millions)

Introduction

The objective of this section is to help American Medical Association (AMA) members and other readers of our financial statements understand management's views on the AMA's financial condition and results of operations. This discussion should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements.

Results from operations

(in millions)



Improving the health of the nation is at the core of the AMA's work to enhance the delivery of care and enable physicians and health teams to partner with patients to achieve better health for all. The focus of our efforts is on creating thriving physician practices, creating the medical school of the future and improving health outcomes.

In 2017, AMA continued to maintain its focus on **Practice Sustainability and Professional Satisfaction**, working with physicians to advance initiatives that will help them navigate and succeed in a continually evolving environment; **Accelerating Change in Medical Education** by collaborating with medical schools to create a system that trains physicians to meet the needs of today's patients and to anticipate future changes; and **Improving Health Outcomes** by enabling physicians and health teams to partner with patients, communities and public and private-sector organizations to enhance the delivery of care and achieve better health for all.

In a challenging environment, the AMA continued to deliver strong advocacy results in 2017. The AMA was successful in efforts to protect access to coverage for millions of Americans, defend key patient protections, and preserve the safety net for our nation's most vulnerable patients. The AMA was instrumental in blocking two mega-health insurance mergers that would have had negative effects on patients and physicians. Physicians stood to lose an estimated $500 million in annual payments from just the Anthem-Cigna merger alone. The AMA sought and achieved numerous improvements to the Medicare Quality Payment Program (QPP) regulations to help physicians succeed with the transition. Last year, the AMA launched a campaign to address the prior authorization burden physicians and their staff experience and continued to achieve positive outcomes on other administrative and regulatory burdens, including Medicare audits and virtual credit card payment mandates. Finally, the AMA continued efforts to end the opioid epidemic that is having a devastating impact across the United States, making inroads on reducing opioid prescribing, increasing physician education, and improving the availability of naloxone.

AMA's innovation enterprise, Health2047, has made substantial progress on key projects, including the spinout of a new company, Health2047 SwitchCo, Inc. (SwitchCo), which will build and deploy trusted infrastructure for private data transport, optimized for healthcare data. The studio will continue to enhance AMA's ability to define, create, develop and launch, with partners, a portfolio of products and technologies that will have a profound impact on many aspects of the U.S. health care system and population health, with a central goal of helping physicians in practice.

2017 saw many other important new initiatives, such as the successful launch of the Integrated Health Model Initiative and Membership Moves Medicine and brand campaign, laying the groundwork for the launch of *JAMA Network Open*; expansion of the education center, continued physician engagement efforts and expansion of digital marketing; as well as enhancing infrastructure support for new initiatives and the strategic focus areas. In 2017, AMA is reporting $13.8 million in net operating income, reflecting continued growth in revenue offset by additional investment in the focus areas, core activities and new initiatives.

The AMA is committed to its responsibility to ensure that the organization focuses its finite resources on its core activities and strategic focus areas while improving the quality and breadth of products and services for physicians and medical students. Our physicians' and medical students' presence and voice are central to the overall success of our AMA.

Our AMA's strategy requires continued focus and integration within and across all components of the AMA Equation: the House of Delegates; membership; physician practice tools; advocacy; and research and education.

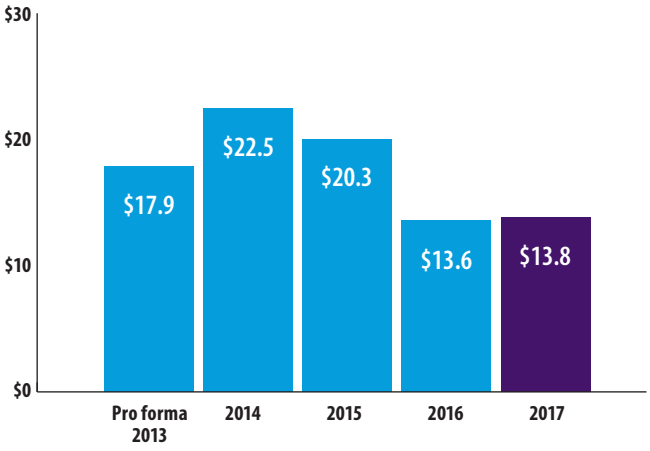
The following pages discuss the 2017 consolidated results from operations, financial position and cash flows, as compared to 2016. Additional detailed discussion of operating unit results is included in the section titled "Group Operating Results."

Consolidated financial results

The chart below provides pro forma results from operations and excludes the $33 million in nonrecurring charges related to the headquarters relocation in 2013.

Results from operations

(in millions)



Revenues

In 2017, total revenues improved by $23.9 million over the prior year, due to continued growth in AMA's royalties and journal site licensing. Advertising revenue and coding book sales declined again during 2017, reflecting a continued transition from print journals and books.

The number of AMA dues-paying memberships increased in 2017 by 1.8 percent, achieving seven years of consecutive growth in members. Similar to the prior year, increases occurred in lower dues-paying categories such as group memberships, sponsored memberships and half-year dues, resulting in a small dues revenue decline of 3 percent.

Consolidated investment income increased slightly in 2017, reflecting larger investable balances. Interest rates continued at historic low levels.

Cost of products sold and selling expenses

All variable expenses related to the production, distribution and sale of periodicals, books, coding products and licensed products are included in the cost of products sold and selling expense categories. Examples include paper, sales commissions, promotional activities, distribution costs and third-party editorial costs.

In 2017, cost of products sold and selling expenses decreased $1.9 million. A substantial portion of the decrease is from reduced production costs related to the lower volume of book sales and fewer journal advertising pages.

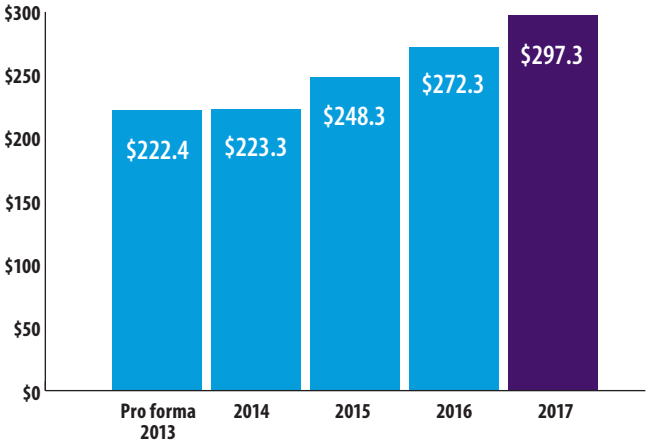
Contribution to general and administrative expenses

Cost of products sold and selling expenses are deducted from revenues to determine the amount of money available for the general and administrative expenses of the organization. Contribution to general and administrative expenses measures the gross margin derived from revenue-producing activities.

The contribution to general and administrative expenses increased $25.8 million to $319.4 million in 2017, with Books and Digital Content accounting for most of the change. Revenue improvements from royalties, offset by the declining book sales discussed above, were the key factors.

General and administrative expenses

(in millions)



General and administrative expenses rose $25 million in 2017, or just over 9 percent.

Compensation and benefits increased $9 million, with higher compensation and employee health care expense offset by lower pension and retiree health costs. Compensation, including temporary help, was $7.3 million higher in 2017, a 4.5 percent increase. Health2047 accounted for $0.8 million of that increase in its continued expansion of operations. Increased incentive compensation accounted for another $1.2 million as the salary base increased and key performance

indicators were achieved in 2017. Excluding both the higher incentive and Health2047 costs, AMA salaries rose 4 percent in 2017, approximately half for merit increases and the remaining half for additions to support key initiatives.

Occupancy costs increased $1 million in 2017, reflecting the absence of a large property tax refund in 2016.

Technology costs increased $1.8 million in 2017, largely related to third party hosting and implementation of outsourced solutions for platforms such as the scientific journals, the education center and the new AMA website, as well as software amortization of new solutions.

Outside professional services were largely unchanged in 2017.

Marketing and promotion expenses rose $8.7 million, largely related to four campaigns, the brand and Membership Moves Medicine campaign; the healthcare reform campaign, the AMA-American Heart Association awareness campaign and the new hypertension guidelines campaign.

A $3.5 million increase in other operating expenses reflects a $1.8 million increase in grants and contributions, including a grant to assist in the development of a teaching electronic medical record (tEMR) and grants to areas devastated by hurricanes. Costs associated with a new venture to improve physician directories and a write-off of developed software were the other large factors in the overall increase.

Operating results before income taxes

The AMA achieved a $22.1 million pre-tax operating income in 2017. This compares to $21.3 million in 2016. A 7.4 percent increase in revenue was almost entirely offset by the general and administrative expense increases described above.

Income taxes

Taxes increased $0.6 million in 2017 as a result of a $1.1 million tax provision in Health2047, largely related to the spinout of SwitchCo, offset by a small tax benefit related to the change in federal corporate tax laws.

