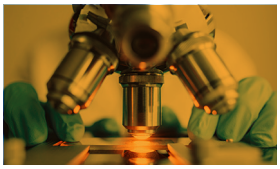
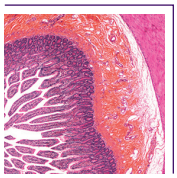
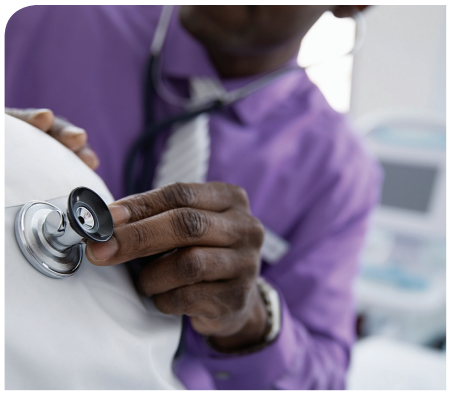
AMA
AMERICAN MEDICAL ASSOCIATION



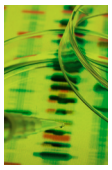




2018 ANNUAL REPORT








Ankush K. Bansal, MD
AMA member since 2000

Nicole Plenty, MD
AMA member since 2008

Your powerful ally
in patient care

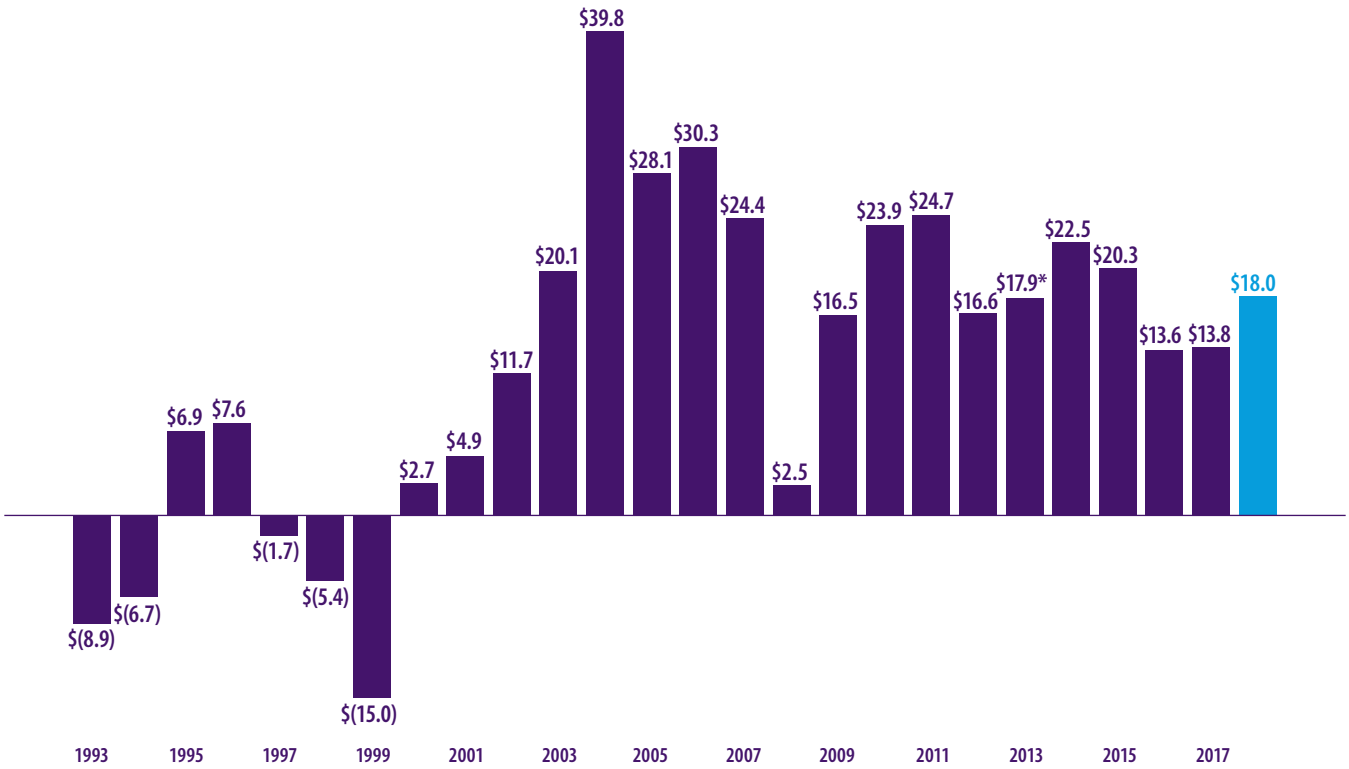
Financial highlights

Years ended December 31

(Dollars in millions)	2018	2017
Revenues	$ 361.3	$ 347.6
Cost of products sold and selling expense	27.7	28.2
General and administrative expenses	310.5	297.3
Operating results	18.0	13.8
Non-operating items	(39.7)	45.4
Changes in defined benefit postretirement plans, other than periodic expense, net of tax	10.8	11.4
Change in association equity	(10.9)	70.6
Change in donor restricted equity	-	0.1
Change in total association equity	$ (10.9)	$70.7
Association equity at year-end	$ 548.8	$ 559.7
Employees at year-end	1,087	1,033

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.

2018 letter to stakeholders

Solving the most urgent challenges in health care today—from the opioid epidemic to widespread system dysfunction—requires a bold vision, a creative approach and strategic partnerships across medicine, business and technology.

It's this philosophy that drives the work of the American Medical Association to be a powerful ally and unifying voice for America's physicians, the patients they care for, and the promise of a healthier nation.

In 2018 the AMA set new standards for success, expanding our reach and efficacy with innovative approaches to advocacy, technology, research and physician engagement in three core areas:

- **Attacking the dysfunction in health care** by removing obstacles that interfere with patient care.
- **Driving the future of medicine** by reimagining medical education, training and lifelong learning, and by promoting innovation to tackle the biggest challenges in health care.
- **Improving the health of the nation** by leading the charge to prevent chronic disease and confront health crises.

The AMA's groundbreaking efforts to reinvent medical education for the digital age took a sizable step forward in 2018 as we welcomed the first graduating classes, representing more than 1,000 students from 11 schools, from the AMA's "Accelerating Change in Medical Education" initiative. In addition, we introduced the next phase of our celebrated work with the "Reimagining Residency" initiative that, in the spirit of our undergraduate program, promises to better train young physicians to meet the evolving needs of patients, communities and our dynamic health care system.

For the physician workforce of today, the AMA expanded its world-leading journal portfolio with the launch of *JAMA Network Open*, a fully open-access online clinical research journal covering more than 40 key topics in medicine. It has quickly become an indispensable source for research and commentary on clinical care, health care innovation and global health.

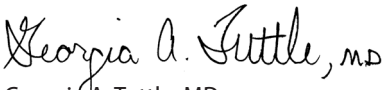
The business formation company the AMA founded in Silicon Valley, Health2047, launched its first spinout companies dedicated to solving the complex challenges of today's health care environment. Akiri is developing a cloud-based framework to promote data liquidity and the secure movement of health information. First Mile Care is focusing on helping those with diabetes get the support and expert coaching they need to improve their long-term health and well-being. Leveraging proven diabetes prevention programs and on-demand digital coaching, the new company seeks to cut in half the number of people in the United States living with prediabetes by 2028.

Across an array of complex issues and challenges—from fighting abusive insurer practices and taking a stand on gun violence to advocating for greater drug pricing transparency and working to reform prior authorization burdens that often delay care—the AMA demonstrated its unsurpassed commitment to patients and physicians.

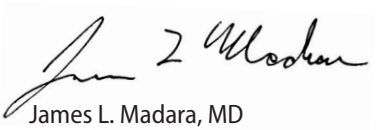
This work was made possible thanks to another strong financial performance in 2018, which included positive operating results for the 18th time in the last 19 years and increased membership for the eighth year in a row. Our membership growth was fueled by an innovative and award-winning campaign, "Membership Moves Medicine™," which grew membership by 3.4 percent in 2018, double the growth rate of the previous year. The campaign celebrates the powerful work of our physician members and showcases how their individual efforts—along with the AMA—are moving medicine forward.

Bold leadership. Collaboration. Determination. This is how we will continue to transform health care in America so that it better meets the needs of patients and physicians in the 21st Century. That's the power of physician advocacy. And that's the power of the AMA.

Jack Resneck Jr., MD
Chair, Board of Trustees



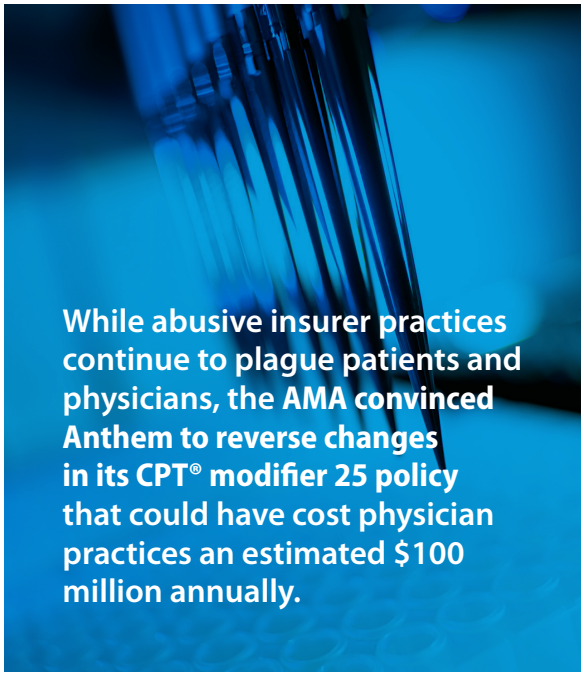
Georgia A. Tuttle, MD
Finance Committee Chair, Board of Trustees



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

Your powerful ally in attacking dysfunction in health care

Siobhan Wescott, MD
AMA member since 2013



While abusive insurer practices continue to plague patients and physicians, the AMA convinced Anthem to reverse changes in its CPT® modifier 25 policy that could have cost physician practices an estimated $100 million annually.

