



# PHYSICIANS' POWERFUL ALLY IN PATIENT CARE™



2019 ANNUAL REPORT

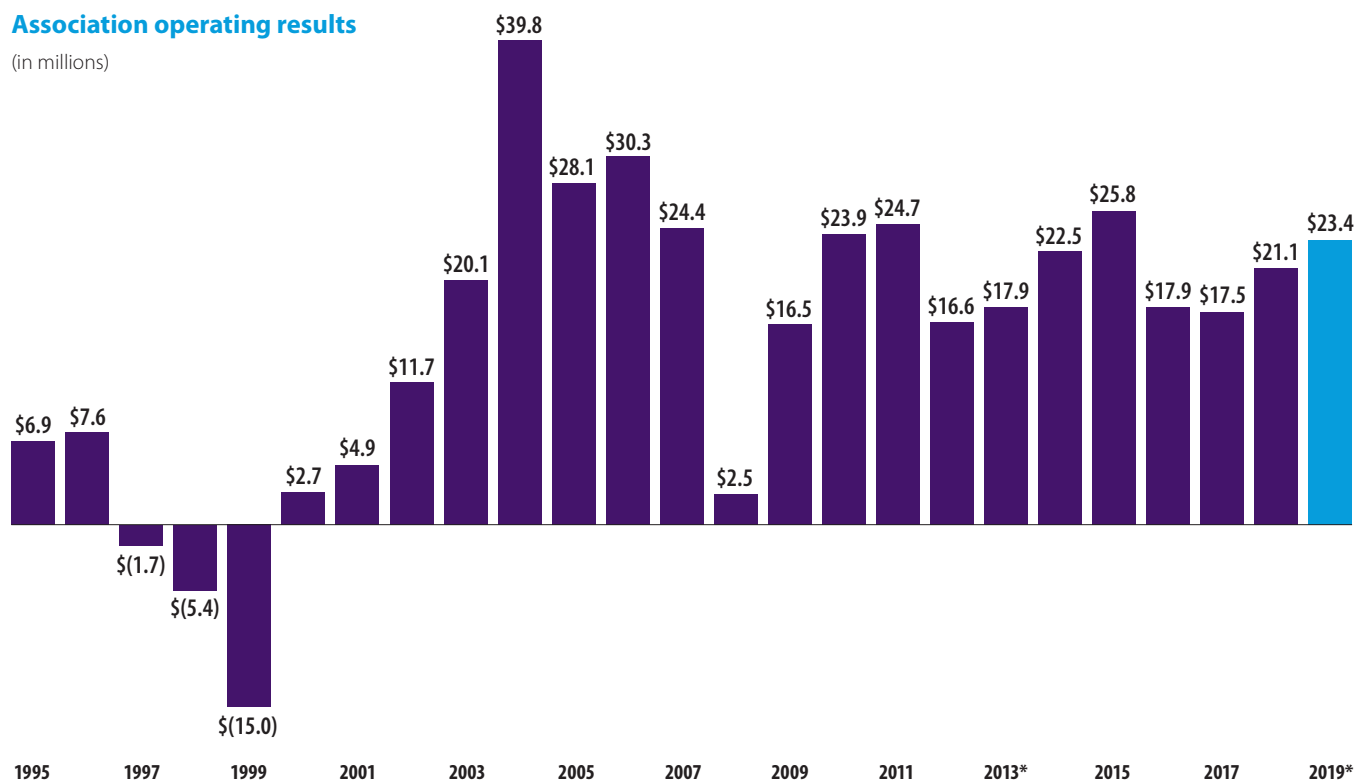
## Financial highlights

(Dollars in millions)	2019	2018
Revenues	\$ 392.3	\$ 361.3
Cost of products sold and selling expense	27.8	27.7
General and administrative expenses, excluding pension termination expense	335.3	307.4
Pro forma operating results*	23.4	21.1
Pension termination expense	(36.2)	-
Non-operating items	75.2	(39.7)
Defined benefit postretirement plan non-service periodic expense	(3.9)	(3.1)
Changes in defined benefit postretirement plans, other than periodic expense, net of tax	17.0	10.8
Change in unrestricted equity	75.5	(10.9)
Change in donor restricted equity	(0.1)	-
Change in association equity	\$75.4	\$ (10.9)
Association equity at year-end	\$624.2	\$ 548.8
Employees at year-end	1,146	1,087

\*Excluding \$36.2 million in noncash pension termination expense reclassified from non-operating expense

### Association operating results

(in millions)



\*Pro forma operating results: 1) 2013 excludes \$33 million in nonrecurring charges relating to AMA's headquarters relocation and 2) 2019 excludes \$36.2 million noncash pension termination expense reclassification from non-operating results

## Letter to stakeholders

Physicians are valued and trusted allies in efforts to improve public health, especially at a time of heightened uncertainty, when misinformation and half-truths can spread globally in the blink of an eye.

We have earned our patients' trust through our dedication to science and evidence, through our honesty and our compassion, three elements that give meaning to our work as physicians and as leaders in medicine.

In 2019, the American Medical Association once again demonstrated why physicians look to us to be their powerful ally in patient care. Below and throughout the following pages you'll see examples of how we continue to:

- **Represent physicians with a unified voice**
- **Remove obstacles that interfere with patient care**
- **Lead the charge on confronting today's public health crises**
- **Drive the future of medicine**

The AMA advocated for patients by calling out technology companies for lax enforcement of e-cigarette advertising and by urging a federal ban on flavored smoking devices to stem the dramatic surge in youth smoking and prevent another generation from falling victim to nicotine addiction.