Net operating results

Operating income totaled $13.8 million in 2017, up slightly from the prior year, with improvements from increased revenue largely offset by higher expenses.

Non-operating items

The AMA reported a $45.3 million gain in the fair value of its portfolio during 2017 after a $24.1 million gain in 2016. AMA also reported $0.1 million in other non-operating revenue in 2017.

Revenue in excess of expenses

Revenues were $59.2 million greater than expenses in 2017, a combination of the $13.8 million operating income plus $45.4 million in non-operating gains. Revenues exceeded expenses by $37.7 million in 2016.

Change in association equity

Accounting standards require organizations to recognize deferred actuarial losses and prior service credits or charges for defined benefit postretirement plans as a charge or credit to equity. In 2017, the net credit to equity related to defined benefit postretirement plans totaled $11.4 million. Portfolio returns in the pension plan were better than the actuarial expectation, and claims experience in the retiree health plan were lower than the actuarial expectation, both resulting in actuarial gains. Recognition of actuarial losses and prior service credits in the postretirement health care plan added to the gains. The gains were partially offset by actuarial losses in both the pension plan and the postretirement health care plan resulting from year-end lower interest rates that increase the present value of plan liabilities. Deferred taxes on the credit reduced the overall gain.

In 2016, the net credit to equity related to defined benefit postretirement plans totaled $0.4 million. Actuarial losses in both the pension plan and the postretirement health care plan resulted from year-end lower interest rates that increase the present value of plan liabilities as well as participant changes. Portfolio returns in the pension plan were less than the actuarial expectation, and claims experience in the retiree health plan were higher than the actuarial expectation, both resulting in additional charges. Recognition of actuarial losses and prior service credits in the postretirement health care plan more than offset the losses. Deferred taxes on the credit slightly increased the gain.

The AMA reported a $70.6 million increase in unrestricted association equity in 2017. This reflects the amount by which revenues were greater than expenses, plus the credits to equity for changes in defined benefit postretirement plans discussed above. After adding a $0.1 million increase in temporarily restricted equity in 2017, total equity increased $70.7 million.

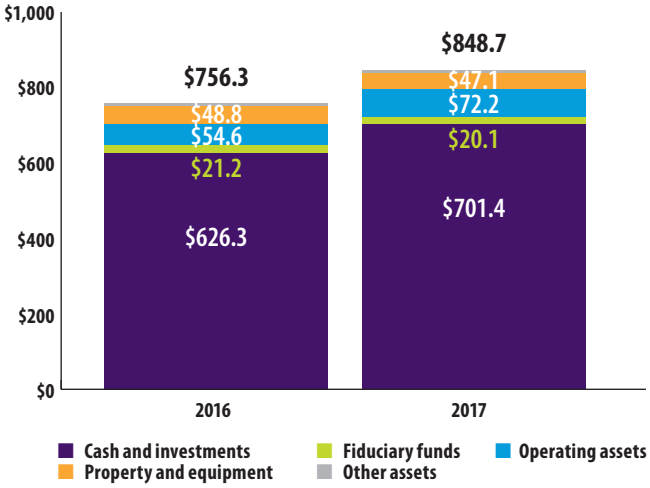
In 2016, total equity increased by $38 million, with $37.7 million of revenues in excess of expenses and $0.4 million in credits to equity for changes in defined benefit postretirement plans slightly reduced by a $0.1 million decrease in temporarily restricted equity.

Financial position and cash flows

The AMA's assets include cash, cash equivalents and investments; operating assets such as accounts receivable, inventory and prepaid expenses; fixed capital such as equipment, computer hardware and software; and other assets. AMA assets are supported by association equity, operating liabilities and deferred revenue.

Assets

(in millions)



The AMA's total assets increased $92.4 million in 2017. This includes a $75.1 million increase in cash and investments resulting from $29.7 million in free cash flow plus a $45.3 million gain in the fair value of investment securities.

Fiduciary funds are premium payments from insurance customers not yet remitted to the carriers and funds held by the AMA for third parties for future use as approved by that third party. This approximates the offsetting liability titled insurance premiums and other fiduciary funds payable.

Operating assets increased $17.6 million in 2017. This is entirely due to a $19.5 million increase in accounts receivable from higher fourth quarter royalty revenue, partially offset by a reduction in deferred taxes. Changes in operating assets from year to year are largely due to timing of cash receipts and payments.

Property and equipment net book value decreased $1.7 million, as $10.7 million in new capital assets was exceeded by annual depreciation and amortization of existing capital assets.

Operating liabilities decreased slightly in 2017. One reason is in part due to favorable portfolio performance, which led to the pension liability being recorded as a prepaid expense.

AMA received tenant improvement allowances from new or renegotiated leases in Washington D.C. and New Jersey during 2017 and had received similar concessions in 2013 related to the headquarters building. The tenant improvement allowances are recorded as a deferred lease obligation and are amortized over the life of the individual leases.

Changes in deferred rent reflect the difference between the amounts recorded as expense and the amounts paid on all current leases. AMA records rent expense leases ratably over the period AMA took possession of the premises through the lease termination date. Amounts expensed but unpaid are considered a deferred rent obligation and will be reduced over the term of the lease.

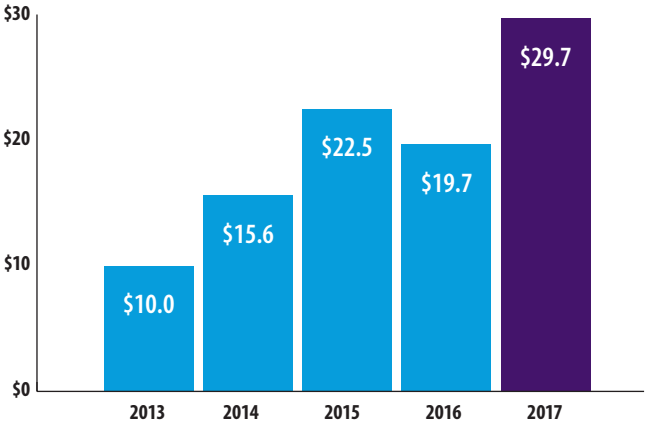
Deferred revenue represents funds received during the year that will not be recognized as income until the following year or thereafter. These amounts vary, as well as accounts payable and accrued expenses, depending on the timing of cash receipts and payments.

Cash flows

Cash and cash equivalents were up $19.1 million in 2017, and $4.7 million in the prior year. This comparison may cause misleading conclusions, as the change in cash and cash equivalents includes reductions for amounts invested in marketable securities, as well as cash inflows from non-operating activities.

Free cash

(in millions)



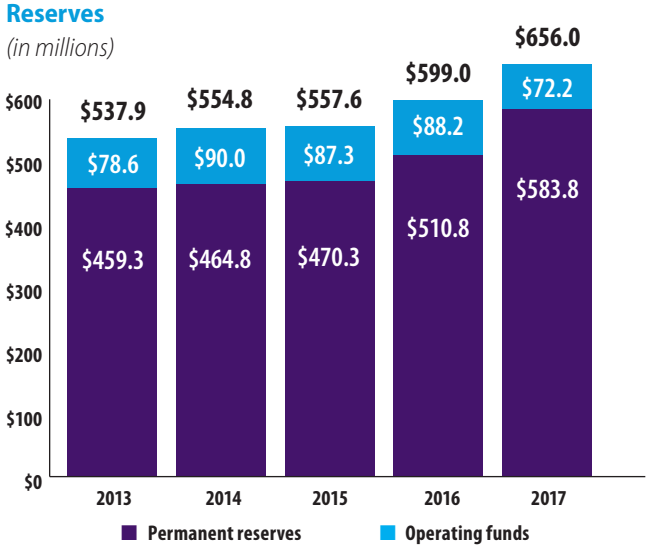
Free cash flow measures the AMA's ability to fund operations, capital expenses and major programmatic initiatives from funds generated from operations. This measure excludes non-operating gains and losses.

Free cash in 2017 totaled $29.7 million, $10 million greater than the 2016 results, impacted by a one-time payment for a licensing agreement that will be recognized as revenue over future licensing periods.

Reserve portfolios

Reserves

(in millions)



The reserves and operating funds above do not include cash and investments in the for-profit subsidiaries, and reflect only the not-for-profit entity's cash and investment portfolio values.

As of year-end 2017, permanent reserves were $583.8 million compared to $510.8 million in 2016, a $73 million increase. That increase was the result of a $26.6 million transfer of 2016 excess operating funds to reserves plus a $46 million gain in the market value of the reserve portfolio. Operating funds totaled $72.2 million in 2017, down $16 million from 2016.