Nine in 10 physicians

say that prior authorization requirements of insurance companies and other payers can delay patient access to necessary care and have a negative impact on clinical outcomes, which is why the AMA launched a multi-faceted campaign across health care to "right size" prior authorization in clinical practice.

The AMA persuaded CMS to implement burden reduction initiatives to ease documentation requirements for office visits. A CPT/RUC Workgroup actively worked with medical specialty societies to create alternatives to the office-visit payment collapse.

The AMA updated and expanded its award-winning STEPS Forward™ Practice Improvement Strategies, helping physicians adopt organizational changes to improve productivity and professional satisfaction.

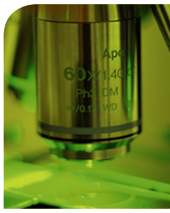
The AMA, in collaboration with the California Medical Association, scored a significant win for medical staff self-governance when the Tulare Regional Medical Center agreed to reinstate—with full rights, privileges and status—its organized medical staff following an unjust and illegal ousting in 2016, in settlement of a lawsuit brought by medical staff.

The AMA's strategic advocacy secured more than 85 state legislative and regulatory victories on issues critical to patients and physicians, including the prevention and treatment of opioid use disorder, balance billing, pharmacy benefit manager regulation, medical liability reform, telemedicine and more.

The AMA's Digital Medicine Payment Advisory Group (DMPAG) proposed and the CPT Editorial Panel approved new CPT codes for remote physiologic monitoring and internet-/telemedicine-based interprofessional consultations that are now being covered for the first time by Medicare and commercial payers.

The AMA and RAND Corporation published a follow-up to their landmark study on physician adoption of new payment models, providing an even clearer picture of the challenges facing physicians in this era of rapid change.

Your powerful ally in driving the future of medicine



Our bold efforts to reinvent medical education entered its next phase as the AMA Accelerating Change in Medical Education Consortium members celebrated their first graduating classes and pledged to continue working collaboratively to transform medical education.

The launch of the highly anticipated AMA Ed Hub reinforced our longstanding commitment to lifelong learning and professional development for physicians at all stages of their careers. The new platform—amaedhub.com—combines the AMA's best multimedia education and training resources in one location that is on demand and available on any device.

The AMA added the Digital Health Implementation Playbook to its growing catalog of practice transformation tools, helping physicians better integrate technology solutions into clinical practice and extend care beyond the exam room.

4,800+

The number of users to date for the AMA's Physician Innovation Network, which continues to expand and amplify the physician voice in digital health by connecting physicians with technology innovators and entrepreneurs.

Krystal L. Tomei, MD
AMA member since 2002

Building on the success of our Accelerating Change in Medical Education Consortium, the AMA launched the "Reimagining Residency" initiative, a $14.4 million investment to support future physicians and foster readiness for practice and well-being in the transition from medical school to residency.

The AMA made a significant investment to expand the body of "practice science," championing evidence-based interventions to improve delivery models at the practice and system levels.

The AMA relaunched its popular FREIDA® platform online with new tools, content, and functionality to help students and residents find the residency and fellowship programs to advance their careers.

The JAMA Network™ further expanded its reach and impact with new channels and additional content, including podcasts, Apple News feeds and visual abstracts. The launch of *JAMA Network Open*, a peer-reviewed general medicine journal, marked the AMA's first online, fully open-access clinical research journal.

Your powerful ally in preventing chronic disease and confronting health crises

Tamaan Osbourne-Roberts, MD
AMA member since 2003

The AMA, in partnership with the Ad Council and the Centers for Disease Control and Prevention, relaunched its popular and effective series of public service announcements for prediabetes screening. More than 1 million people have already self-screened for prediabetes at DoIHavePrediabetes.com.

The AMA launched a new Diabetes Prevention Guide to assist health care organizations in identifying patients with diabetes and implementing evidence-based prevention strategies.

In a landmark victory in Pennsylvania, the AMA worked with the Pennsylvania Medical Society and Manatt Health to support an agreement between the governor and the seven largest commercial insurers to stop prior authorization for medication-assisted treatment. The AMA is now working with state medical societies across the nation to implement this model.

With messaging focused on the clinical realities and real-world implications of policies on patients and physicians, the AMA rose to the top of critical debates on immigration, gun violence, opioid abuse and prevention, and the future of health care. In 2018, the AMA media relations team secured more than 68,000 placements across national, local and trade media—coverage that generated more than 25 billion media impressions worth $232 million in estimated publicity value.

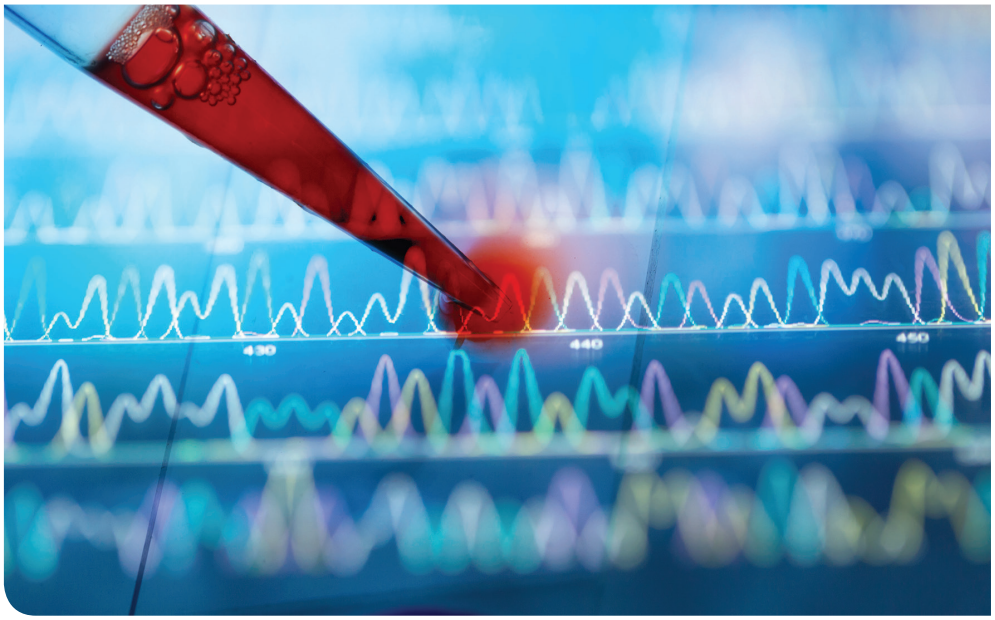
The AMA Opioid Task Force issued a report in 2018 highlighting physicians' actions to help reverse the opioid epidemic. Opioid prescriptions are steadily declining while more physicians than ever before are becoming trained to treat those with an opioid use disorder.

The AMA joined a national discussion about the role of physicians in preventing gun violence, advocated for sensible gun legislation at the state and federal levels and urged Congress to allocate federal funding to study its effects. The AMA joined forces with the American Foundation for Firearm Injury Reduction in Medicine (AFFIRM), a physician-led nonprofit that compensates for the lack of government-funded gun violence research with private-sector resources to fund and promote public health solutions to gun violence.

1,600

The number of health organizations that have participated in our national Target: BP initiative—a joint endeavor with the American Heart Association—that seeks to reduce the number of Americans who have heart attacks and strokes each year by prioritizing better blood pressure control.

2018 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.

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.

In 2018, AMA continued to maintain its focus on Practice Sustainability and Professional Satisfaction (PS2), working with physicians to advance initiatives that will help them navigate and succeed in a continually evolving environment; Accelerating Change in Medical Education (ACE) by continuing the collaboration with medical schools to create a system that trains physicians to meet the needs of today's patients and to anticipate future changes and announcing the launch of a new initiative to transform residency in a similar fashion; and Improving Health Outcomes (IHO) by enabling physicians and health teams to partner with patients, communities and public and private-sector organizations to slow or reverse the increasing prevalence of high blood pressure and diabetes.

AMA's critical work in Advocacy continues to be focused on efforts to reduce onerous rules for implementation of MACRA, reducing administrative burden for physicians, convening a national task force to engage physicians to curb opioid abuse and organizing a task force on MACRA adoption and research on prior authorization.

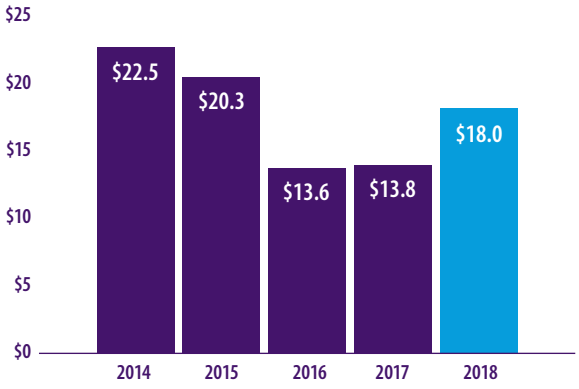
AMA's business formation and commercialization enterprise in Silicon Valley, Health2047, Inc. (Health2047), has made substantial progress on key projects, including the spinouts of two new companies in 2017 and 2018. Health2047 will continue to enhance AMA's ability to define, create, develop and launch, 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.