We protected the rights of patients through the courts in North Dakota and Oregon, defending freedom of speech between patients and physicians in two closely watched legal cases.

The AMA pushed for policy changes to reduce administrative burdens on physicians that so often undermine patient care. We advocated to the Centers for Medicare & Medicaid Services, and achieved the first overhaul of Evaluation & Management reporting and coding guidelines in more than 25 years.

We led the national effort to "right-size" the cumbersome prior authorization process that can jeopardize patient care, building industry consensus and backing legislation to streamline the process at the federal level and advance reforms in more than 15 states.

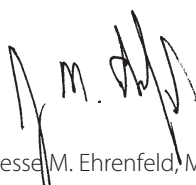
The AMA continued its national leadership on opioids, helping remove prior authorization for medication-assisted treatment for patients struggling with an opioid use disorder in 14 states and Washington, D.C. In addition, we launched a national road map that includes policy recommendations and best practices to help states more effectively respond to the epidemic.

At the same time, AMA's reach expanded to new frontiers and audiences. The JAMA Network—a consortium of publications that includes JAMA Network's preeminent flagship Journal and specialty journals—grew its multimedia content to include new videos, podcasts and visual abstracts. Downloads across the network exceeded 130 million in 2019.

The AMA Ed Hub™, our new online physician education platform, drew more than 43,000 users in its first full year of operation in 2019, and the AMA created more than a dozen practice resources and tools for physicians to ease the transition to a value-based care health system.

This work was made possible thanks to another strong financial performance in 2019 and increased membership for the ninth year in a row. Fueled by our "Members Move Medicine" campaign that showcases individual physician leaders, AMA membership grew by three percent in 2019.

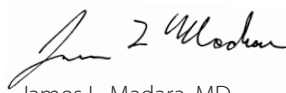
Results like these underscore the AMA's position as a recognized leader throughout health care, working collaboratively and with great purpose to create a health system that works better for patients, physicians and the nation.



Jesse M. Ehrenfeld, MD, MPH  
Chair, Board of Trustees



S. Bobby Mukkamala, MD  
Finance Committee Chair, Board of Trustees



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



# ALLY TO PHYSICIANS

The AMA successfully urged CMS to adopt new physician payment models, including a set of primary care payment models and a model on emergency services, to **help ease the transition to value-based care.**

CMS implemented the Current Procedural Terminology (CPT®) framework to simplify documentation and coding of office visits—as well as other regulatory changes championed by the AMA—**further reducing administrative burdens and paperwork.**



**Tamaan Osbourne-Roberts, MD**, member since 2003

The AMA brought to a close the four-year, grant-funded Transforming Clinical Practice Initiative, which supported more than 140,000 physician practices and resulted in 20 new AMA STEPS Forward™ modules to **help practices share and implement evidence-based quality improvement strategies.**

We launched the Practice Transformation Initiative, partnering with state medical societies to recruit health systems and practice sites for field testing, gathering research and accelerating innovations to **improve physician satisfaction.**



**We expanded our certification and licensure offerings in our online education delivery system,**

AMA Ed Hub™, to automatically transmit completed CME activities from the American Board of Pediatrics, American Board of Otolaryngology and select state medical boards.

The AMA awarded the first 11 grants through our Reimaging Residency Initiative, a five-year, \$15-million grant program that builds on our Accelerating Change in Medical Education program by supporting innovations that will **provide meaningful and safe transitions from undergraduate to graduate medical education.**



**Siobhan Wescott, MD**, member since 2013

**We kept physicians and medical students informed on the issues,**

such as the Title X lawsuit and the E/M rule change through AMA Morning Rounds and AMA social media. We also launched content by leveraging several new channels, such as Apple News, podcasts, Alexa skill and *AMA Moving Medicine*, our magazine focused on how the AMA and its members impact medicine.

We launched our Health Systems Science Learning Series and our Health Systems Science Scholars Program, **ensuring future physicians are well-equipped to care for patients in a modern health system.**

# TRUSTED BY PATIENTS

We were among the **leading voices nationally calling for regulation of e-cigarettes and vaping devices** by the U.S. Federal Drug Administration and urging physicians to make sure their patients were aware of the dangers posed by these new products.

AMA convened thought leaders with diverse expertise for a discussion about **surveillance and data sharing** to inform targeted drug-related prevention, treatment, policymaking and harm-reduction strategies industrywide.



**Druv Bhagavan**, member since 2017

The AMA **protected patients from unanticipated medical bills** by working with state medical associations and national medical specialty societies to craft a common set of policies to guide advocacy efforts on surprise billing. We also worked to ensure surprise billing legislation passed by Congress holds patients harmless for unanticipated medical bills and limited out-of-pocket expenses.

We launched an Enterprise Social Responsibility program to engage AMA employees in public service work aligned with the organization's values and goals. **Employees logged nearly 2,400 volunteer hours in the program's first seven months, supporting more than 70 charities** in Chicago, Washington, D.C., and South Carolina.

The AMA partnered with the American Heart Association on a new **e-learning module on proper blood pressure measurement**, following results of a joint survey highlighting the need for such additional education.