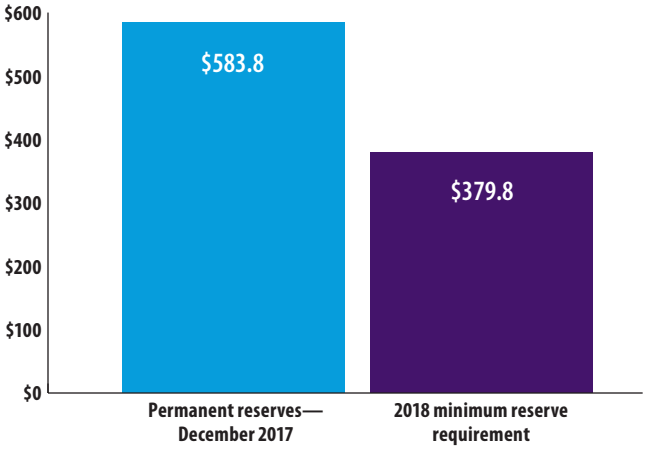
The AMA has established a required minimum reserve investment portfolio level that is adequate to cover 100 percent of annual general and administrative expenses (excluding grant expenses) plus an amount sufficient to pay long-term pension and postretirement liabilities. Operating funds, coupled with operating assets, are to be maintained at a level that allows payment of all operating liabilities.

The minimum reserve portfolio level is designed to ensure that the AMA can always meet its long-term obligations for pension and postretirement health care, as well as provide that the AMA could continue operations for at least one year in the case of a catastrophic occurrence.

Reserve portfolio funds also provide the AMA with the ability to fund major strategic spending initiatives not within the operating budget. Spending from the reserve funds is limited to the amount by which reserves exceed the minimum requirement. The Board of Trustees must authorize any use of reserves.

Permanent reserves and minimum reserve requirement

(in millions)



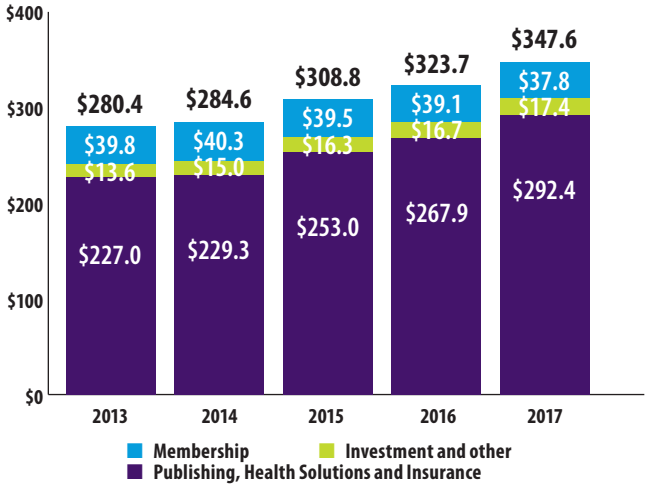
Group operating results

The AMA is organized into various operating groups: Membership, Publishing, Health Solutions and Insurance, Strategic Focus Areas, Core Operations, Administration and Operations, Affiliated Organizations, Unallocated Overhead and Health2047 (including SwitchCo). Revenues and expenses directly attributed to those units are included in the group operating results. A financial summary of group operating results is presented at the end of this section.

Revenues

Total revenue

(in millions)



Membership

The Membership group's total revenue includes both net membership dues and interest expense on lifetime memberships. Net membership dues is equal to the gross dues revenue collected, reduced by commissions paid to state societies, and is the membership dues revenue reported on the statement of activities.

The AMA achieved its seventh consecutive year of increases in the number of dues-paying members, although total dues revenue declined slightly in 2017. The number of dues paying members increased 1.8 percent in 2017, and total membership increased 1.2 percent and 2.6 percent in 2017 and 2016, respectively.

Gross dues revenue was $37.9 million, a $1.4 million decrease from 2016, as membership increased in categories with lower average dues rates, such as group practices, residents and sponsored memberships. Commissions and incentives paid to state societies totaled $0.1 million in 2016. Interest expense on lifetime memberships was $0.1 million in both 2017 and 2016.

Investments (AMA-only)

AMA-only investment income includes dividend and interest earnings on the AMA's portfolio. Investment income in AMA's active subsidiaries is included in the Publishing, Health Solutions and Insurance results.

Investments' income was $10.7 million in 2017, a $1 million increase over the prior year, mainly due to an increase in the investable fund balances. Continued low interest rates have resulted in reduced levels of income in the portfolio during the last several years.

The net gain or loss on investments is not included in operating results, but reported as a non-operating item. This amount is in addition to the investment income discussed above, and totals a gain of $45.3 million in 2017, compared to a $24.1 million gain in 2016. The total investment return on the portfolio was 9.4 percent. The 2017 return compares to a composite benchmark index of 10.6 percent. AMA's portfolio is balanced almost equally between equity and fixed income. AMA does not invest in passive index funds due to the prohibition on tobacco-related investing. Passive index funds have substantially outperformed active management for the last several years.

Publishing, Health Solutions and Insurance

Publications in the JAMA Network include the *Journal of the American Medical Association (JAMA)* and the JAMA Network specialty journals. In late 2017, JAMA announced that the JAMA Network will launch a new journal—*JAMA Network Open*, a fully open access journal. This follows the successful launches of *JAMA Oncology* in 2015 and *JAMA Cardiology* in 2016, which are hybrid journals offering open access options for research articles.

Publishing revenues are derived from advertising, subscriptions, site licensing, reprints, electronic licensing and royalties. Publishing revenues declined $2.5 million in 2017. Losses in print subscriptions and print advertising were partially offset by growth in site licensing and other revenue, including peer review fees.

Health Solutions includes two major lines: Database Products, and Books and Digital Content.

Database Products includes royalties from licensed data sales and credentialing products revenue. Revenues increased $3.6 million in 2017 with growth in both credentialing product sales and licensed data royalties.

AMA-published books and coding products, such as CPT books, workshops and licensed data files, make up the Books and Digital Content unit. Revenues in this unit increased by $23.6 million. Royalties drove this increase, as the market for electronic use of digital coding products continues to expand. Coding book sales declined substantially in 2017, with overall book sales down $4.1 million. The move from print products to electronic data files continues to impact print product sales.

The AMA has two active for-profit subsidiaries, the AMA Insurance Agency (Insurance Agency) and Health2047. The latter is discussed separately at the end of this discussion and analysis. The Insurance Agency revenues were down slightly in 2017. The Insurance Agency, as broker, receives a commission on insurance policies sold.

Other revenues

Other revenues are derived from grants and other fee income. These decreased $0.3 million in 2017, largely due to reduced grant income in the core activities.

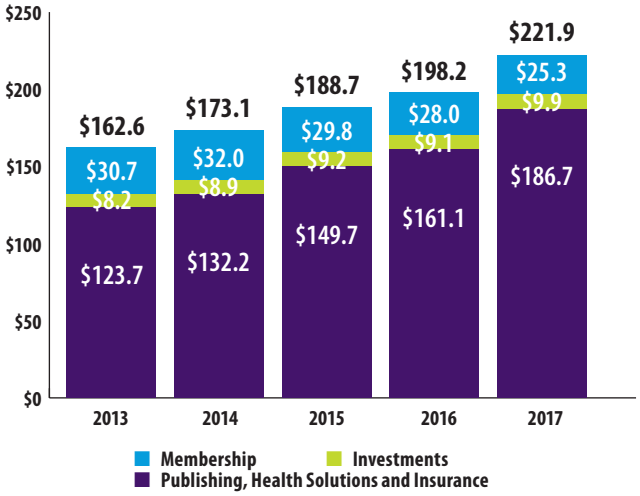
Contribution margin (net expenses)

Contribution margin equals unit revenues minus cost of products sold, selling expenses, and direct general and administrative expenses such as compensation, occupancy, travel and meetings, technology costs and professional services.

Net expenses equals total spending, net of any revenue produced by the unit, such as grants or other fee income. Total contribution margin and net expenses equals consolidated operating results before income taxes. The charts below separate groups with contribution margin from groups with net expenses.

Contribution margin

(in millions)



The contribution margin generated by Membership, Publishing, Health Solutions and Insurance, as well as Investments, provides the funding for all mission-related activities of the AMA as well as funding for all administration and support operations required to run the organization. Membership continues to provide over 13 percent of those funding needs.

Membership

Membership's contribution margin decreased $2.7 million in 2017 due to the combination of a dues revenue decline, increased solicitation costs for marketing efforts and implementation of a digital marketing program for membership.

Investments (AMA-only)

The $0.8 million increase in contribution margin was largely due to the $1 million revenue improvement, slightly offset by increased costs associated with managing two reserve portfolios, one for core reserves and one for reserves in excess of the minimum required level. The latter portfolio will have a more aggressive asset allocation than the core portfolio.

Publishing, Health Solutions and Insurance

Publishing, Health Solutions and Insurance results were up $25.6 million in 2017. Royalty and credentialing revenue increases, offset by a decline in coding book sales volume and lower publishing revenue, were the major factors.

Contribution margin declined $1.7 million in Publishing, as revenue losses in advertising and print subscriptions were somewhat offset by cost reductions put in place to mitigate the impact of the revenue decline.