2018 saw many other important activities, including the successful launch of *JAMA Network Open*; a new online general medical journal publishing peer-reviewed, open-access clinical research from across all medical disciplines; expansion of the education center, the AMA Ed Hub, providing trusted, high-quality education to physicians and other members of the health care team who seek to stay current and continuously improve the care they provide; continued physician engagement efforts through enhanced digital marketing and digital content; and further development of the Integrated Health Model Initiative (IHMI) to enable interoperable technology solutions and care models, incorporating meaningful data elements around function, state and patient goals.

In 2018, AMA is reporting $18 million in net operating income; reflecting continued growth in revenue, offset by additional investment in the focus areas, core activities and new initiatives.

Net operating results

(in millions)



The AMA is committed to its responsibility to ensure that the organization focuses its finite resources on its core activities and strategic arcs 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.

The following pages discuss the 2018 consolidated results from operations, financial position and cash flows, as compared to 2017. Additional detailed discussion of operating unit results is included in the section titled "Group Operating Results."

Consolidated financial results

Results from operations

Revenues

In 2018, total revenues improved by $13.7 million over the prior year, due to continued growth in AMA's royalties and journal site licensing. Coding book sales declined again during 2018, reflecting the ongoing transition from print to digital.

The number of AMA dues paying memberships increased in 2018 by 3.4 percent, achieving eight years of consecutive growth in membership. Similar to results in previous years, increases occurred in lower dues paying categories such as group memberships and sponsored memberships, which resulted in a dues revenue decline of just under 4 percent.

Consolidated investment income increased slightly in 2018, reflecting larger investable balances and a small increase in interest rates, although rates remain 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 2018, cost of products sold and selling expenses decreased slightly, by $0.5 million, due to reduced business promotion expense and sales commissions.

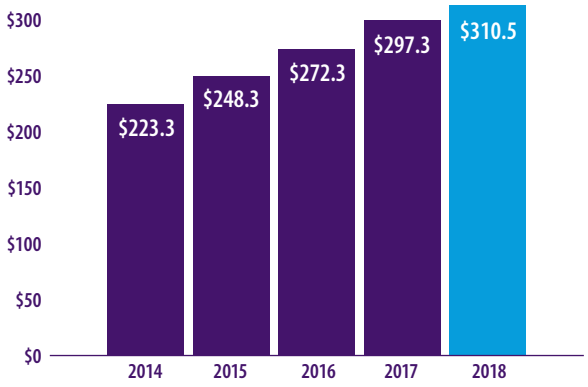
Contribution to general and administrative expenses

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 $14.2 million to $333.6 million in 2018, with Books and Digital Content accounting for most of the change. Revenue improvements from royalties and site licensing, offset by the declining book sales discussed above, were the key factors.

General and administrative expenses

(in millions)



General and administrative expenses rose $13 million in 2018, or just over 4 percent, but less than the budgeted increase for 2018.

Compensation and benefits increased $20.6 million, or approximately 12 percent with costs increasing in both compensation and benefits. Compensation, including temporary help, was $12.1 million higher in 2018, a 10.8 percent increase, with approximately half due to staff additions and the other half resulting from salary or merit increases. Health2047 and its subsidiaries accounted for $2.2 million of that increase due to continued expansion of operations. Associated fringe benefit cost increased $2.4 million in total. Higher incentive compensation accounted for a $5.2 million increase in compensation and benefits as the salary base increased and key performance indicators were achieved in 2018.

Occupancy costs increased $1.3 million in 2018, reflecting the absence of rent abatement for the Washington D.C. office lease received in 2017 and expansion of Health2047 leased office space.

Technology costs increased $1.2 million in 2018, largely due to expanded use of hosted solutions in lieu of building custom inhouse applications, thereby reducing the ongoing cost of associated support.

AMA launched a major brand campaign in 2016 through 2017 to enhance AMA's reputation, visibility and effectiveness among physicians, healthcare influencers and the public. The campaign was not repeated in 2018, contributing to a $6.6 million decrease in marketing and promotion.

Outside professional services declined in 2018, mainly due to the absence of marketing consulting costs for the prior years' brand campaign. This was offset by expanded uses of professional services occurring across the organization,

with the largest increases in the strategy area related to IHO projects such as new and enhanced IHO MAP tools and resources and in PS2 projects to create practice transformation and payment models.

A $0.9 million decrease in other operating expenses was driven by a $2.9 million decrease in grants, including the phased reduction of grants to PCPI and the final half-year payment of the original five-year grants to medical schools in the ACE focus area. This was offset by $1.3 million in write-offs of developed software.

Operating results before income taxes

The AMA achieved a $23.1 million pre-tax operating income in 2018 compared to $22.1 million in 2017. A 3.9 percent increase in revenue was almost entirely offset by the general and administrative expense increases described above.

Income taxes

Taxes decreased $3.2 million in 2018 due to the impact of reduced corporate federal tax rates on AMA's for-profit subsidiaries, offset by the absence of the $1 million tax expense in 2017 related to a spinoff by Health2047.

Net operating results

Operating income totaled $18 million in 2018, up $4.2 million from the prior year, the improvement driven mainly by lower income tax in the for-profit subsidiaries.

Non-operating items

The AMA reported a $39.7 million loss in the fair value of its portfolio during 2018 after a $45.3 million gain in 2017.

Revenue (less than) in excess of expenses

Revenues were $21.7 million less than expenses in 2018, a combination of the $18 million operating income reduced by the $39.7 million loss in fair value in the portfolios. Revenues exceeded expenses by $59.2 million in 2017.

Change in total 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 2018, the net credit to equity related to defined benefit postretirement plans totaled $10.8 million. Actuarial gains in both the pension plan and the postretirement health care plan resulted from year-end lower interest rates that decreased the present value of plan liabilities totaled $22.2 million. In addition, claims experience in the retiree health plan were lower than the actuarial expectation, resulting in a $3.8 million actuarial gain. Recognition of actuarial losses and prior service credits in the postretirement health care plan, as well as other minor variations from actuarial expectations and prior service costs, added to the gains.

AMA terminated its pension plan in October 2018 with final distributions expected in 2019. The plan had been frozen since 2002, and the termination will allow participants to take a lump sum payment or to defer payment and participate in a group annuity purchased by AMA on their behalf. The plan assumptions were updated to reflect the termination which resulted in a $10.7 million actuarial loss. Portfolio returns in the pension plan were less than the actuarial expectation, resulting in an additional $7.2 million loss. Deferred taxes on the credit reduced the overall gain.

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.

The AMA reported a $10.9 million decrease in association equity in 2018. This reflects the amount by which revenues were less than expenses, plus the credits to equity for changes in defined benefit postretirement plans discussed above. There was no change in donor-restricted equity in 2018.

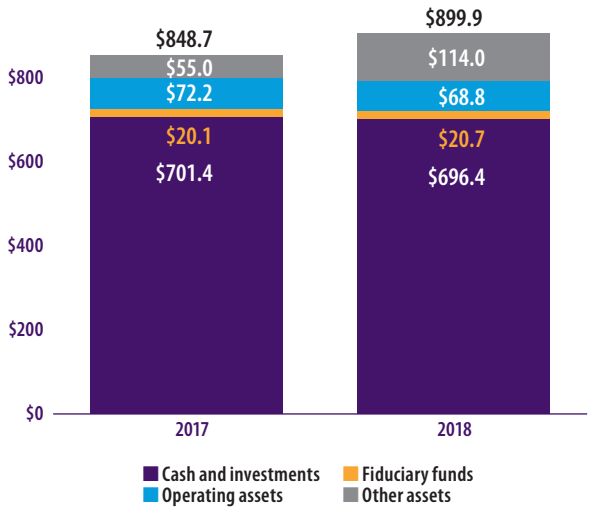
The AMA reported a $70.6 million increase in association equity in 2017, combining $59.2 million of revenues in excess of expenses with $11.4 million in credits to equity for changes in defined benefit postretirement plans. After adding a $0.1 million increase in donor-restricted equity in 2017, total equity increased $70.7 million.

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 $51.2 million in 2018. This includes a $5 million decrease in cash and investments resulting from $34.7 million in free cash flow reduced by the $39.7 million loss 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 the third parties. This approximates the offsetting liability titled insurance premiums and other fiduciary funds payable.

Operating assets decreased $3.4 million in 2018, primarily due to a $2.9 million decrease in accounts receivable from lower fourth quarter royalty revenue, as well as a reduction in deferred tax receivables. Changes in operating assets from year to year are largely due to timing of cash flows.

Other assets increased $59 million in 2018, mainly due to adoption of a new accounting standard for lease accounting which requires that the present value of future lease payments be established as a lease asset and lease liability on the statement of financial position. This was a non-cash transaction, with $60.7 million added to AMA's assets for operating lease right-of-use assets at the end of 2018, offset by the addition of an operating lease liability and derecognition of previously reported deferred rent expense and tenant improvement allowance liabilities. The net effect upon adoption on January 1, 2018 was to increase both assets and liabilities by $61.4 million.

Other assets also include property and equipment and investments in mutual funds maintained in separate accounts designated for various nonqualified benefit plans that are not available for operations. Property and equipment net book value decreased $0.9 million, as $12.5 million in new capital assets was exceeded by annual depreciation and amortization of existing capital assets as well as write-offs of software.