We expanded our **M.A.P. Blood Pressure program** with 25 additional health care organizations and more than 100 pilot sites that provide care for nearly one million patients with hypertension.



**Louito C. Edje, MD**, member since 1992

As part of our national push for common-sense gun laws, the AMA urged Congress to earmark spending for gun violence research and prevention. Congress ultimately did so, dedicating **\$25 million for gun violence research** for the first time in more than 20 years.



# RESPECTED BY THE PROFESSION

We **expanded our reach in digital health**, working to scale solutions that are validated, effective and trusted through focused research and practice resources, such as the AMA Digital Health Implementation Playbook.

Our online digital health collaborative, the Physician Innovation Network, grew to more than 10,000 users and 20 partner organization across the industry, **leveraging physician experience and expertise in the design of new digital health technologies**.



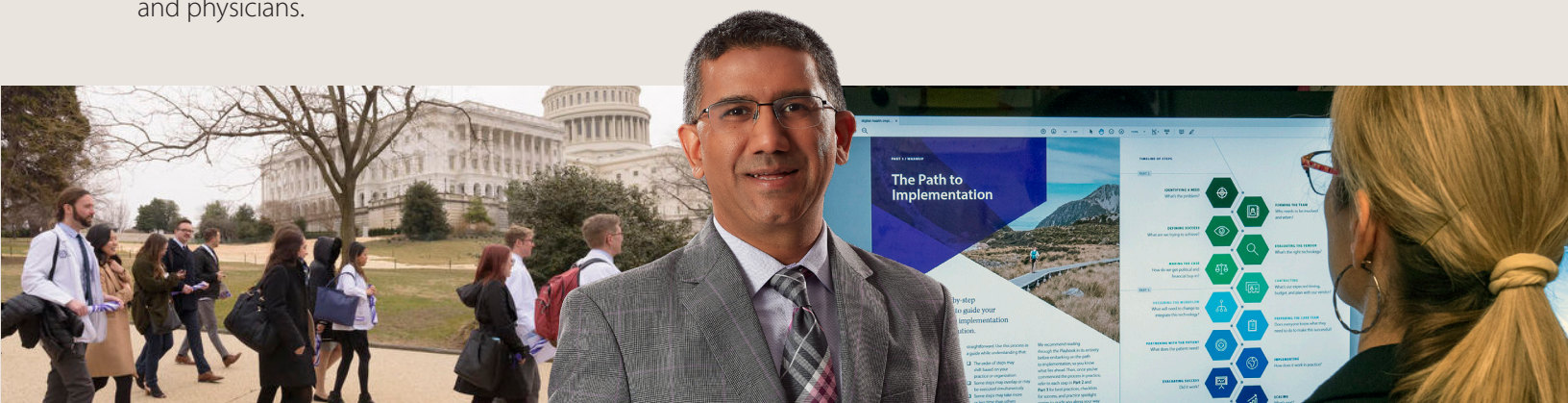
**Emily Cleveland-Manchanda, MD**, member since 2009

We established the AMA Center for Health Equity as the operational home to **build, drive and sustain health equity efforts across the organization and our health system**. The center has begun to build important relationships that will be critical in enabling the AMA's work to improve health outcomes, close disparities gaps and advance equity in medicine.

The startup we co-founded, Xcertia, **released and widely circulated industry standards** for the privacy, security, operability, content and usability of digital health applications.

The Current Procedural Terminology (or CPT®) Editorial Panel and AMA-convened Digital Medicine Payment Advisory Group advanced coverage and payment for digital medicine services by **establishing new codes for remote self-measure blood pressure monitoring e-visits** between patients and physicians.

We positioned the AMA's Integrated Health Model Initiative as a key stakeholder in data interoperability by receiving founding-member status in the Gravity Project, the **leading collaborative responsible for developing Social Determinants of Health data standards under HL7**.



**Ravi Goel, MD**, member since 1994

We **invested in the physician leaders of tomorrow** by bringing 400 medical students to Capitol Hill to meet with government leaders; by bringing together our AMA Board of Trustee members with more than 450 medical students at 30 medical schools; and by adding 10 new leadership positions at the AMA and developing a new leadership certificate program.

# **2019 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. Our focus is on our strategic arcs of addressing chronic disease, professional development and removing obstacles in health care, with health equity, advocacy and innovation supporting work across all arcs.

In 2019, AMA continued to maintain its focus on Practice Sustainability and Professional Satisfaction (PS2), expanding our research of credible practice science and 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 launching 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 hypertension and pre-diabetes.

AMA's critical work in Advocacy continues to be focused on efforts to reduce administrative burden for physicians, such as the Centers for Medicare & Medicaid Services (CMS) adopting AMA recommendations regarding coding changes and relative work values for outpatient evaluation and management (E/M) services.