Database Products reported a $4.8 million improvement due mainly to increased revenue but also the absence of additional costs for improving the quality of the physician masterfile incurred in the prior year.

Books and Digital Content contribution margin rose $23.3 million, largely on the strength of continued growth in royalties, offset by costs associated for a new CPT editorial system.

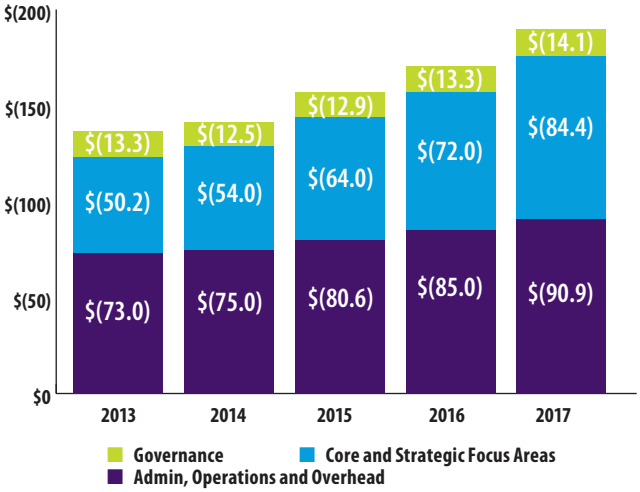
The Insurance Agency/Affinity Products margin was up slightly, with cost reductions more than compensating for the declining revenue.

The Integrated Health Model Initiative (IHMI) was launched in 2017 and is a platform for bringing together the health and technology sectors around a common data model. A common data model for the health system can collect, organize, exchange and analyze critical data elements, equipping clinicians with essential information to shift care plans towards achieving outcomes that are more relevant to a patient's quality of life and consistent with the patient's lifestyle, goals, and health status. Given the high economic and societal burden of chronic diseases, IHMI will initially prioritize its resources and efforts in clinical areas such as hypertension, diabetes and asthma.

Other business operations margin was largely unchanged.

Net expenses

(in millions)



Strategic Focus Areas and Core Operations

The Strategic Focus Areas include direct costs associated with the units for Improving Health Outcomes (IHO), Accelerating Change in Medical Education (ACE), and Enhancing Professional Satisfaction and Practice Sustainability (PS2).

IHO involves AMA focusing on two of the nation's most prevalent issues: cardiovascular disease and type 2 diabetes, and setting a course of innovation and action to develop, enhance and implement strategies aimed at reducing the

disease and cost burden associated with these selected conditions. More than 400 medical practices, providers and health systems are now participating in Target: BP, the joint national initiative of the AMA and the American Heart Association (AHA), aimed at reducing the number of American adults who die from heart attacks and strokes every year.

To help prevent type 2 diabetes, the AMA and the Centers for Disease Control and Prevention (CDC) developed a toolkit to help health care teams screen, test and refer at risk patients to in-person or online diabetes prevention programs (DPP's). The AMA is also partnering with the CDC and YMCA to increase physician screening and testing of patients for prediabetes as well as working to achieve coverage for diabetes prevention programs, after AMA's success in expanding the Medicare DPP coverage.

Through ACE, in 2013 the AMA launched a multi-year $11 million grant program with 11 medical schools aimed at bringing innovative changes to medical education. The consortium of schools was expanded later by an additional 21 schools selected from more than 100 medical schools that applied. A critical component of this initiative was the establishment of a learning collaborative so that best practices can be developed, shared and implemented in medical schools across the country.

To fully serve patients today and into the future, physicians need to understand the content of health systems science. This new discipline includes understanding how to improve health care quality, increase the value of care provided, enhance patient safety, deliver population-based medical care and work collaboratively in teams. AMA's Accelerating Change in Medical Education Consortium, with *Health Systems Science,* has created the first textbook that focuses on providing a fundamental understanding of how health care is delivered, how health care professionals work together to deliver that care, and how the health system can improve patient care and health care delivery.

In PS2, the AMA is investing significant resources in evaluating a path to long-term sustainability of and satisfaction with medical practice. The goals of this initiative are to promote successful models in both the public and private sectors; create tools focused on helping physicians implement practice improvements, improving the usability of electronic health records, shaping the evolution of payment models for sustainability and satisfaction, and promoting physician representation and leadership in the governance structure of hospitals and health systems. The AMA's STEPS Forward™ practice transformation series is a collection of interactive, educational modules developed by physicians to help physicians address common challenges in their practices. A variety of the modules focuses on preventing physician burnout.

The AMA also offers many opportunities for physicians to enhance their leadership skills and engage in leadership opportunities. Identifying key challenges physicians face with health IT and focusing on improved usability and interoperability is another major initiative. The digital health strategy will continue to focus on research, initiatives, and strategic partnerships that aim to improve health care technology and help physicians influence and adopt digital health solutions. As a dues paying member and founder of Xcertia, Sequoia/Carequality and the CARIN Alliance, AMA helps lead in the area of interoperability.

The Strategic Focus Areas continued to expand staff and operations during 2017, the fifth full year of implementation of AMA's new strategic plan. Most of the $3.3 million net expense increase in 2017 was due to marketing expenses in hypertension and pre-diabetes programs as well as a final payment on a grant to assist in the development of a teaching electronic medical record (tEMR).

Core Operations includes three groups: Advocacy; Health, Science and Core Medical Education; and Communications and Marketing.

The Advocacy Group includes federal and state level advocacy to enact laws and advance regulations on issues important to patients and physicians; economic, statistical and market research to support advocacy efforts; political education for physicians; grassroots advocacy; and maintaining relations with the federation of medicine. In 2017, Advocacy net spending totaled $26.5 million, up $2.1 million from the prior year, reflecting costs related to the 2017 campaign advocating support of AMA health system reform objectives and opposing the AHCA. Continuing efforts to reduce onerous rules for implementation of MACRA, establishment of a national task force to engage physicians to curb opioid abuse, convening a task force on MACRA adoption and research on prior authorization, to name a few, also increased costs in 2017.

Health, Science and Core Medical Education includes Science; Core Medical Education; Ethics; and Grants. The group is involved in developing AMA policies on scientific issues for the House of Delegates (HOD); public health advocacy; defining or influencing standards for undergraduate, graduate and continuing medical education; establishing and disseminating ethical standards for the profession; enhancing quality of care and patient safety; and providing support for the Councils on Ethical and Judicial Affairs, Science and Public Health and Medical Education. In 2016, this group successfully spearheaded the adoption of the modernized AMA *Code of Medical Ethics*. A major initiative for this group is education delivery services for the education center, providing a digital platform for lifelong professional development, which caused a $1 million net expense increase in Health, Science and Core

Medical Education. The remaining increase is largely due to support for the campaign to expand GME slots.

Communications and Marketing focuses its efforts on enhancing the AMA's brand image; informing the public about the AMA's positions and policies; supporting the AMA's advocacy efforts and maintaining effective member communications. Net expenses were up $5.4 million in 2017, mainly due to continued higher spending on major initiatives, the brand and Membership Moves Medicine campaigns. AMA continues to sponsor major health care events such as TEDMED and Health 2.0 challenges as part of its influencer campaign.

Governance

Governance includes the Board of Trustees and Officer Services, the HOD, Sections and Special Constituencies and International units. The Board of Trustees unit includes costs related to governance activities as well as expenses associated with support of the Strategic Focus Areas and Core Operations. The HOD, Sections and Special Constituencies and International unit includes costs associated with annual and interim meetings, groups and sections and other HOD activities, as well as costs associated with AMA's involvement in the World Medical Association.

In 2017, Governance net spending increased $0.8 million, with a $0.5 million increase in the Board of Trustees unit and a $0.3 million increase in the HOD and Sections and Special Constituencies and International unit.

Administration and operations

These units provide administrative and operational support for Publishing, Health Solutions and Insurance, Membership and all other operating groups. Net expenses increased by $4.3 million in 2017, or 6.2 percent. The Physician Engagement and Portfolio Management unit was expanded in 2017 to add digital marketing and enhanced physician outreach, causing a $3 million net expense increase. This expansion is focused on improving the customer experience, reaching our members based on their interests and substantially enhancing communication of AMA's important contributions to physicians' professional life and the health care system. Senior Executive Management costs were up $1.8 million of which $0.9 million was due to contributions for disaster relief in areas impacted by hurricanes. The majority of the remaining cost increase was due to expanded use of third party consultants on major new initiatives.

Affiliated organizations

Affiliated Organizations represent either grant or in-kind service support provided by the AMA to other foundations and societies. In some cases, the AMA is reimbursed for services provided. Net expenses were unchanged in 2017.

Unallocated overhead

The net expenses in this area include costs not allocated back to operating units such as corporate insurance and actuarial services, employee incentive compensation, valuation allowances or other reserves. In 2017, these expenses totaled $16.8 million, up from $15.2 million in 2016. Higher incentive compensation accounted for the entire increase.