Operating liabilities increased $56.1 million in 2018, largely due to the adoption of the new lease accounting standard discussed above. The lease liability of $99.2 million as of December 31, 2018 was offset by the elimination of $22.5 million in deferred office rent and $17.1 million in deferred tenant improvement allowances that were included as liabilities on AMA's statement of financial position as of December 31, 2017.

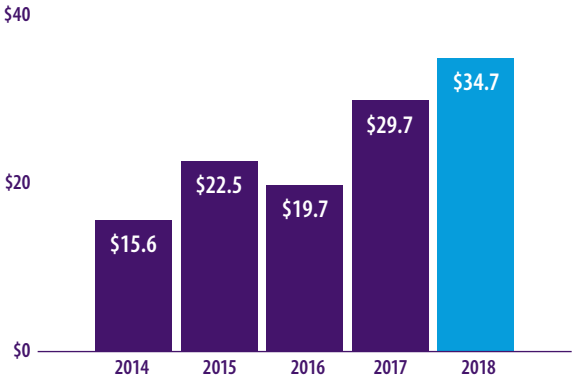
Deferred revenue represents funds received during the year that will not be recognized as income until the following year or thereafter. These amounts vary, as well as accounts payable and accrued expenses, depending on the timing of cash receipts and payments.

Cash flows

Cash, cash equivalents and donor-restricted cash declined $6.7 million in 2018, and increased $19.1 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)



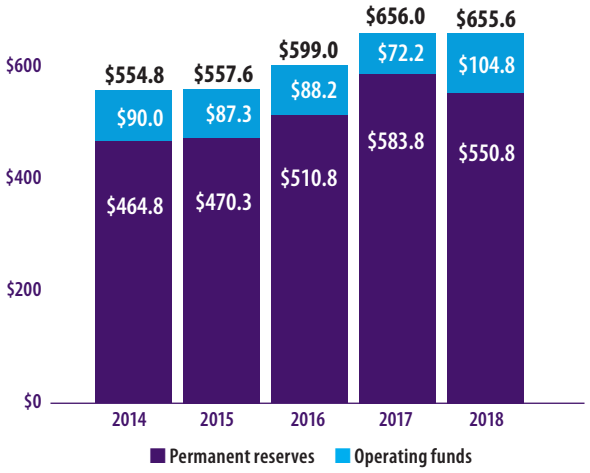
Free cash flow measures the AMA's ability to fund operations, capital expenses and major programmatic initiatives from funds generated from operations. This measure excludes non-operating gains and losses.

Free cash in 2018 totaled $34.7 million, $5 million greater than the 2017 results, with a $7.6 million improvement in cash from operations partially offset by higher capital spending.

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 2018, the reserve portfolio's value was $550.8 million compared to $583.8 million in 2017, a $33 million decrease. That decrease was the result of a $38.9 million loss in the market value of the reserve portfolios somewhat offset by a $5.6 million transfer of 2017 excess operating funds to reserves. Operating funds totaled $104.8 million in 2018, up $32.6 million from 2017.

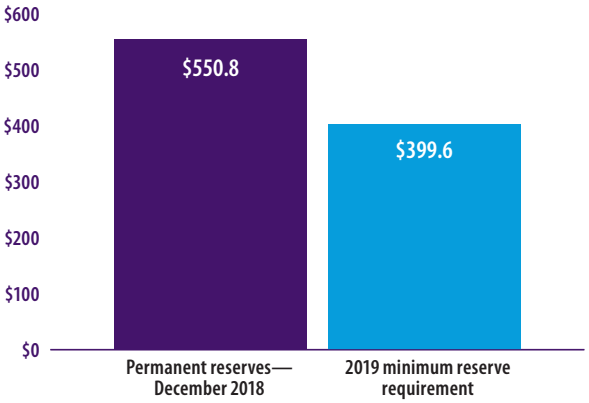
The AMA has established a required minimum reserve investment portfolio level that is adequate to cover 100 percent of annual general and administrative expenses (excluding grant expenses) plus an amount sufficient to pay long-term pension, postretirement and lease liabilities (net of the right of use asset value). 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)



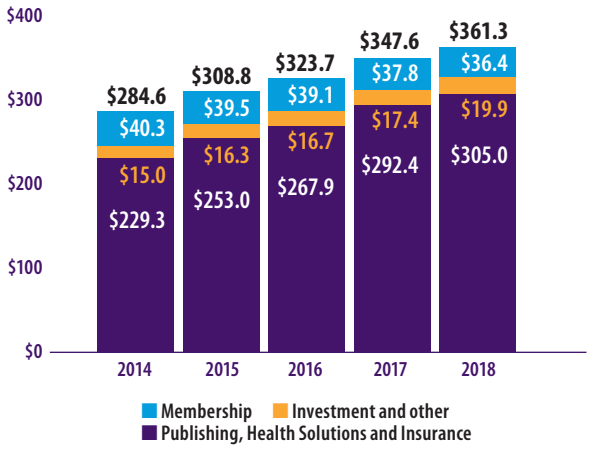
Group operating results

The AMA is organized into various operating groups: Membership, Publishing, Health Solutions & Insurance, Strategic Focus Areas, Core Operations, Administration and Operations, Affiliated Organizations, Unallocated Overhead and Health2047 (including subsidiaries). 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. Prior year financial results have been restated to be consistent with the current year reported results for each group.

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 include the gross dues revenue collected, reduced by commissions paid to state societies, and equal the membership dues revenue reported on the statement of activities.

The AMA achieved its eighth consecutive year of increases in the number of dues-paying members, although total dues revenue declined slightly in 2018. The number of dues paying members increased 3.4 percent in 2018, and total membership increased 2.8 percent in 2018 as compared to 1.2 percent in 2017.

Gross dues revenue was $36.5 million, a $1.4 million decrease from 2017, as membership increased in categories with lower average dues rates, such as group practices, retirees, residents and sponsored memberships. Interest expense on lifetime memberships was $0.1 million in both 2018 and 2017.

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 or the Health2047 results.

Investment income was $12.4 million in 2018, a $1.7 million increase over the prior year, due to an increase in the investable fund balances as well as some improvement in interest rates. 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 loss of $39.7 million in 2018, compared to a $45.3 million gain in 2017. The total investment loss, including investment income, on the reserve portfolios was 5.3 percent. That compares to a composite benchmark index of a 5.3 percent loss. The market downturn in December 2018, which substantially impacted AMA's returns, was one of the largest in decades and resulted in the worst year for stocks since 2008. The S&P 500 was down 6.2 percent and the Dow was down 5.6 percent in 2018, after having set all time highs during 2018.

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 2018, JAMA launched its third 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 increased $3.3 million in 2018, led by growth in site licensing, advertising and open access fees. That growth was partially offset by the continued decline in print subscriptions.

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 $0.6 million in 2018 due to increased 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 $8.5 million. Royalties and digital content sales drove this increase, as the market for electronic use of digital coding products continues to expand, albeit at a reduced pace in 2018. Coding book sales declined in 2018, with overall book sales down $1.3 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 up slightly in 2018. The Insurance Agency, as broker, receives a commission on insurance policies sold.

Other revenues

Other revenues are derived from grants and fee income. These increased $0.3 million in 2018, largely due to higher grant and fee income in the core activities.

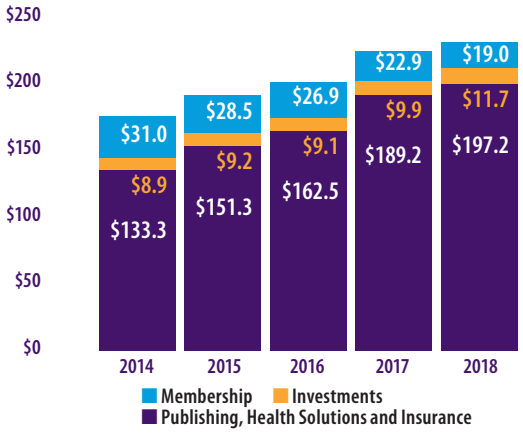
Contribution margin (net expenses)

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 following charts separate groups with contribution margin from groups with net expenses.

Contribution margin

(in millions)



The contribution margin generated by Membership, Publishing, Health Solutions & 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 approximately 10 percent of those funding needs.

Membership

Membership's contribution margin decreased $3.9 million in 2018 due to the combination of a dues revenue decline, increased marketing efforts focused on member retention and costs for digital marketing programs for membership.

Investments (AMA-only)

The $1.8 million increase in contribution margin was attributable to the investment revenue improvement.

Publishing, Health Solutions and Insurance

Publishing, Health Solutions & Insurance results were up $8 million in 2018. Increased royalty and digital product revenue, advertising, site licensing and open access fees were the major drivers.

Contribution margin increased $1 million in Publishing, as revenue improvement from advertising, site licensing and open access fees were somewhat offset by costs for the new journal and expansion of operations.

Database Products reported a $0.2 million improvement due mainly to increased revenue but also maintaining cost increases at a low level.

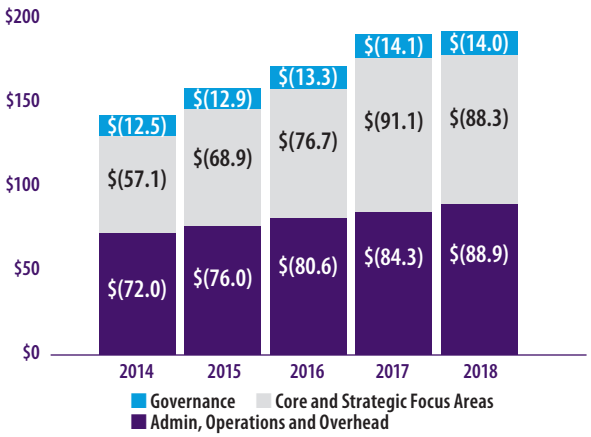
Books and Digital Content contribution margin rose $6.8 million, largely on the strength of continued growth in royalties and digital products, offset by costs to expand operational capability and a write-off of software.