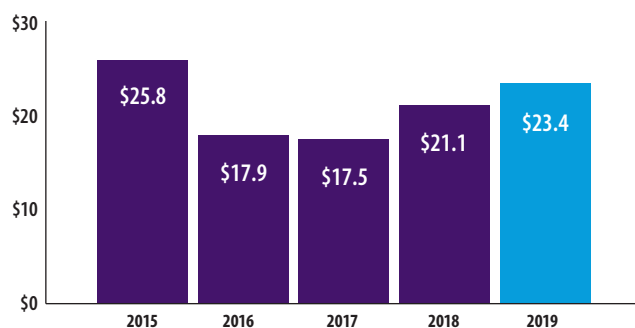
AMA's business formation and commercialization enterprise in Silicon Valley, Health2047, Inc. (Health2047), has made substantial progress on key projects, including the spinoffs of two new companies in 2019. Health2047 will continue to enhance AMA's ability to define, create, develop and launch, with 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.

2019 saw many other important activities, including the successful beta launch of 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; the establishment of AMA's Center for Health Equity, with a goal of embedding health equity in all the work of the AMA; continued physician engagement efforts through enhanced digital marketing and content; and ongoing development of projects in 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 2019, AMA is reporting a \$12.8 million net operating loss; which includes a \$36.2 million noncash pension termination expense that was reclassified from non-operating results. Excluding the noncash pension termination expense, AMA is reporting \$23.4 million in net operating income (pro forma), reflecting continued growth in revenue, offset by additional investment in the focus areas, core activities and new initiatives.

## Pro forma 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.

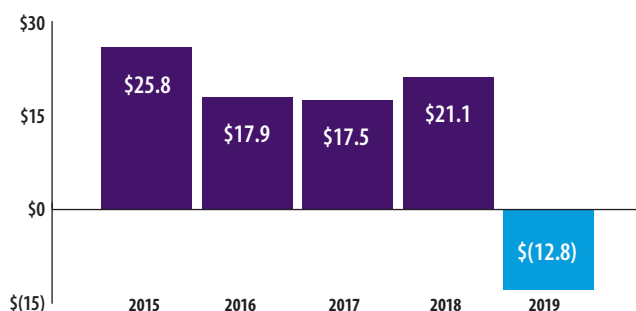
The following pages discuss the 2019 consolidated results from operations, financial position and cash flows, as compared to 2018. Additional detailed discussion of operating unit results is included in the section titled "Group Operating Results."

## Consolidated financial results

### Results from operations

#### Net operating results

(in millions)



In 2019, the AMA finalized termination of its defined benefit pension plan, providing lump sum payments to individuals that elected that option and purchasing a group annuity plan for participants that chose to remain in the plan. AMA recorded a \$38.2 million noncash reclassification of prior actuarial losses from non-operating expense to operating expense, titled pension termination expense, as well as reclassifying a \$2 million noncash tax benefit to income tax expense that had been previously reported as a non-operating credit. The pension plan liability previously recorded on AMA's financial statements as part of regular pension expense was eliminated by paying a \$7 million contribution to the pension plan.

Excluding the \$36.2 million noncash pension termination expense (net of the \$2 million tax credit), AMA would report \$23.4 million in net operating income.

In addition, AMA adopted a new accounting standard related to defined benefit retirement plans that impacted how AMA accounted for the postretirement health care plan. AMA did not adopt the new standard for the pension, as the pension plan was terminated. The new standard requires that components of the actuarially calculated expense that do not relate to service, such as interest cost and amortization of actuarial gains and losses, be reported as non-operating expense. The standard was adopted in 2019, and 2018 results were restated, as required, to retroactively reflect the change.

Results discussed below reflect AMA's actual results from operations, including the one-time noncash pension termination expense. Any discussion of results excluding the one-time pension termination expense will be described as pro forma results.

In addition, all five-year charts shown in this report have been restated to exclude the postretirement health care costs reported as non-operating expense in 2018 and 2019, due to adopting the new accounting standard. This will provide comparability across all five years.

#### Revenues

In 2019, total revenues improved by \$31 million over the prior year, with continued growth in AMA's royalties, journal site licensing and journal open access fees, as well as an increase in investment income. Coding book sales and journal print advertising declined during 2019, reflecting the ongoing transition from print to digital.

The number of AMA dues paying memberships increased in 2019 by 3 percent, achieving nine 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 small dues revenue decline of just under 4 percent.

Consolidated investment income, which is dividend and interest income, net of management fees, increased \$2.2 million in 2019, reflecting larger investable balances and an increase in interest rates in the first part of 2019, although rates returned to historic low levels by the end of the year. Market gains or losses are not included in investment income and are reported as non-operating results.

#### 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 2019, cost of products sold and selling expenses were largely unchanged from the prior year.

#### Contribution to general and administrative expenses

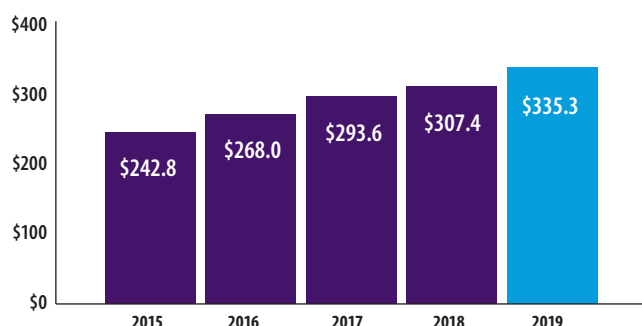
Cost of products sold and selling expenses are deducted from revenues to determine the amount of money available for the general and administrative expenses of the organization. Contribution to general and administrative expenses measures the gross margin derived from revenue-producing activities.