Health2047

In 2015, the AMA Board approved the use of reserves to establish this subsidiary with plans to use third-party resources to assist in funding key projects in future years.

Health2047 is a Silicon Valley-based innovation enterprise developing and commercializing solutions in the areas of data liquidity, chronic care, productivity, and payments to significantly change U.S. healthcare at the system level.

Health2047 will provide strategic insights through privileged access to the AMA and its physician network, help execute in product development and bring massive channel strength, all within a culture that can rapidly innovate and have the capacity to pursue multiple products and create a portfolio.

The innovation studio began operations in mid-2015 with a formal launch of the studio in early 2016. Development of initial projects is underway with strong market interest expressed by major corporations. In 2017, Health2047 spun out a new company, Health2047 SwitchCo, Inc. (doing business as Akiri in 2018), in order to commercialize efforts to build and deploy trusted infrastructure for permissions-based secure transport of health data. AkiriSwitch (the platform name) employs blockchain technology. Akiri began with a Series A investment, a core group of founding executives, and significant market interest in its open approach to building trusted infrastructure for private data transport. Akiri has quickly built out its engineering bench, attracting key engineering talent from recognized market innovators. The $10.4 million in net expenses reflects the results of both companies.

The summary of group operating results is included on the following page.

American Medical Association group operating results

	Revenues		Contribution Margin (Net Expenses)	
(in millions)	**2017**	**2016**	**2017**	**2016**
Membership	**$ 37.8**	$ 39.1	**$ 25.3**	$ 28.0
Publishing, Health Solutions and Insurance				
Publishing	**59.3**	61.8	**7.8**	9.5
Database Products	**55.4**	51.8	**44.6**	39.8
Books and Digital Content	**138.8**	115.2	**117.9**	94.6
Insurance Agency/Affinity Products	**38.9**	39.1	**21.0**	20.9
Integrated Health Model Initiative	**-**	-	**(2.5)**	(1.4)
Other business operations	**-**	-	**(2.1)**	(2.3)
	292.4	267.9	**186.7**	161.1
Investments (AMA-only)	**10.7**	9.7	**9.9**	9.1
Strategic Focus Areas and Core Operations				
Strategic Focus Areas	**0.4**	0.5	**(24.5)**	(21.2)
Advocacy	**0.6**	0.7	**(26.5)**	(24.4)
Health, Science and Core Medical Education	**4.4**	4.7	**(11.3)**	(9.7)
Communications and Marketing	**-**	-	**(22.1)**	(16.7)
	5.4	5.9	**(84.4)**	(72.0)
Governance				
Board of Trustees and Officer Services	**-**	-	**(6.1)**	(5.6)
House of Delegates, Sections, Special Constituencies and International	0.1	0.1	**(8.0)**	(7.7)
	0.1	0.1	**(14.1)**	(13.3)
Administration and Operations				
Information Technology	**-**	-	**(28.1)**	(29.5)
Corporate Services	**-**	-	**(5.8)**	(5.6)
Senior Executive Management	**-**	-	**(7.0)**	(5.2)
Physician Engagement/Portfolio Management	**-**	-	**(14.2)**	(11.2)
General Counsel	**-**	-	**(5.1)**	(5.0)
Finance and Risk Management	**-**	-	**(6.7)**	(6.6)
Human Resources	**-**	-	**(5.1)**	(4.7)
Strategic Planning and Health Analytics	**-**	-	**(2.0)**	(1.9)
	-	-	**(74.0)**	(69.7)
Affiliated Organizations	**0.1**	-	**(0.1)**	(0.1)
Unallocated Overhead	**1.0**	1.0	**(16.8)**	(15.2)
Consolidated – excluding Health2047	**347.5**	323.7	**32.5**	27.9
Health2047	**0.1**	-	**(10.4)**	(6.6)
Consolidated	**$ 347.6**	$ 323.7	**$ 22.1**	$ 21.3

2017 CONSOLIDATED FINANCIAL STATEMENTS

American Medical Association and subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31

(in millions)	2017	2016
Revenues		
Membership dues	$ 37.9	$ 39.2
Advertising	14.1	17.3
Periodical print subscription revenues	5.2	6.0
Periodical online revenues	26.2	24.7
Other publishing revenue	12.8	12.8
Books, newsletters and online product sales	31.8	35.9
Royalties and credentialing products	162.3	131.7
Insurance commissions	35.8	36.0
Investment income (Note 4)	11.0	9.8
Grants and other income	10.5	10.3
Total revenues	**347.6**	**323.7**
Expenses		
Cost of products sold and selling expenses	28.2	30.1
Contribution to general and administrative expenses	**319.4**	**293.6**
General and administrative expenses		
Compensation and benefits	171.0	162.0
Occupancy	18.4	17.4
Travel and meetings	14.4	13.1
Technology costs	23.0	21.2
Marketing and promotion	20.0	11.3
Professional services and consulting	28.7	29.0
Other operating expenses	21.8	18.3
Total general and administrative expenses	**297.3**	**272.3**
Operating results before income taxes	22.1	21.3
Income taxes (Note 9)	8.3	7.7
Net operating results	**13.8**	**13.6**
Non-operating items		
Net gain on investments (Note 4)	45.3	24.1
Other	0.1	-
Total non-operating items	**45.4**	**24.1**
Revenues in excess of expenses	59.2	37.7
Changes in defined benefit postretirement plans, other than periodic expense, net of tax (Notes 7, 8 and 9)	11.4	0.4
Change in association equity – unrestricted	**70.6**	**38.1**
Change in temporarily restricted association equity		
Restricted contributions	0.3	0.3
Net assets released from restriction	(0.2)	(0.4)
Change in association equity – temporarily restricted	**0.1**	**(0.1)**
Change in association equity	**70.7**	**38.0**
Association equity at beginning of year	489.0	451.0
Association equity at end of year	**$ 559.7**	**$ 489.0**

See accompanying notes to the consolidated financial statements.

American Medical Association and subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31

(in millions)	2017	2016
Assets		
Cash and cash equivalents	$ 48.0	$ 28.9
Fiduciary funds (Note 2)	20.1	21.2
Accounts receivable and other receivables, net of an allowance for doubtful accounts of $0.1 in 2017 and 2016	59.6	40.1
Inventories	2.3	2.4
Prepaid expenses and deposits	5.9	5.3
Deferred income taxes (Note 9)	4.4	6.8
Investments (Note 4)	653.4	597.4
Property and equipment, net (Note 6)	47.1	48.8
Prepaid pension costs (Note 8)	1.1	-
Other assets (Note 5)	6.8	5.4
	$ 848.7	**$ 756.3**
Liabilities, deferred revenue and association equity		
Liabilities		
Accounts payable and accrued expenses	$ 16.7	$ 15.9
Accrued payroll and employee benefits (Notes 7 and 8)	135.9	139.6
Insurance premiums and other fiduciary funds payable	20.5	20.7
Income taxes payable (Note 9)	1.9	0.8
Deferred tenant improvement allowances (Note 10)	17.1	17.1
Deferred rent obligations (Note 11)	22.5	21.3
	214.6	215.4
Deferred revenue		
Membership dues	17.0	18.3
Subscriptions, licensing and royalties	54.4	31.7
Grants and other	3.0	1.9
	74.4	51.9
Association equity		
Unrestricted	558.0	487.4
Temporarily restricted	1.7	1.6
	559.7	489.0
	$ 848.7	**$ 756.3**

See accompanying notes to the consolidated financial statements.

American Medical Association and subsidiaries

CONSOLIDATED STATEMENTS CASH FLOWS

Years ended December 31

(in millions)	2017	2016
Cash flows from operating activities		
Change in association equity	$ 70.7	$ 38.0
Adjustments to reconcile change in association equity to net cash provided by operating activities		
Depreciation and amortization	11.9	11.0
Pension and postretirement health care expense	8.3	9.3
Net gain on investments	(45.3)	(24.1)
Noncash credit for changes in defined benefit postretirement plans other than periodic expense, net of tax	(11.4)	(0.4)
Other	0.4	-
Changes in assets and liabilities		
Accounts receivable and other receivables	(19.5)	(5.1)
Fiduciary funds, net of payable	0.9	(0.5)
Inventories	0.1	0.2
Prepaid expenses and deposits	(0.6)	0.8
Deferred income taxes	(0.6)	(0.4)
Accounts payable, accrued liabilities and income taxes	1.4	-
Deferred rent obligations and tenant improvement allowances	1.2	(1.4)
Deferred revenue	22.5	2.1
Net cash provided by operating activities	40.0	29.5
Cash flows from investing activities		
Purchase of property and equipment	(10.3)	(9.8)
Purchase of investments	(331.7)	(404.3)
Proceeds from sale of investments	321.1	389.3
Net cash used in investing activities	(20.9)	(24.8)
Net change in cash and cash equivalents	**19.1**	**4.7**
Cash and cash equivalents at beginning of year	28.9	24.2
Cash and cash equivalents at end of year	**$ 48.0**	**$ 28.9**
Noncash investing activities		
Accounts payable for property and equipment additions	**$ 0.7**	**$ 0.4**

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED STATEMENTS

Years ended December 31, 2017 and 2016
(Columnar amounts in millions)

1. Nature of operations

The American Medical Association (AMA) is a national professional association of physicians with approximately 243 thousand members. The AMA serves the medical community and the public through standard setting and implementation in the areas of science, medical education, improving health outcomes, delivery and payment systems, ethics, representation and advocacy, policy development, and image and identity building. The AMA provides information and services to hundreds of thousands of physicians and includes journal and book publishing, physician credentialing, database licensing, insurance and other professional services for physicians.