The Insurance Agency/Affinity Products margin was unchanged in 2018, with small cost increases offsetting the revenue improvement.

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 IHO, ACE, Enhancing PS2 and IHMI.

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 aimed at reducing the disease and cost burden associated with these selected conditions. Target: BP™ is a national initiative formed by the American Heart Association (AHA) and the AMA in response to the rising incidence of uncontrolled blood pressure. Target: BP helps health care organizations, at no cost, improve BP control rates through an evidence-based quality improvement program and recognizes organizations committed to improving BP control.

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).

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.

One of the key outcomes of the ACE consortium was the development of *Health Systems Science*, 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. Looking forward, ACE plans to expand its efforts toward transforming residency training.

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. A variety of the modules developed by PS2 focus on preventing physician burnout. Identifying key challenges physicians face with health IT and focusing on improved usability and interoperability is another major 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 toward achieving outcomes that are more relevant to a patient's quality of life and consistent with the patient's lifestyle, goals, and health status. The data model will be designed to operate with existing accessibility solutions, making data compatible which will greatly enhance the completeness of data and improve population health.

The Strategic Focus Areas continued to expand staff and operations during 2018 as planned. Most of the $3.9 million net expense increase in 2018 was due to expansion of the new IHMI initiative and costs for development of decision tools and a physician network in PS2.

Core Operations includes four groups: Advocacy; Health, Science and Core Medical Education; Enterprise Communications and Physician Engagement.

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. Significant results in 2018 included averting material cuts in office visit payments proposed by CMS in the E/M code collapse and launching an AMA led physician work group to develop alternative approaches and convincing Anthem to reverse Modifier 25 proposal thereby avoiding $100 million annually in physician payment cuts. This was followed by United Health Group's decision to not impose similar cuts. In 2018, Advocacy net spending totaled $26.6 million, up slightly from the prior year.

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. A major initiative for this group is education delivery services, the AMA Ed Hub, which provides a digital platform for lifelong professional development. Expansion of the AMA Ed Hub caused a $3.1 million net expense increase in 2018. This was partially offset by a planned reduction in grant support for PCPI.

Enterprise Communications is the result of a recent reorganization whereby marketing functions under the previous Enterprise Communications and Marketing group were moved to Physician Engagement, leaving Enterprise Communications to focus its efforts on informing the public about AMA's positions and policies. Net expenses declined by $10.9 million in 2018, largely due to the conclusion of AMA Brand campaign launched in 2016 and run through the end of 2017.

Physician Engagement expanded its activities to serve as the main distribution arm for AMA's mission-related activities through digital publishing and marketing. The focus is to improve the customer experience, reach members based on their interests and substantially enhance communication of AMA's important contributions to physicians' professional lives and the health care system. In 2018, there was a $2 million increase in net spending largely related to development of the new digital publishing activities within AMA.

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 2018, Governance net spending was largely unchanged.

Administration and operations

These units provide administrative and operational support for Publishing, Health Solutions, Insurance, Membership and all other operating groups. Net expenses changed very little in 2018, down by $0.1 million, or less than 1 percent. Senior Executive Management costs declined $0.9 million, due to the absence of the prior year contributions for disaster relief in areas impacted by hurricanes. Elimination of the Portfolio Management unit is reflected in the cost decrease in Customer Service and other. Staff expansion and outside legal fees related to the pension termination caused a $1.4 million increase in net expenses in the General Counsel's group. The remaining units reported small changes in costs.

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 2018.

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 2018, these expenses totaled $21.5 million, up from $16.8 million in 2017. Higher incentive compensation accounted for the entire increase.

Health2047 and subsidiaries

In mid-2015, AMA approved establishment of a business formation and commercialization enterprise, designed 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. The Board approved the use of reserves to establish this subsidiary with plans to use third party resources to assist in funding spinoffs with commercial potential in future years.

Health2047 will fund initial projects and move those that demonstrate commercial appeal into separate companies, along with necessary seed funding for the new companies. It is planned that there will be a number of successful spinoffs in the future. The initial stage will involve seed money from Health2047, after which these companies should command additional investment from third parties to begin commercialization of the product, either through debt or equity financing. At some point in the future, the spinoffs will be sold or liquidated, at which time, AMA would expect to receive a financial return.

In late 2017, Health2047 spun off a newly created subsidiary, Akiri, Inc. Akiri is a network for facilitating the flow of healthcare data as well as a protocol for transferring the data in real time. Akiri enables automated communication of healthcare data among subscribers but will not store any data, acting as a network for securely transmitting information through a standardized system of codes by leveraging blockchain principles.

Other major projects were initiated in 2018 and one additional company was created late in the year, called First Mile Care, Inc. (FMC). FMC is building an affordable, scalable, and sustainable platform that helps people combat prediabetes. Based on the proven National Diabetes Prevention Program (DPP) method being developed by the CDC, FMC's program fosters community-based, peer-to-peer connections that provide people with the guidance they need in the settings where they make their lifestyle choices.

Health2047 is also providing certain administrative services to a venture fund associated with Health2047. The $0.5 million increase in revenue is largely due to the fees for these services.

The first full year of Akiri operations, partial year operations for FMC and some expansion in Health2047 resulted in a $3.2 million increase in net expenses in 2018. The $13.6 million in net expenses reflects the results of all three 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)	**2018**	**2017**	**2018**	**2017**
Membership	**$ 36.4**	$ 37.8	**$ 19.0**	$ 22.9
Publishing, Health Solutions and Insurance				
Publishing	**62.6**	59.3	**8.8**	7.8
Database Products	**56.0**	55.4	**44.8**	44.6
Books and Digital Content	**147.3**	138.8	**124.7**	117.9
Insurance Agency/Affinity Products	**39.1**	38.9	**21.0**	21.0
Other business operations	**-**	-	**(2.1)**	(2.1)
	305.0	292.4	**197.2**	189.2
Investments (AMA-only)	**12.4**	10.7	**11.7**	9.9
Strategic Focus Areas and Core Operations				
Strategic Focus Areas	**0.3**	0.4	**(31.0)**	(27.1)
Advocacy	**0.8**	0.6	**(26.6)**	(26.5)
Health, Science and Core Medical Education	**4.5**	4.4	**(13.4)**	(11.3)
Enterprise Communications	**-**	-	**(4.4)**	(15.3)
Physician Engagement	**-**	-	**(12.9)**	(10.9)
	5.6	5.4	**(88.3)**	(91.1)
Governance				
Board of Trustees and Officer Services	**-**	-	**(5.9)**	(6.1)
House of Delegates, Sections, Special Constituencies and International	**0.1**	0.1	**(8.1)**	(8.0)
	0.1	0.1	**(14.0)**	(14.1)
Administration and Operations				
Information Technology	**-**	-	**(29.9)**	(29.5)
Corporate Services	**-**	-	**(5.5)**	(5.8)
Senior Executive Management	**-**	-	**(6.1)**	(7.0)
General Counsel	**-**	-	**(6.5)**	(5.1)
Customer Service and Other	**-**	-	**(3.5)**	(4.9)
Finance and Risk Management	**-**	-	**(6.9)**	(6.7)
Human Resources	**-**	-	**(5.4)**	(5.1)
Strategic Planning and Health Analytics	**-**	-	**(3.5)**	(3.3)
	-	-	**(67.3)**	(67.4)
Affiliated Organizations	**0.1**	0.1	**(0.1)**	(0.1)
Unallocated Overhead	**1.1**	1.0	**(21.5)**	(16.8)
Consolidated – excluding Health2047	**360.7**	347.5	**36.7**	32.5
Health2047 and Subsidiaries	**0.6**	0.1	**(13.6)**	(10.4)
Consolidated	**$ 361.3**	$ 347.6	**$ 23.1**	$ 22.1

2018
consolidated financial statements

American Medical Association and subsidiaries

Consolidated statements of activities

Years ended December 31

(in millions)	2018	2017
Revenues		
Membership dues	$ 36.4	$ 37.9
Advertising	14.9	14.1
Periodical print subscription revenues	4.7	5.2
Periodical online revenues	28.5	26.2
Other publishing revenue	13.9	12.8
Books, newsletters and online product sales	30.5	31.8
Royalties and credentialing products	172.6	162.3
Insurance commissions	36.2	35.8
Investment income (Note 4)	13.3	11.0
Grants and other income	10.3	10.5
Total revenues	**361.3**	**347.6**
Expenses		
Cost of products sold and selling expenses	27.7	28.2
Contribution to general and administrative expenses	**333.6**	**319.4**
General and administrative expenses		
Compensation and benefits	191.6	171.0
Occupancy	19.7	18.4
Travel and meetings	15.3	14.4
Technology costs	24.2	23.0
Marketing and promotion	13.4	20.0
Professional services and consulting	25.4	28.7
Other operating expenses	20.9	21.8
Total general and administrative expenses	**310.5**	**297.3**
Operating results before income taxes	23.1	22.1
Income taxes (Note 9)	5.1	8.3
Net operating results	**18.0**	**13.8**
Non-operating items		
Net (loss) gain on investments (Note 4)	(39.7)	45.3
Other	-	0.1
Total non-operating items	**(39.7)**	**45.4**
Revenues (less than) in excess of expenses	**(21.7)**	**59.2**
Changes in defined benefit postretirement plans, other than periodic expense, net of tax (Notes 7, 8 and 9)	10.8	11.4
Change in association equity	**(10.9)**	**70.6**
Change in donor restricted association equity		
Restricted contributions	0.3	0.3
Net assets released from restriction	(0.3)	(0.2)
Change in association equity – donor restricted	-	**0.1**
Change in total association equity	**(10.9)**	**70.7**
Total association equity at beginning of year	559.7	489.0
Total association equity at end of year	**$ 548.8**	**$ 559.7**

See accompanying notes to the consolidated financial statements.