The contribution to general and administrative expenses increased \$30.9 million to \$364.5 million in 2019, with

Books and Digital Content accounting for most of the change. Revenue improvements from royalties, offset by the declining book sales discussed above, were the key factors.

### Pro forma general and administrative expenses

(in millions)



Pro forma general and administrative expenses, excluding the pension termination expense, rose \$27.9 million in 2019, or just over 9 percent, but less than the budgeted increase for 2019 of 18 percent.

Compensation and benefits increased \$16 million, or approximately 8 percent with costs increasing for both compensation and benefits. Compensation, including temporary help, was \$12.2 million higher in 2019, a 9.8 percent increase, with almost half due to staff additions and the other half resulting from salary or merit increases. Staff additions occurred primarily in the strategic focus areas and revenue generating groups. Associated fringe benefit costs increased \$2.1 million in total, mainly for payroll taxes and medical costs. Higher incentive compensation accounted for \$2.9 million of the increase in compensation and benefits as the salary base increased and key performance indicators were achieved in 2019.

Occupancy costs increased \$2.1 million in 2019, largely due to higher operating costs and property taxes associated with the office leases in Chicago and Washington, D.C., as well as additional office space for Health2047.

Technology costs increased \$2.5 million in 2019, resulting from higher licensing and maintenance costs as well as expanded use of hosted solutions in lieu of building custom inhouse applications, the latter reducing costs of future ongoing support.

Marketing and promotion costs rose \$2.8 million in 2019, due to a variety of activities. AMA launched a major expansion of its digital content and marketing program in 2018 to enhance AMA's reputation, visibility and effectiveness among physicians, healthcare influencers and the public. Expansion of this program in 2019 caused a \$1.2 million increase in marketing and promotion.

Membership marketing costs increased \$0.6 million in 2019. The IHO awareness campaign on new blood pressure measures and digital advertising for IHO's blood pressure modules such as Achieving Accuracy: BP measurement resulted in a \$0.9 million increase in costs.

Outside professional services declined in 2019, mainly due to completion of projects in membership marketing for engagement and retention of students and residents; in IHO for new and enhanced MAP tools and resources; and in PS2 for creating practice transformation and payment models.

A \$3.2 million increase in other operating expenses was driven by a \$1.1 million increase in grants for the new "Reimagining Residency" initiative, a \$0.8 million grant to an affiliate and a \$1.6 million increase in Health2047 costs, mainly due to an increased reserve for bad debts.

### Operating results before income taxes

The AMA reported a \$9 million pre-tax operating loss in 2019. Excluding the \$38.2 million noncash pension termination expense (pre-tax), the 2019 pro forma pre-tax results were \$29.2 million, compared to \$26.2 million in 2018. The \$31 million increase in revenue was almost entirely offset by the general and administrative expense increases described above, as planned in AMA's 2019 budget.

### Income taxes

Taxes decreased \$1.3 million in 2019, which includes a \$2 million noncash tax benefit related to the pension plan termination.

### Net operating results

The reported net operating loss, including the noncash pension termination expense, was \$12.8 million. On a pro forma basis, AMA's operating income totaled \$23.4 million in 2019, up \$2.3 million from the prior year, driven mainly by improved revenues exceeding expense increases.

### Non-operating items

The AMA reported a \$75 million gain in the fair value of its portfolio during 2019 after a \$39.7 million loss in 2018.

As a result of adopting the new accounting standard for postretirement benefit plans, non-operating results also include \$3.9 million and \$3.1 million in postretirement plan interest expense and recognized actuarial gains and losses for 2019 and 2018, respectively. The 2018 results were restated to reflect the reclassification of \$3.1 million from compensation and benefits in operating results to non-operating items.



## Revenue in excess of (less than) expenses

Revenues exceeded expenses by \$58.5 million in 2019, a combination of the \$12.8 million operating loss, the \$75 million gain in fair value in the portfolio and \$3.7 million in other non-operating expenses. Expenses exceeded revenues by \$21.7 million in 2018, mainly due to the fair value losses in the investment portfolio.

## 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 2019, the net credit to equity related to defined benefit postretirement plans totaled \$17 million. This included a noncash credit of \$36.2 million due to reclassifying prior actuarial losses and prior service cost for the pension plan (net of tax) to operating expense, upon finalizing the pension plan termination.

Excluding the \$36.2 million credit from reclassifying the pension plan expense to operating expense, the AMA reported a \$19.2 million charge to equity for the postretirement health care plan. Actuarial losses due to year-end lower interest rates that increased the present value of plan liabilities accounted for \$18.2 million of the charge.

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, resulting from year-end higher interest rates that decreased the present value of plan liabilities, totaled \$22.2 million. In addition, claims experience in the retiree health plan was 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 \$3.5 million to the gains. Plan assumptions were updated in 2018 to reflect the pension plan 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 tax expense of \$0.8 million reduced the overall gain slightly.

The AMA reported a \$75.4 million increase in association equity in 2019. This reflects the amount by which revenues exceeded expenses, plus the credits to equity for changes in defined benefit postretirement plans discussed above and a small decrease in donor-restricted equity.