The AMA classifies all association results as revenues and expenses in the consolidated statements of activities, except non-operating items. Non-operating items include net realized and unrealized gains and losses on investments and other non-recurring income or expense.

Temporarily restricted equity includes contributions for physician liability reform and scope of practice. These funds are restricted for use to areas such as national tort reform campaign efforts and are not available for general use within the AMA.

2. Significant accounting policies

Consolidation policy

The accompanying consolidated financial statements include the accounts of the AMA and its subsidiaries (collectively, the AMA). In 2015, AMA established a new for-profit subsidiary, Health2047, designed to enhance AMA's ability to contribute to improvements in the U.S. health care system and population health. In 2017, Health2047 established a new for-profit corporation, Health2047 SwitchCo, Inc. (SwitchCo), designed to improve the securing, sharing and use of trusted health data. As of December 31, 2017, Health2047 has consolidated the operations of SwitchCo. All significant intercompany transactions have been eliminated.

Use of estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as reflected in the consolidated financial statements. Actual results could differ from estimates.

Cash equivalents

Cash equivalents consist of liquid investments with original maturities of three months or less and are recorded at cost, which approximates fair value.

Fiduciary funds

One of the AMA's subsidiaries, the AMA Insurance Agency, Inc. (Agency), in its capacity as an insurance broker, collects premiums from the insured and, after deducting its commission, remits the premiums to the underwriter of the insurance coverage. Unremitted insurance premiums are invested on a short-term basis and are held in a fiduciary capacity. The AMA also collects and holds contributions on behalf of a separate unincorporated entity with $2.4 million and $2.3 million held at December 31, 2017 and 2016, respectively.

Inventories

Inventories, consisting primarily of books and paper for publications, are valued at the lower of cost or market.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment and software are depreciated or amortized over three to 10 years. Leasehold improvements are depreciated over the shorter of the estimated useful lives or the remaining lease term.

Revenue recognition

Membership dues are deferred and recognized as revenue in equal monthly amounts during the applicable membership year, which is a calendar year. Dues from lifetime memberships are recognized as revenue over the approximate life of the member. Prepaid dues are included as deferred revenue in the consolidated statements of financial position.

Licensing and subscriptions to periodicals, site licenses, newsletters or other online products are recognized as revenue ratably over the terms of the subscriptions or service period. Advertising revenue and direct publication costs are recognized in the period the related periodical is issued. Royalties are recognized as revenue over the royalty term.

Income taxes

The AMA is an exempt organization as defined by Section 501(c)(6) of the Internal Revenue Code and is subject to income taxes only on income determined to be unrelated business taxable income. The AMA's subsidiaries are taxable entities and are subject to income taxes.

Reclassifications

Certain reclassifications have been made in the notes to the consolidated financial statements to conform the 2016 amounts to the 2017 presentation.

3. New accounting standards update

Recently issued accounting standards updates

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP. The FASB deferred the effective date of the new recognition standard and it is now effective for the AMA for years beginning after December 31, 2018. Early adoption is permitted. The adoption of this standard will not have a material impact on AMA's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 requires a lessee to recognize a liability to make lease payments and an asset representing its right to use the underlying asset for the lease term in the statement of financial position for both operating and capital leases. The guidance will be effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The AMA plans to adopt this standard in 2018 and estimates that it will recognize a liability to make lease payments of approximately $100.8 million and eliminate liabilities for deferred rent and deferred tenant improvement allowances of $22.5 million and $17.1 million, respectively, increasing total liabilities by $61.2 million. A right-of-use asset in an equivalent amount of approximately $61.2 million will also be established on the consolidated statements of financial position. There will be no impact on the consolidated statements of activities.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities*. This reexamines existing standards for financial statement presentation by not for profit entities (NFP), focusing on improving net asset classification requirements and information provided in financial statements and notes about liquidity, financial performance, and cash flows, as well as enhancement of disclosures about governing board imposed restrictions. ASU No. 2016-14 is effective for the AMA for years beginning after December 31, 2017. The adoption of this standard will expand certain footnote disclosures but will not have a material impact on AMA's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of the Net Periodic Cost and Net Periodic Postretirement Benefit Cost* (ASU No. 2017-07). This requires an employer to report the service cost component of retirement benefits in the same line item or items as the other compensation costs arising from services rendered by the pertinent employees during the period while the other components of net benefit costs will be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU No. 2017-07 is effective for the AMA for years beginning after December 15, 2018, but early adoption is permitted. The AMA plans to adopt this standard in 2018 and estimates that approximately $3 million of pension expense and approximately $4 million of postretirement healthcare expense will be reclassified from operating expense to a separate line in non-operating expenses in the year of adoption. There will be no impact on the consolidated statements of financial position.

4. Investments

Investments include marketable securities and a private equity investment that are carried at fair value.

In determining fair value, the AMA uses various valuation approaches. The FASB's ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset based on market data obtained from sources independent of the organization. Unobservable inputs are inputs that would reflect an organization's assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets that the organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from instrument to instrument and is affected by a wide variety of factors, including, for example, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The AMA uses prices and inputs that are current as of the measurement date, obtained through a third-party custodian from independent pricing services.

A description of the valuation techniques applied to the major categories of investments measured at fair value is outlined below.

Exchange-traded equity securities are valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

Mutual funds are open-ended Securities and Exchange Commission (SEC) registered investment funds with a daily NAV. The mutual funds allow investors to sell their interests to the fund at the published daily NAV, with no restrictions on redemptions. These mutual funds are categorized in Level 1 of the fair value hierarchy.

U.S. government securities are valued using quoted prices provided by a vendor or broker-dealer. These securities are categorized in Level 2 of the fair value hierarchy, as it is difficult for the custodian to accurately assess at a security level whether a quoted trade on a bond represents an active market.

U.S. government agency securities consist of two categories of agency issued debt. Non-callable agency issued debt securities are generally valued using dealer quotes. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. Agency issued debt securities are categorized in Level 2 of the fair value hierarchy.

The fair value of corporate debt securities is estimated using recently executed transactions, market price quotations (where observable) or bond spreads. If the spread data does not reference the issuer, then data that reference a comparable issuer are used. Corporate debt securities are generally categorized in Level 2 of the fair value hierarchy.

Foreign and state government securities are valued using quoted prices in active markets when available. To the extent quoted prices are not available, fair value is determined based on interest rate yield curves, cross-currency basis index spreads, and country credit spreads for structures similar to the bond in terms of issuer, maturity, and seniority. These investments are generally categorized in Level 2 of the fair value hierarchy.

Investments also include investments in a diversified closed end private equity fund with a focus on buyout opportunities in the United States and the European Union. The investment is not redeemable and distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next four to ten years. The fair value estimates of these investments are based on NAV as provided by the investment manager. Unfunded commitments as of December 31, 2017 totaled $22.9 million.

The following table presents information about the AMA's investments measured at fair value as of December 31. In accordance with Subtopic 820-10, investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

	2017	2016
Level 1 – Quoted prices in active market for identical securities		
Equity securities	**$ 312.1**	$ 271.4
Fixed-income mutual funds	**15.6**	13.1
	327.7	284.5
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	**90.4**	82.0
U.S. government and federal agency	**200.7**	202.4
Foreign government	**30.0**	26.8
U.S. state government	**0.3**	0.4
	321.4	311.6
Level 3 – Significant Unobservable inputs	**-**	-
Other investments measured at NAV – Private equity fund	**4.3**	1.3
Investments	**$ 653.4**	$ 597.4

Interest and dividends are included in investment income as operating revenue while realized and unrealized gains and losses are included as a component of non-operating items.

Investment income consists of:

	2017	2016
Investment dividend and interest income	$ 13.5	$ 12.0
Management fees	(2.5)	(2.2)
	$ 11.0	$ 9.8

Non-operating items include:

	2017	2016
Realized gains on investments, net	$ 12.0	$ 1.0
Unrealized gains on investments, net	33.3	23.1
	$ 45.3	$ 24.1

5. Other assets

Other assets include investments in mutual funds maintained in separate accounts designated for various nonqualified benefit plans that are not available for operations. Mutual funds are open-ended SEC registered investment funds with a daily NAV. The mutual funds allow investors to sell their interests to the fund at the published daily NAV, with no restrictions on redemptions. These mutual funds are categorized in Level 1 of the fair value hierarchy. The investments totaled $6.8 million and $5.4 million at 2017 and 2016, respectively.