American Medical Association and subsidiaries

Consolidated statements of financial position

As of December 31

(in millions)	2018	2017
Assets		
Cash, cash equivalents and donor-restricted cash	$ 41.3	$ 48.0
Fiduciary funds (Note 2)	20.7	20.1
Accounts receivable and other receivables, net of an allowance for doubtful accounts of $0.2 in 2018 and $0.1 in 2017	56.7	59.6
Inventories	2.2	2.3
Prepaid expenses and deposits	6.2	5.9
Deferred income taxes (Note 9)	3.7	4.4
Investments (Note 4)	655.1	653.4
Property and equipment, net (Note 6)	46.2	47.1
Operating lease right-of-use assets (Notes 3 and 12)	60.7	-
Prepaid pension costs (Note 8)	-	1.1
Other assets (Note 5)	7.1	6.8
	$ 899.9	**$ 848.7**
Liabilities, deferred revenue and association equity		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 15.6	$ 16.7
Accrued payroll and employee benefits (Notes 7 and 8)	134.1	135.9
Insurance premiums and other fiduciary funds payable	20.6	20.5
Income taxes payable (Note 9)	1.2	1.9
Operating lease liability (Notes 3 and 12)	99.2	-
Deferred tenant improvement allowances (Notes 3 and 10)	-	17.1
Deferred rent obligations (Notes 3 and 11)	-	22.5
	270.7	214.6
Deferred revenue		
Membership dues	16.1	17.0
Subscriptions, licensing, insurance commissions and royalties	61.7	54.4
Grants and other	2.6	3.0
	80.4	**74.4**
Association equity	547.1	558.0
Donor-restricted association equity	1.7	1.7
Total Association equity	548.8	559.7
	$ 899.9	**$ 848.7**

See accompanying notes to the consolidated financial statements.

American Medical Association and subsidiaries

Consolidated statements of cash flows

Years ended December 31

(in millions)	2018	2017
Cash flows from operating activities		
Change in total association equity	$ (10.9)	$ 70.7
Adjustments to reconcile change in association equity to net cash provided by operating activities		
Depreciation and amortization	12.1	11.9
Pension and postretirement health care expense	8.5	8.3
Net loss (gain) on investments	39.7	(45.3)
Noncash credit for changes in defined benefit postretirement plans other than periodic expense, net of tax	(10.8)	(11.4)
Other	0.3	0.4
Changes in assets and liabilities		
Accounts receivable and other receivables	2.7	(19.5)
Fiduciary funds, net of payable	(0.5)	0.9
Inventories	0.1	0.1
Prepaid expenses and deposits	(0.3)	(0.6)
Deferred income taxes	(0.1)	(0.6)
Accounts payable, accrued liabilities and income taxes	0.2	1.4
Deferred rent obligations and tenant improvement allowances	0.6	1.2
Deferred revenue	6.0	22.5
Net cash provided by operating activities	47.6	40.0
Cash flows from investing activities		
Purchase of property and equipment	(12.9)	(10.3)
Purchase of investments	(412.6)	(331.7)
Proceeds from sale of investments	371.2	321.1
Net cash used in investing activities	(54.3)	(20.9)
Net change in cash, cash equivalents and donor restricted cash	**(6.7)**	**19.1**
Cash, cash equivalents and donor restricted cash at beginning of year	48.0	28.9
Cash, cash equivalents and donor restricted cash at end of year	**$ 41.3**	**$ 48.0**
Noncash investing activities		
Accounts payable for property and equipment additions	**$ 0.3**	**$ 0.7**

See accompanying notes to the consolidated financial statements.

Notes to financial statements

Years ended December 31, 2018 and 2017

(Columnar amounts in millions)

1. Nature of operations

The American Medical Association (AMA) is a national professional association of physicians with approximately 250 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.

Donor-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 for-profit subsidiary, Health2047, Inc. (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 for-profit corporation, Akiri, Inc. (Akiri), designed to improve the securing, sharing and use of trusted health data. In 2018, Health2047 established a second for-profit corporation, First Mile Care, Inc. (FMC), that intends to create a platform, tools and support to combat pre-diabetes in the community. As of December 31, 2018, Health2047 has consolidated the operations of both Akiri and FMC. All intercompany transactions have been eliminated.

Use of estimates

Preparation of financial statements in conformity with accounting principles generally accepted (GAAP) 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 $2.6 million and $2.4 million held at December 31, 2018 and 2017, 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

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration that AMA expects to receive in exchange for those products or services. AMA enters into contracts that generally include only one product or service and as such, are distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Nature of Products and Services

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.

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. Book and product sales are recognized at the time the book or product is shipped or otherwise delivered to the customer. Royalties are recognized as revenue over the royalty term. Insurance brokerage commissions on individual policies are recognized as revenue on the date they become effective or are renewed, to the extent services under the policies are complete. Brokerage commissions or plan rebates on the group products are recognized as revenue ratably over the term of the contract as services are rendered.

Contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. AMA records a receivable when revenue is recognized. For agreements covering subscription or service periods, AMA generally records a receivable related to revenue recognized for the subscription, license or royalty period. For sales of books and products, AMA records a receivable at the time the product is shipped or made available. These amounts are included in accounts receivable on the statements of financial position and the balance, net of allowance for doubtful accounts, was $54.7 million and $58.3 million as of December 31, 2018 and 2017, respectively.

The allowance for doubtful accounts reflects AMA's best estimate of probable losses inherent in the accounts receivable balance. The allowance is based on historical experience and other currently available evidence.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. Some annual licensing agreements carry longer payment terms. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

Prepaid dues are included as deferred membership dues revenue in the consolidated statements of financial position. Prepayments by customers in advance of the subscription, royalty or insurance coverage period are recorded as deferred subscriptions, licensing, insurance commissions and royalty revenue in the consolidated statements of financial position.

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

Subsequent to the issuance of the 2017 financial statements, management adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not for Profit Entities,* which changed the presentation within the Functional Expense note. As a result, management conformed the 2017 amounts to the 2018 presentation.

3. New accounting standards update

In May 2014, the Financial Accounting Standards Board (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. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU replaces 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 and AMA adopted this standard in 2018. Adoption of the new standard did not have a material impact on AMA's consolidated financial statements. See Note 2 for additional information.

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. Topic 842 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU No. 2018-10, *Codification Improvements to Topic 842, Leases;* and ASU No. 2018-11, *Targeted Improvements*. The new standard establishes a right-of-use (ROU) model that requires lessees to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. AMA adopted the new standard on January 1, 2018 and has used that date as the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for periods before January 1, 2018. Adoption of this standard as of January 1, 2018 resulted in (1) the recognition of $61.4 million in new ROU assets and $101 million in lease liabilities on AMA's consolidated statements of financial position for office and equipment operating leases; (2) the derecognition of $22.5 million in liabilities for deferred rent expense; and (3) the derecognition of $17.1 million in liabilities for tenant allowances received by AMA from landlords as lease incentives.

There is no material impact on the consolidated statements of activities. See Note 12 for additional information.

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 expanded certain footnote disclosures but did not have an impact on AMA's consolidated financial statements. See Note 13 for required disclosure on availability of financial assets and liquidity and Note 16 for an analysis of expenses by both natural and functional classifications.

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*. 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 estimates that there will be no impact on pension expense due to the expected plan termination in 2019, and approximately $0.4 million of postretirement healthcare expense will be reclassified from operating expense to a separate line outside of income from operations. Amounts on the statement of financial position sheet will be unchanged. See Note 7 for more information on the expected plan termination.

In October 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This aligns the accounting for costs to implement a cloud computing arrangement that is a service with the guidance on capitalizing costs for developing or obtaining internal-use software. The new standard is effective for the AMA for years beginning after December 15, 2020. There will be no material impact on the AMA's financial statements upon adoption.

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 net asset value (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, as well as investments in a venture capital fund focused on companies developing promising health care technologies that can be commercialized into revolutionary products and services that improve the practice of medicine and the delivery and management of health care. The investments are 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, 2018 totaled $32.8 million.

The AMA manages its investments in accordance with Board-approved investment policies that establish investment objectives of real inflation-adjusted growth over the investment time horizon, with diversification to provide a balance between long-term growth objectives and potential liquidity needs.

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.

	2018	2017
Level 1 – Quoted prices in active market for identical securities		
Equity securities	**$ 271.0**	$ 312.1
Fixed-income mutual funds	**15.7**	15.6
	286.7	327.7
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	**89.3**	90.4
U.S. government and federal agency	**238.5**	200.7
Foreign government	**25.9**	30.0
U.S. state government	**0.2**	0.3
	353.9	321.4
Level 3 – Significant Unobservable inputs	-	-
Other investments measured at NAV – Private equity and venture capital funds	**14.5**	4.3
Investments	**$ 655.1**	$ 653.4

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:

	2018	2017
Investment dividend and interest income	**$ 15.8**	$ 13.5
Management fees	**(2.5)**	(2.5)
	$ 13.3	$ 11.0

Non-operating items include:

	2018	2017
Realized gains on investments, net	**$ 15.2**	$ 12.0
Unrealized gains on investments, net	**(54.9)**	33.3
	$ (39.7)	$ 45.3

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 $5.9 million and $6.8 million at 2018 and 2017, respectively.