The AMA reported a \$10.9 million decrease in association equity in 2018, combining \$21.7 million of expenses in excess of revenues with \$10.8 million in credits to equity for

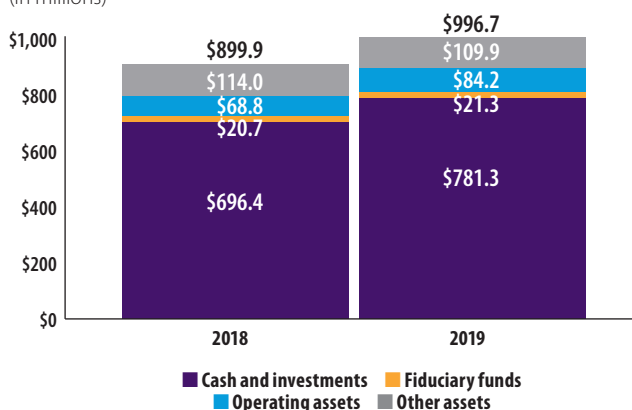
changes in defined benefit postretirement plans. There was no change in donor-restricted equity in 2018.

## 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 \$96.8 million in 2019. This includes an \$84.9 million increase in cash and investments resulting from \$12.1 million in free cash flow, a \$75 million gain in the fair value of investment securities, reduced by \$2.2 million of investments in affiliates.

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 increased \$15.4 million in 2019, primarily due to an \$11 million increase in accounts receivable from higher fourth quarter royalty revenue. Changes in operating assets from year to year are largely due to timing of cash flows.

Other assets includes operating lease right-of-use assets, property and equipment and investments in mutual funds maintained in separate accounts designated for various nonqualified benefit plans that are not available for operations. Operating lease right-of-use assets decreased due to amortization of the asset that represents the present value of lease payments. Property and equipment net book value decreased \$1.7 million, as new capital spending was exceeded by annual depreciation and amortization of existing capital assets.

Operating liabilities increased \$18.1 million in 2019, mainly due to the increase in postretirement health care plan liabilities included as accrued payroll and employee benefits, resulting from lower interest rates at year end increasing the present value of the liabilities.

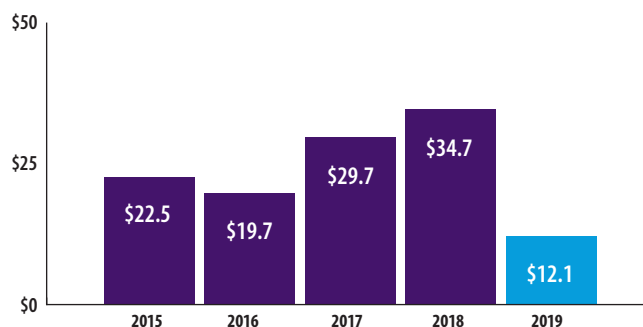
Deferred revenue represents funds received during the year that will not be recognized as income until the following year or thereafter. These amounts vary, as well as accounts payable and accrued expenses, depending on the timing of cash receipts and payments.

## Cash flows

Cash, cash equivalents and donor-restricted cash declined \$10.4 million and \$6.7 million in 2019 and 2018, respectively. 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)



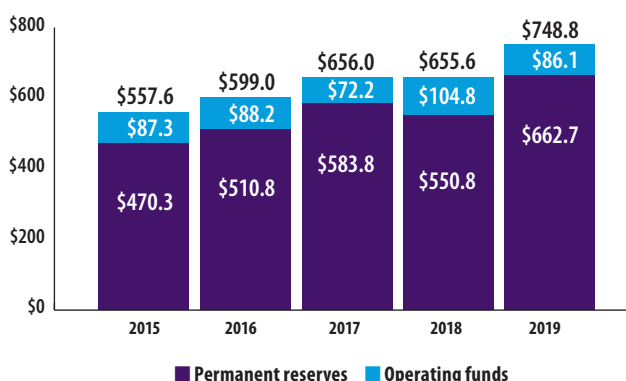
Free cash flow measures the AMA's ability to fund operations, capital expenses and major programmatic initiatives from funds generated from operations. This measure excludes non-operating gains and losses.

Free cash in 2019 totaled \$12.1 million, \$22.6 million less than the 2018 results, with a \$24.9 million decline in cash from operations partially offset by lower capital spending. The decline in cash from operations was due to substantially higher year end accounts receivable and making a final pension contribution of \$7 million in 2019.

## 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 2019, the reserve portfolio's value was \$662.7 million compared to \$550.8 million in 2018, a \$111.9 million increase. That increase was the result of a \$75.1 million gain in the fair value of the reserve portfolios plus a \$36.8 million transfer of 2018 excess operating funds to reserves. Operating funds totaled \$86.1 million in 2019, down \$18.7 million from 2018.

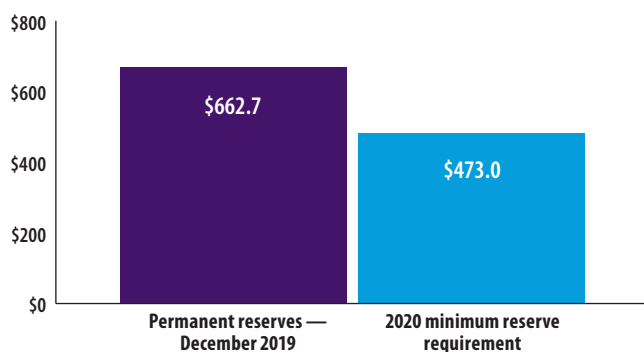
The AMA has established a required minimum reserve investment portfolio level that is adequate to cover 100 percent of annual general and administrative expenses (excluding grant expenses) plus an amount sufficient to pay long-term pension, postretirement and lease liabilities (net of the right of use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