6. Property and equipment

Property and equipment at December 31 consists of:

	2017	2016
Leasehold improvements	$ 35.9	$ 34.3
Furniture and office equipment	18.2	17.6
Information technology hardware and software	99.4	93.3
	153.5	145.2
Accumulated depreciation and amortization	(106.4)	(96.4)
	$ 47.1	$ 48.8

7. Retirement pension and savings plans

The AMA has a defined benefit pension plan covering eligible salaried and hourly employees. The plan is designed to pay a monthly retirement benefit that, together with Social Security benefits, provides retirement income based on employees' earnings, age and years of service. Other employers participate in this plan and assets and liabilities are allocated between the AMA and the other employers.

The AMA amended the pension plan to freeze pension benefits as of December 31, 2002. After that date, no individual can become a participant in the plan and no further benefits accrue under the plan. Individuals not vested as of that date were credited for future years of service for vesting purposes only. As a result, the projected benefit obligation is equal to the accumulated benefit obligation for this plan.

The changes in benefit obligation and plan assets were as follows:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	$ 123.6	$ 122.3
Interest cost	4.5	4.7
Benefits paid	(6.6)	(5.3)
Actuarial loss	2.5	1.9
Benefit obligation at end of year	$ 124.0	$ 123.6
Change in plan assets		
Fair value of plan assets at beginning of year	$ 119.5	$ 119.4
Return on plan assets	12.2	5.4
Benefits paid	(6.6)	(5.3)
Fair value of plan assets at end of year	$ 125.1	$ 119.5

The funded status and amounts recognized in the AMA's consolidated statements of financial position at December 31 are:

	2017	2016
Fair value of plan assets	$ 125.1	$ 119.5
Projected benefit obligation	124.0	123.6
Prepaid (accrued) pension costs	$ 1.1	$ (4.1)

In accordance with ASC Topic 958-715, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, all previously unrecognized actuarial losses are reflected in the consolidated statements of financial position. Accumulated amounts recognized in unrestricted equity that are not yet recognized as a component of periodic pension expense are:

	2017	2016
Actuarial losses	$ 37.0	$ 45.1
	$ 37.0	$ 45.1

An estimated $3.6 million of this amount will be included as a component of pension expense in 2017.

The weighted-average assumptions used in determining the December 31 benefit obligations were:

	2017	2016
Discount rate	3.4%	3.8%

The AMA recognizes pension expense in its consolidated statements of activities. The provisions of ASC Topic 958-715 require the AMA to recognize settlement charges based on the lump-sum benefit payments in 2017 and 2016. The components of pension expense are:

	2017	2016
Interest cost	**$ 4.5**	$ 4.7
Expected return on plan assets	**(6.9)**	(6.9)
Lump-sum settlement charges	**1.4**	1.2
Recognized actuarial loss	**3.9**	4.1
Pension expense	**$ 2.9**	$ 3.1

Pension-related changes, other than periodic pension expense, that have been included as a charge or credit to unrestricted equity consist of:

	2017	2016
Actuarial gains (losses) arising during period	**$ 2.8**	$ (3.4)
Reclassification adjustment for losses reflected in periodic pension expense	**5.3**	5.3
Change in unrestricted equity	**$ 8.1**	$ 1.9

Actuarial assumptions used in determining pension expense were:

	2017	2016
Discount rate	**3.8%**	4%
Expected long-term return on plan assets	**5.75%**	5.75%

To develop the expected long-term rate of return on plan assets for the pension plan, the AMA considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. The AMA's investment strategy reflects the expectation that equity securities will outperform debt securities over the long term. Assets are invested in a prudent manner to maintain the security of funds while maximizing returns within the plan's investment policy guidelines. The strategy is implemented utilizing actively managed assets from the categories listed below.

The investment goal is to provide a total return that, over the long term, increases the ratio of plan assets to liabilities subject to an acceptable level of risk. This is accomplished through diversification of assets in accordance with the investment policy. Periodic rebalancing occurs after the end of each calendar quarter, as required by the policy.

The target allocations for plan assets are 45 percent equity securities, 50 percent corporate bonds and U.S. Treasury or Agency securities, and 5 percent in cash and cash equivalents.

Equity securities include investments in large-cap, mid-cap, and small-cap companies primarily located in the United States and large- to mid-cap companies outside the United States through investments in mutual funds.

Mutual funds are open-ended SEC registered investment funds with a daily NAV.

Fixed-income securities include primarily investment grade corporate bonds of companies from diversified industries and U.S. Treasury or Agency securities and foreign government securities, either through direct investment in bonds or through common trusts, as well as an allocation to high-yield U.S. corporate bonds, with a target of 4 percent of the portfolio.

The following fair value hierarchy tables present information about the AMA pension plan investments measured at fair value as of December 31.

	2017	2016
Level 1 – Quoted prices in active markets for identical securities		
U.S. equity securities	**$ 45.8**	$ 42.8
International mutual funds	**9.5**	9.0
Fixed-income mutual funds	**37.1**	36.4
High-yield fixed income mutual fund	**5.1**	4.8
	97.5	93.0
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	**9.8**	9.6
U.S. government and agency	**16.7**	15.7
Foreign government	**1.1**	1.2
	27.6	26.5
Level 3 – Significant unobservable inputs	**-**	-
Marketable investments – all levels	**$ 125.1**	$ 119.5

The AMA currently anticipates making no contribution to the pension plan in 2018, as plan assets are greater than the target of 110 percent of liabilities as calculated for funding purposes. This estimate is based on current tax laws, plan asset performance and liability assumptions, which are subject to change. Any shortfall in plan asset performance from the expected rate of return, or increase in plan liabilities due to lower interest rates, could cause contributions to increase by an amount equivalent to the shortfall in performance or increase in the present value of plan liabilities.

The following pension benefit payments are expected:

2018	$ 9.0
2019	9.0
2020	9.9
2021	7.7
2022	8.2
2023 – 2027	37.3

The AMA also has a 401(k) retirement and savings plan, which allows eligible employees to contribute up to 75 percent of their compensation annually, subject to Internal Revenue Service (IRS) limits. The AMA matches 100 percent of the first 3 percent and 50 percent of the next 2 percent of employee contributions. The AMA may, in its discretion, make additional contributions for any year in an amount up to 2 percent of the compensation for each eligible employee. Compensation is subject to IRS limits and excludes bonuses and severance pay. AMA matching and discretionary contribution expense totaled $5.6 million and $5.3 million in 2017 and 2016, respectively.

The AMA also maintains a non-qualified, unfunded supplemental pension plan for certain long-term employees. Participation in the plan was closed in 1994. The AMA recognizes the liability in its consolidated statements of financial position. The accumulated benefit obligation and liability totaled $0.4 million in 2017 and 2016. The AMA uses the same discount rates noted above for the pension plan to determine the plan benefit obligation. There was no associated expense for this plan in 2017 and 2016. There was no changes in pension actuarial losses that are not yet reflected in periodic pension expense, but included in unrestricted equity in 2017 and 2016.

The AMA expects to pay approximately $0.4 million in benefits from the supplemental pension plan over the next five years.

8. Postretirement health care benefits

The AMA provides health care benefits to retired employees who were employed on or prior to December 31, 2010. After that date, no individual can become a participant in the plan. Generally, qualified employees become eligible for these benefits if they retire in accordance with provisions similar to the AMA's pension plan and are participating in the AMA medical plan at the time of their retirement. The AMA shares the cost of the retiree health care payments with retirees, paying approximately 60 to 80 percent of the benefit payments. The AMA has the right to modify or terminate the postretirement benefit plan at any time. Other employers participate in this plan and assets and liabilities are allocated between the AMA and the other employers.

The AMA has applied for and received the federal subsidy to sponsors of retiree health care benefit plans that provides a prescription drug benefit that is actuarially equivalent to Medicare Part D under the *Medicare Prescription Drug, Improvement and Modernization Act of 2003*. In accordance with ASC Topic 958-715, the AMA initially accounted for the subsidy as an actuarial experience gain to the accumulated postretirement benefit obligation.

The postretirement health care plan is unfunded. In accordance with ASC Topic 958-715, the AMA recognizes this liability in its consolidated statements of financial position.