Expenses related to the development of custom applications pursuant to a customer contract have been deferred until completion of development and recognition of the revenue under the contract. These costs were deferred in 2018 and total $1.2 million.

6. Property and equipment

Property and equipment at December 31 consists of:

	2018	2017
Leasehold improvements	**$ 37.6**	$ 35.9
Furniture and office equipment	**18.7**	18.7
Information technology hardware and software	**97.9**	99.4
	154.2	153.5
Accumulated depreciation and amortization	**(108.0)**	(106.4)
	$ 46.2	$ 47.1

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.

In June 2018 the AMA adopted plan amendments that terminated the pension plan effective October 31, 2018 with an expected distribution of all plan assets in mid- to late-2019. Plan participants will be given the option to accept either a lump-sum payment, immediate annuity or deferral of payment until retirement through a group annuity contract purchased from an insurance company selected by AMA. The benefit obligation as of December 31, 2018 includes actuarial assumptions regarding the payment of lump sum distributions in 2019 and the cost of purchasing an annuity contract for participants deferring receipt of payment until retirement.

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

	2018	2017
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 124.0**	$ 123.6
Interest cost	**4.0**	4.5
Benefits paid	**(10.9)**	(6.6)
Plan amendments	**1.6**	-
Actuarial (gain) loss	**(1.2)**	2.5
Benefit obligation at end of year	**$ 117.5**	$ 124.0
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 125.1**	$ 119.5
Return on plan assets	**(0.7)**	12.2
Benefits paid	**(10.9)**	(6.6)
Fair value of plan assets at end of year	**$ 113.5**	$ 125.1

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

	2018	2017
Fair value of plan assets	**$ 113.5**	$ 125.1
Projected benefit obligation	**117.5**	124.0
(Accrued) prepaid pension costs	**$ (4.0)**	$ 1.1

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. The pension plan accumulated losses and prior service costs not yet recognized as a component of periodic pension expense but included in accumulated other comprehensive loss at December 31 are:

	2018	2017
Actuarial losses	**$ 36.7**	$ 37.0
Prior service cost	**1.6**	-
	$ 38.3	$ 37.0

Due to the anticipated distribution of pension assets in 2019, both amounts will be included as a component of pension expense in 2019.

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

	2018	2017
Discount rate	**4.1%**	3.4%

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 2018 and 2017. The components of pension expense are:

	2018	2017
Interest cost	**$ 4.0**	$ 4.5
Expected return on plan assets	**(6.5)**	(6.9)
Lump-sum settlement charges	**2.7**	1.4
Recognized actuarial loss	**3.6**	3.9
Pension expense	**$ 3.8**	$ 2.9

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

	2018	2017
Actuarial (losses) gains arising during period	**$ (6.0)**	$ 2.8
Prior service costs for plan amendments	**(1.6)**	-
Reclassification adjustment for losses reflected in periodic pension expense	**6.3**	5.3
Change in unrestricted equity	**$ (1.3)**	$ 8.1

Actuarial assumptions used in determining pension expense were:

	2018	2017
Discount rate	**3.4%**	3.8%
Expected long-term return on plan assets	**5.5%**	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 was 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 was accomplished through diversification of assets in accordance with the investment policy. Periodic rebalancing occurred after the end of each calendar quarter, as required by the policy.

The target allocations for plan assets were 45 percent equity securities, 50 percent corporate bonds and U.S. Treasury and Agency securities, and 5 percent in cash and cash equivalents as of December 31, 2017. During 2018, plan assets have been liquidated and transferred to short-term investments and the liquidation and transfer to short-term investments will continue over the next six to nine months in anticipation of the distribution of plan assets.

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.

	2018	2017
Level 1 – Quoted prices in active markets for identical securities		
U.S. equity securities	**$ 31.6**	$ 45.8
International mutual funds	**-**	9.5
Fixed-income mutual funds	**56.6**	37.1
High-yield fixed income mutual fund	**-**	5.1
	88.2	97.5
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	**8.9**	9.8
U.S. government and agency	**15.4**	16.7
Foreign government	**1.0**	1.1
	25.3	27.6
Level 3 – Significant unobservable inputs	-	-
Marketable investments – all levels	**$ 113.5**	$ 125.1

The AMA currently anticipates making a contribution to the pension plan in 2019, as plan assets are less than plan liabilities as calculated for the expected distribution. 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 the distribution will cause contributions to increase.

All pension benefit payments are expected to be paid in 2019 via lump sum payments or by the purchase of annuities on behalf of the plan participants.

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 three percent and 50 percent of the next two percent of employee contributions. The AMA may, in its discretion, make additional contributions for any year in an amount up to two 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 $6.1 million and $5.6 million in 2018 and 2017, 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 $0.3 million and $0.4 million in 2018 and 2017, respectively. The AMA uses the same discount rates noted above for the pension plan to determine the plan benefit obligation. There was a $0.1 million credit to expense for this plan in 2018 and no expense in 2017. There was a $0.1 million increase in prior service costs due to plan amendments in 2018 and no changes in pension actuarial losses that are not yet reflected in periodic pension expense in 2018 or 2017. The prior service cost is included in unrestricted equity in 2018 and 2017. Payments from the plan totaled $0.1 million in 2018 and no payments were made in 2017.

The AMA expects to pay approximately $0.3 million in benefits from the supplemental pension plan in 2019 due to the pension plan termination.

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:

	2018	2017
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 103.1**	$ 106.4
Service cost	**1.7**	1.7
Interest cost	**3.5**	4.0
Benefits paid	**(4.0)**	(3.6)
Participant contributions	**1.2**	1.0
Federal subsidy	**0.2**	0.2
Plan amendments	**0.8**	(2.8)
Actuarial gains	**(14.2)**	(3.8)
Accrued postretirement benefit costs	**$ 92.3**	$ 103.1

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:

	2018	2017
Actuarial losses	**$ 6.3**	$ 21.0
Prior service credits	**(1.8)**	(3.5)
	$ 4.5	$ 17.5

An estimated $0.8 million in prior service credits and no actuarial losses will be included as components of postretirement health care expense in 2019.

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

	2018	2017
Discount rate	4.3%	3.7%
Initial health care cost trend	6.03%	6.22%
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:

	2018	2017
Service cost	**$ 1.7**	$ 1.7
Interest cost	**3.5**	4.0
Recognized actuarial loss	**0.5**	0.5
Amortization of prior service credits	**(0.9)**	(0.8)
Postretirement health care expense	**$ 4.8**	$ 5.4

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

	2018	2017
Actuarial gains arising during period	**$ 14.2**	$ 3.8
Reclassification adjustment for losses reflected in periodic postretirement health care expense	**0.5**	0.5
Plan amendments	**(0.8)**	2.8
Reclassification adjustment for recognition of prior service credits	**(0.9)**	(0.8)
Change in unrestricted equity	**$ 13.0**	$ 6.3

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:

	2018	2017
Discount rate	**3.7%**	4.3%
Initial health care cost trend	**6.22%**	6.39%

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	**$ 1.2**	$ (0.9)
Effect on postretirement benefit obligation	**$ 17.6**	$ (13.9)

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

2019	$ 2.7
2020	2.9
2021	3.0
2022	3.2
2023	3.5
2024–2028	20.1

9. Income taxes

The provision for income taxes includes:

	2018	2017
Operating		
Current	**$ 5.5**	$ 8.9
Deferred	**(0.1)**	0.6
Valuation allowance	**(0.3)**	(1.2)
	5.1	8.3
Tax expense related to credits or charges to equity		
Deferred	**0.8**	3.0
	$ 5.9	$ 11.3

As prescribed under Accounting Standards Codification (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.

In 2018, AMA's for-profit subsidiaries' income tax was reduced by approximately $2.5 million due to changes in tax laws, with the federal rate decline of 35% to 21% offset slightly by state tax rate increases. Operating tax expense was not materially impacted by changes in the tax law in 2017, with reductions in deferred tax assets of $1.3 million offset by an equivalent reduction in the valuation allowance. Tax expense related to credits to equity increased by $2 million in 2017, 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:

	2018	2017
Benefit plans and compensation	$ **6.6**	$ 6.9
Other	**-**	0.4
	6.6	7.3
Valuation allowance	**(2.9)**	(2.9)
	$ **3.7**	$ 4.4

Cash payments for income taxes were $5.9 million and $7.8 million in 2018 and 2017, respectively.

10. Deferred tenant improvement allowances

As part of the new headquarters lease agreement that commenced in 2013, the AMA received a $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 improvement allowances. This was in addition to the initial $2.1 million 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 improvement allowances.

Prior to adoption of ASU No. 2016-02, tenant improvement allowances were 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 were capitalized as leasehold improvements on the consolidated statements of financial position and as capital expenditures in the consolidated statements of cash flows. The allowances were deferred and amortized on a straight-line basis over the life of the leases as a reduction of rent expense.

The tenant improvement allowance liability was derecognized upon adoption of the new lease standard by AMA as of January 1, 2018, by reducing the value of the ROU asset by the remaining balance in deferred tenant improvement allowances as of December 31, 2017. See Note 12 for additional information.

11. Deferred rent obligations

Most office lease agreements included rent abatement as well as rent escalation clauses over the life of the lease. Prior to adoption of ASU No. 2016-02, AMA was 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, with the difference between the amounts charged to expense and the rent payment recorded as a deferred rent obligation and amortized over the lease term. The deferred rent expense liability was derecognized upon adoption of the new lease standard by AMA as of January 1, 2018, by reducing the value of the ROU asset by the remaining balance in deferred rent obligations as of December 31, 2017. See Note 12 for additional information.