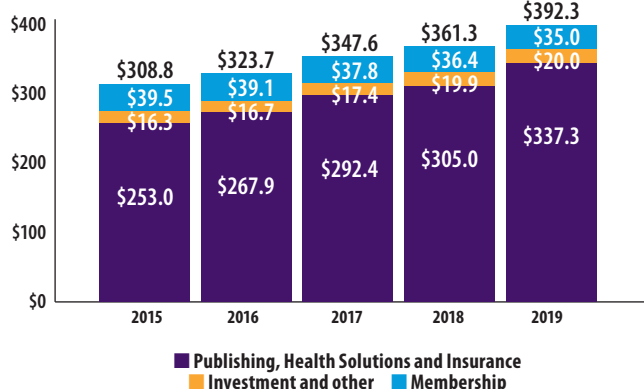
## Group operating results

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 ninth consecutive year of increases in the number of dues-paying members, although total dues revenue declined in 2019. The number of dues paying members increased 3 percent in 2019, and total membership increased 2.4 percent in 2019, as compared to 2.8 percent in 2018.

Gross dues revenue was \$35.1 million, a \$1.4 million decrease from 2018, 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 2019 and 2018.

## 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 as part of the group results for Publishing, Health Solutions & Insurance and Health2047.

Investments' income was \$14.5 million in 2019, a \$2.1 million increase over the prior year, due to an increase in the investable fund balances as well as an improvement in interest rates in the early part of 2019. Continued low interest rates have resulted in reduced levels of income in the portfolio during the last several years.

The net gain or loss on investments is not included in operating results, but reported as a non-operating item. This amount is in addition to the investment income discussed above, and totals a gain of \$75 million in 2019, compared to a \$39.7 million loss in 2018. The total investment gain, including investment income, on the reserve portfolios was 15.6 percent. That compares to a composite benchmark index of 17.1 percent.

## 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, open access fees and royalties. Publishing revenues decreased \$2.4 million in 2019, as the print advertising market slowed in 2019. This was partially offset by growth in site licensing and open access fees.



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

Database Products includes royalties from licensed data sales and credentialing products revenue. Revenues increased \$3.4 million in 2019 due to increased royalties, largely from new customers.

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 \$29.5 million. Royalties and digital content sales drove this increase, as the market for electronic use of digital coding products continues to expand. A change in the pricing models for 2019 was also a factor. Coding book sales declined again in 2019 as the move from print products to digital data continues to adversely 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 \$1.8 million in 2019, mainly due to an increase in commission rates from a new underwriter. 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 \$0.5 million in 2019, largely due to higher grant and fee income in the core activities. Health2047 revenues are discussed separately at the end of this discussion and analysis.

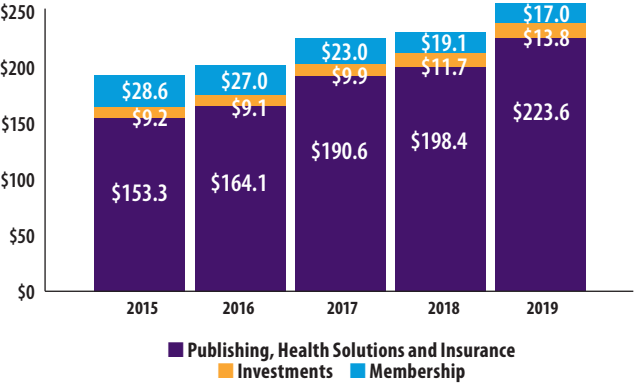
Contribution margin (net expenses)

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

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

Contribution margin

(in millions)



The contribution margin generated by Membership, Publishing, Health Solutions & 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

Membership's contribution margin decreased \$2.1 million in 2019 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 \$2.1 million increase in contribution margin was attributable to the investment revenue improvement.

Publishing, Health Solutions and Insurance

Publishing, Health Solutions and Insurance results were up \$25.2 million in 2019. Increased royalty and digital product revenue, site licensing, insurance commissions and open access fees were the major drivers.

Contribution margin declined \$4.4 million in Publishing, from the \$2.4 million revenue drop coupled with \$2 million in higher costs for the new open access journal and expansion of operations.

Database Products reported a \$1 million margin improvement as the improved royalty revenue was largely offset by increased costs associated with moving to a new technology platform.

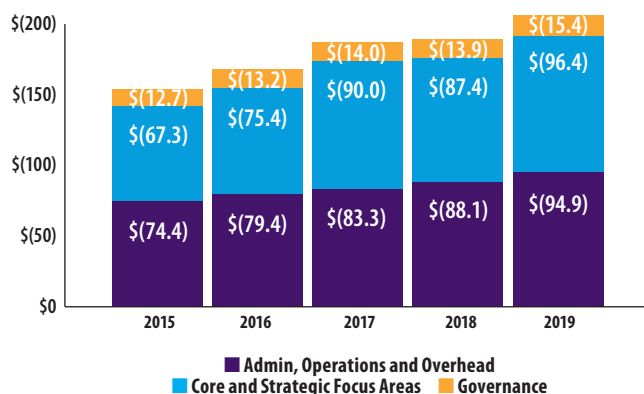
Books and Digital Content contribution margin rose \$27.3 million, largely on the strength of continued growth in royalties and digital product revenues, somewhat offset by costs to expand services and international distribution capability.