The following reconciles the change in accumulated benefit obligation and the amounts included in the consolidated statements of financial position at December 31:

	2017	2016
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 106.4**	$ 100.7
Service cost	**1.7**	1.9
Interest cost	**4.0**	4.3
Benefits paid	**(3.6)**	(3.5)
Participant contributions	**1.0**	1.0
Federal subsidy	**0.2**	0.2
Plan amendments	**(2.8)**	-
Actuarial (gains) losses	**(3.8)**	1.8
Accrued postretirement benefit costs	**$ 103.1**	$ 106.4

The postretirement health care plan accumulated losses and prior service credits not yet recognized as a component of periodic postretirement health care expense, but included as an accumulated charge or credit to equity as of December 31 are:

	2017	2016
Actuarial losses	**$ 21.0**	$ 25.3
Prior service credits	**(3.5)**	(1.5)
	$ 17.5	$ 23.8

An estimated $1 million in prior service credits and $1.2 million of actuarial losses will be included as components of postretirement health care expense in 2018.

Actuarial assumptions used in determining the accumulated benefit obligation at December 31 are:

	2017	2016
Discount rate	**3.7%**	4.3%
Initial health care cost trend	**6.22%**	6.39%
Ultimate health care cost trend	**4.5%**	4.5%
Year that the rate reaches the ultimate trend rate	**2038**	2038

The AMA recognizes postretirement health care expense in its consolidated statements of activities. The components of expense are:

	2017	2016
Service cost	**$ 1.7**	$ 1.9
Interest cost	**4.0**	4.3
Recognized actuarial loss	**0.5**	1.0
Amortization of prior service credits	**(0.8)**	(1.0)
Postretirement health care expense	**$ 5.4**	$ 6.2

Postretirement health care-related changes, other than periodic expense, that have been included as a charge or credit to unrestricted equity consist of:

	2017	2016
Actuarial gains (losses) arising during period	**$ 3.8**	$ (1.8)
Reclassification adjustment for losses reflected in periodic postretirement health care expense	**0.5**	1.0
Plan amendments	**2.8**	-
Reclassification adjustment for recognition of prior service credits	**(0.8)**	(1.0)
Change in unrestricted equity	**$ 6.3**	$ (1.8)

Actuarial assumptions used in determining postretirement health care expense are the same assumptions noted in the table above for determining the accumulated benefit obligation, except as follows:

	2017	2016
Discount rate	**4.3%**	4.5%
Initial health care cost trend	**6.39%**	6.55%
Year that the rate reaches the ultimate trend rate	**2038**	2038

A one-percentage point change in assumed health care cost rates would have the following effect:

	1% Increase	1% Decrease
Effect on postretirement service and interest cost	**$ 1.3**	$ (1.0)
Effect on postretirement benefit obligation	**$ 21.8**	$ (17.0)

The following postretirement health care benefit payments are expected to be paid by the AMA, net of contributions by retirees and federal subsidies:

2018	$ 2.3
2019	2.6
2020	2.8
2021	3.0
2022	3.2
2023 - 2027	19.5

9. Income taxes

The provision for income taxes includes:

	2017	2016
Operating		
Current	**$ 8.9**	$ 8.1
Deferred	**0.6**	(0.9)
Valuation allowance	**(1.2)**	0.5
	8.3	7.7
Tax expense (credit) related to credits or charges to equity		
Deferred	**3.0**	(0.3)
	$ 11.3	$ 7.4

As prescribed under ASC Topic 740, *Income Taxes*, the AMA determines its provision for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

The deferred tax benefit or charge from credits or charges to equity represents the estimated tax benefit from recording unrecognized actuarial losses and prior service credits for both the pension and postretirement health care plans, pursuant to ASC Topic 958-715.

Valuation allowances are provided to reduce deferred tax assets to an amount that is more likely than not to be realized. The AMA evaluates the likelihood of realizing its deferred tax assets by estimating sources of future taxable income and assessing whether or not it is likely that future taxable income will be adequate for the AMA to realize the deferred tax asset. The AMA established an initial valuation allowance in 2009 to reflect the fact that deferred tax assets include future expected benefits, largely related to retiree health care payments, that may not be deductible due to a projected lack of taxable advertising income in future years. Increases or decreases in deferred tax assets, where future benefits are considered unlikely, will result in an equal and offsetting change in the valuation reserve. If the AMA were to make a determination in future years that these deferred tax assets would be realized, the related valuation allowance would be reduced and a benefit to earnings recorded.

Operating tax expense was not materially impacted by changes in the tax law, as a reduction in deferred tax assets of $1.3 million was offset by an equivalent reduction in the valuation allowance. Tax expense related to credits to equity increased by $2 million with an offsetting reduction in deferred tax assets as a result of the change in tax law.

Deferred tax assets recognized in the consolidated statements of financial position at December 31 are:

	2017	2016
Benefit plans and compensation	**$ 6.9**	$ 11.0
Other	**0.4**	(0.1)
	7.3	10.9
Valuation allowance	**(2.9)**	(4.1)
	$ 4.4	$ 6.8

Cash payments for income taxes were $7.8 million and $8.5 million in 2017 and 2016, respectively.

10. Deferred tenant improvement allowances

As part of the new headquarters lease agreement that commenced in 2013, the AMA received a total of $21.7 million tenant improvement allowance from the landlord in 2012 and 2013. In 2016, AMA renegotiated its office lease in Washington D.C. and received $1.4 million in new tenant allowances. This is in addition to the initial $2.1 million tenant allowance related to the Washington D.C. office space received in 2007. A new lease in New Jersey that was effective in 2017 included $0.2 million in tenant allowances.

Tenant improvement allowances are recorded as a deferred liability on the consolidated statements of financial position and as a cash inflow from operating activities in the consolidated statements of cash flows. Capital expenditures funded by the tenant improvement allowances received are capitalized as leasehold improvements on the consolidated statements of financial position and as capital expenditures in the consolidated statements of cash flows. The tenant allowances are deferred and amortized on a straight-line basis over the life of the leases as a reduction of rent expense.

11. Deferred rent obligations

The headquarters lease agreement included rent abatement through August 2015 as well as rent escalation clauses over the life of the lease. The Washington D.C. and New Jersey office leases also include rent abatement and escalation clauses. AMA is required to recognize rent expense on a straight-line basis beginning on the earlier of the first rent payment or the date of possession of the leased property. The difference between the amounts charged to expense and the rent paid is recorded as a deferred rent obligation and amortized over the lease term.

12. Commitments and contingencies

Lease commitments

Rent expense under operating leases, including executory costs and taxes, was $13.3 million and $12.8 million in 2017 and 2016, respectively. Future minimum lease payments as of December 31, 2017 are:

2018	$ 10.6
2019	11.4
2020	11.6
2021	11.7
2022	11.7
2023 and beyond	76.3
	$ 133.3

All leases have renewal options.

Contingencies

In the opinion of management, there are no pending legal actions for which the ultimate liability will have a material effect on the equity of the AMA.

13. Functional expenses

	2017	2016
Membership	**$ 12.5**	$ 11.1
Publishing, health solutions, and insurance		
Publishing	**51.5**	52.3
Database products	**10.8**	12.0
Book and digital content	**20.9**	20.6
Insurance agency	**17.9**	18.2
Integrated health model initiative	**2.5**	1.4
Other business operations	**2.1**	2.3
	105.7	106.8
Investments	**0.8**	0.6
Strategic focus areas and core operations		
Strategic focus areas	**24.9**	21.7
Advocacy	**27.1**	25.1
Health, science and medical education	**15.7**	14.4
Communications and marketing	**22.1**	16.7
	89.8	77.9
Governance	**14.2**	13.4
Administration and operations		
Information technology	**28.1**	29.5
Corporate services	**5.8**	5.6
Senior executive management	**7.0**	5.2
Physician engagement and Portfolio management	**14.2**	11.2
General counsel	**5.1**	5.0
Finance and risk management	**6.7**	6.6
Human resources	**5.1**	4.7
Strategic planning and health analytics	**2.0**	1.9
Other	**18.0**	16.3
	92.0	86.0
	315.0	295.8
Health2047	**10.5**	6.6
	$ 325.5	$ 302.4

14. Subsequent events

ASC Topic 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. For the year ended December 31, 2017, the AMA has evaluated all subsequent events through February 28, 2018, which is the date the consolidated financial statements were available to be issued.

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of American Medical Association

We have audited the accompanying consolidated financial statements of the American Medical Association (the "AMA") and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the AMA'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 AMA'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 Medical Association and subsidiaries as of December 31, 2017 and 2016, and the results of its activities and changes in its equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Chicago, Illinois

February 28, 2018

Written Statement of Certification of Chief Executive Officer and Chief Financial Officer

The undersigned hereby certify that the information contained in the audited financial statements of the American Medical Association for the years ended December 31, 2017 and 2016 fairly presents, in all material respects, the financial condition and the results of operations of the American Medical Association.

James L. Madara, MD
Executive Vice President and Chief Executive Officer

Denise M. Hagerty
Senior Vice President and Chief Financial Officer

February 28, 2018

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Note: Drs. Harmon, Resneck and Harris serve on all committees, except where otherwise noted, as *ex-officio* members without vote. Dr. Barbe serves on all committees as an *ex-officio* member with vote.

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