12. Leases

AMA leases office space at a number of locations and the initial terms of the office leases range from five years to 15 years. Most leases have options to renew at then prevailing market rates. As any extension or renewal is at the sole discretion of AMA and at this date, is not certain, the renewal options are not included in the calculation of the ROU asset or lease liability. AMA also leases copiers and printers in several locations. All office and equipment leases are classified as operating leases.

Adoption of the new lease standard as of January 1, 2018 has resulted in AMA recording noncash transactions to establish the liability for the present value of future lease payments of $101 million and derecognition of liabilities for deferred rent and deferred tenant improvement allowances of $22.5 million and $17.1 million, respectively, increasing total liabilities by $61.4 million. A ROU asset in an equivalent amount of $61.4 million was also established on the consolidated statement of financial position.

During 2018, AMA entered into new office space operating leases which resulted in establishing an additional $4.1 million in ROU assets and $4.4 million liability for the present value of future lease payments. The ROU asset was reduced by $0.3 million in tenant allowances received.

The ROU assets will be amortized over the lives of the leases and the present value of the liability will be increased by interest cost and reduced by cash payments.

Operating lease cost was $9.5 million in 2018. Cash paid for amounts included in the measurement of lease liabilities was $11.2 million. Rent expense under operating leases, including executory costs and taxes, was $13.3 million in 2017.

The weighted-average remaining lease term for operating leases is 9.9 years. The weighted-average discount rate used for operating leases is 5%.

The maturity of lease liabilities as of December 31, 2018:

2019	$ 12.2
2020	12.4
2021	12.5
2022	12.6
2023	12.2
2024 and beyond	65.4
Total lease payments	127.3
Less imputed interest	(28.1)
Present value of lease obligations	$ 99.2

13. Financial asset availability and liquidity

AMA has a formal reserve policy that defines the reserve investment portfolios as pools of liquid net assets that can be accessed to mitigate the impact of undesirable financial events or to pursue opportunities of strategic importance that may arise, as well as provide a source of capital appreciation. The policy establishes minimum required dollar levels required to be held in the portfolios (defined as an amount equal to one-year's general and administrative operating expenses plus long-term liabilities). The policy also covers the use of dividend and interest income, establishes criteria for use of the funds and outlines the handling of excess operating funds on an annual basis.

Dividend and interest income generated from the reserve portfolios are transferred to operating funds monthly and used to fund operations. The formal reserve policy contemplates use of reserve portfolio funds for board approved time- or dollar-limited strategic outlays, to the extent that the reserve portfolio balances exceed the minimum amount established by policy. All surplus funds generated from operations annually (defined as operating cash plus other current assets minus current liabilities and deferred revenue at year end) are transferred to the reserve portfolios after year-end. The reserve policy does not cover the for-profit subsidiaries' activities.

AMA invests cash in excess of projected weekly requirements in short-term investments and money market funds. AMA does not maintain any credit facilities as the reserve portfolios provide ample protection against any liquidity needs.

The following reflects AMA's financial assets as of December 31, 2018 reduced by amounts not available for general use that have been set aside for long-term investing in the reserve investment portfolios or funds subject to donor restrictions. AMA's financial assets include cash, cash equivalents and donor restricted cash, short-term investments and long-term investments in the reserve portfolios.

Financial assets	$ 696.4
Less assets unavailable for general expenditures:	
Restricted by donor with purpose restrictions	(1.7)
Restricted by governing body primarily for long-term investing or for governing body approved outlays	(550.8)
Financial assets available to meet cash needs for general expenditures within one year	$ 143.9

In addition to financial assets available to meet general expenditures over the next 12 months, the AMA operates under a policy that requires an annual budget surplus, excluding time- or dollar-limited strategic expenditures approved by the board, and anticipates generating sufficient revenue to cover general ongoing expenditures.

14. 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.

15. 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, 2018, the AMA has evaluated all subsequent events through February 15, 2019, which is the date the consolidated financial statements were available to be issued.

16. Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the Strategic Focus areas and Core Operations, Publishing, Health Solutions and Insurance, Membership and other supporting services. Such allocations are determined by management on an equitable basis.

The expenses that are allocated and the method of allocation include the following: fringe benefits based on percentage of compensation and occupancy based on square footage. All other expenses are direct expenses of each functional area.

	Membership	Publishing, Health Solutions and Insurance	Investments (AMA only)	Strategic Focus Areas and Core Operations	Governance, Administration and Operations	Health2047 and Subsidiaries	Total
Cost of goods sold and selling expense	$ -	$ 27.7	$ -	$ -	$ -	$ -	$ 27.7
Compensation and benefits	4.6	53.6	-	52.2	74.2	7.0	191.6
Occupancy	0.5	5.1	-	6.0	6.9	1.2	19.7
Travel and meetings	0.1	3.1	-	5.9	5.8	0.4	15.3
Technology costs	1.4	7.9	-	4.8	10.0	0.1	24.2
Marketing and promotion	8.9	0.6	-	3.3	-	0.6	13.4
Professional services and consulting	1.0	2.9	0.2	14.1	3.9	3.3	25.4
Other operating expense	0.9	6.9	0.5	7.6	3.4	1.6	20.9
2018 total expense	**$ 17.4**	**$ 107.8**	**$ 0.7**	**$ 93.9**	**$ 104.2**	**$ 14.2**	**$ 338.2**
Cost of goods sold and selling expense	$ -	$ 28.2	$ -	$ -	$ -	$ -	$ 28.2
Compensation and benefits	4.1	49.4	-	45.5	68.6	3.4	171.0
Occupancy	0.4	5.1	-	5.2	7.1	0.6	18.4
Travel and meetings	0.1	3.2	-	5.4	5.4	0.3	14.4
Technology costs	1.4	7.9	-	2.9	10.7	0.1	23.0
Marketing and promotion	6.8	0.9	-	11.8	-	0.5	20.0
Professional services and consulting	1.2	2.7	0.2	15.5	4.2	4.9	28.7
Other operating expense	0.9	5.8	0.6	10.2	3.6	0.7	21.8
2017 total expense	**$ 14.9**	**$ 103.2**	**$ 0.8**	**$ 96.5**	**$ 99.6**	**$ 10.5**	**$ 325.5**

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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of matter

As discussed in Notes 3 and 12 to the consolidated financial statements, the AMA has changed its method of accounting for leases in 2018 due to the early adoption of Accounting Standards Update 2016-02, *Leases*. Our opinion is not modified with respect to that matter.

Deloitte & Touche LLP
Chicago, Illinois
February 15, 2019

Written statement of certification of chief executive officer and chief financial officer

The undersigned hereby certify that the information contained in the consolidated financial statements of the American Medical Association for the years ended December 31, 2018 and 2017 fairly present, 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 15, 2019

2018–2019
officers and trustees

2018–2019 AMA Board of Trustees and executive leadership

Board of Trustees

Barbara L. McAneny, MD
President

Patrice A. Harris, MD, MA
President-elect

David O. Barbe, MD, MHA
Immediate Past President

Susan R. Bailey, MD
Speaker, AMA House of Delegates

Bruce A. Scott, MD
Vice Speaker, AMA House of Delegates

Jack Resneck Jr., MD
Chair

Jesse M. Ehrenfeld, MD, MPH
Chair-elect

Gerald E. Harmon, MD
Immediate Past Chair

Russell W.H. Kridel, MD
Secretary

Willarda V. Edwards, MD, MBA

E. Scott Ferguson, MD

Sandra A. Fryhofer, MD

William E. Kobler, MD

William A. McDade, MD, PhD

Mario E. Motta, MD

S. Bobby Mukkamala, MD

Albert J. Osbahr III, MD

Ryan J. Ribeira, MD, MPH

Karthik V. Sarma, MS

Georgia A. Tuttle, MD

Kevin W. Williams, MSA

Executive Management

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

Standing Committees

Executive Committee

Jack Resneck Jr., MD
Chair

Jesse M. Ehrenfeld, MD, MPH

Barbara L. McAneny, MD

Patrice A. Harris, MD, MA

David O. Barbe, MD, MHA

Russell W.H. Kridel, MD

Susan R. Bailey, MD

Gerald E. Harmon, MD

Audit Committee

William E. Kobler, MD
Chair

Willarda V. Edwards, MD, MBA

E. Scott Ferguson, MD

William A. McDade, MD, PhD

Karthik V. Sarma, MS

Bruce A. Scott, MD

Georgia A. Tuttle, MD

Awards and Nominations Committee

Russell W.H. Kridel, MD
Chair

Willarda V. Edwards, MD, MBA

Sandra A. Fryhofer, MD

Mario E. Motta, MD

Albert J. Osbahr III, MD

Karthik V. Sarma, MS

Bruce A. Scott, MD

Compensation Committee

Gerald E. Harmon, MD,
Chair (ex-officio w/vote)

David O. Barbe, MD, MHA

Jesse M. Ehrenfeld, MD, MPH
(ex-officio w/vote)

William E. Kobler, MD

Russell W.H. Kridel, MD

Jack Resneck Jr., MD *(ex-officio w/vote)*

Georgia A. Tuttle, MD

Finance Committee

Georgia A. Tuttle, MD
Chair

Susan R. Bailey, MD

Gerald E. Harmon, MD

William A. McDade, MD, PhD

S. Bobby Mukkamala, MD

Ryan J. Ribeira, MD, MPH

Kevin W. Williams, MSA

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

MEMBERSHIP
MOVES
MEDICINE™

EZI:19-310001:500:4/19