The Insurance Agency/Affinity Products margin increased \$2 million in 2019, with small cost decreases adding to the revenue improvement.

Other business operations net expenses were up \$0.7 million, due to expanding compliance efforts.

## Net expenses

(in millions)



## Strategic focus areas and core operations

The Strategic Focus Areas include direct costs associated with the units for IHO, ACE, 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. To help prevent type-2 diabetes, the AMA and the Centers for Disease Control and Prevention (CDC) developed a toolkit to help health care teams screen, test and refer at risk patients to in-person or online diabetes prevention programs (DPP's).

The AMA has developed online tools and resources created using the latest evidence-based information to support physicians to help manage their patients' high blood pressure (BP). These resources are available to all physicians and health systems as part of Target: BP™, a national initiative co-led by the AMA and the American Heart Association. In 2019, AMA opened a new office in South Carolina with nationally recognized experts to assist in scaling the Target BP MAP Program across the country to major health care organizations.

Through ACE, in 2013 the AMA launched a multi-year grant program aimed at bringing innovative changes to medical education. The consortium of schools has been substantially expanded and now acts as a learning collaborative so that best practices can be developed, shared and implemented in medical schools across the country. ACE launched its "Reimagining Residency" initiative in 2019 at 11 partner

institutions in order to continue creating and disseminating innovations to better train physicians to meet the needs of patients today and in the future.

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. The second edition will be published in 2020.

PS2 includes three major streams of work: practice transformation, digital health, and payment and quality, all designed to improve the day to day practice and professional experience of physicians and remove obstacles to care.

The goals of this initiative are to promote successful models in both the public and private sectors. This includes expanding research of credible practice science, creating tools and other resources focused on helping physicians implement practice improvements, improving the usability of electronic health records, and shaping the evolution of payment models for sustainability and satisfaction. In 2019, large scale pilots were launched, with state medical societies, to identify best practices.

IHMI brings together experts from patient care, medical terminology, and informatics around a common framework for defining and expressing health data. IHMI has been recognized as a leading authority on clinical content standards and is contributing to the development and use of clinical content through collaboration with Health Level 7 (HL7) FHIR (Fast Healthcare Interoperability Resources), the Gravity Project and others. HL7 is an international community of healthcare subject matter experts and information scientists who work together to create accredited standards for the exchange, management and integration of electronic healthcare information. IHMI also collaborates on projects with other organizations across the health care industry to make health data more useful and actionable. IHMI collaborates with all groups across AMA around innovation.

The Strategic Focus Areas continued to expand staff and operations during 2019, as planned in the 2019 budget. Most of the \$5.5 million net expense increase in 2019 was due to the expansion of IHO's work in hypertension and the awarding of new grants for the "Reimagining Residency" initiative.

Core Operations includes five groups: Advocacy; Health & Science, Health Equity and Core Medical Education; AMA Ed Hub, Enterprise Communications & Marketing and Member Experience (MMX), previously called 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 2019 included averting material cuts in office visit payments proposed by CMS in the E/M code collapse as CMS adopted AMA recommendations from the RUC and CPT; creating a roadmap to use nationally on issues such as Medication Assisted Treatment, based on AMA and Manatt Health in-depth research on the opioid epidemic in four states; and successfully lobbying for federal funding of long-sought gun violence research at CDC and NIH. In 2019, Advocacy net spending totaled \$26.8 million, up \$0.5 million from the prior year.

Health & Science, Health Equity and Core Medical Education includes Science; Core Medical Education; Ethics; and Grants, as well as the newly created Center for Health Equity. 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.

The Center for Health Equity will help drive health equity initiatives throughout the AMA by working effectively across a matrixed organization, establishing a system/structure to embed and track equity. The initial work has been focused on embedding equity across the organization. Initial partial year costs for Health Equity were more than offset by a planned decrease in AMA grant support for PCPI and increased revenue for the U.S. Adopted Names program driving a \$0.4 million decrease in net expenses for the overall group.

A major initiative for AMA in the last several years has been creating and expanding education delivery services through the AMA Ed Hub, formally launched in late 2018, providing a digital platform for lifelong professional development. The expansion of the AMA Ed Hub to create a central distribution channel for mission impact and physician engagement caused a \$1.6 million net expense increase in 2019.

Ongoing responsibilities of the Enterprise Communications area include amplifying the work of individual operating units among their core audiences while providing consistency and alignment with the AMA narrative,

proactively communicating the “One AMA” culture to demonstrate how the AMA is creating societal value while driving the future of medicine. Net expenses declined by \$0.7 million in 2019, largely due to the conclusion of a project to identify major influencers in health care.

MMX packages AMA’s initiatives into digital content and platforms that expand AMA’s reach, engagement with physicians and help acquire or retain individual and new group members. The goals are increased uptake by physicians of AMA’s offerings (mission activities, membership, educational offerings, etc.), sharper market insight to enable successful new programs, and expanded opportunities for physicians to participate in the mission and membership of the AMA. In 2019, there was a \$2.5 million increase in net spending largely related to expansion of the digital content, publishing and marketing activities within AMA.

## Governance

Governance includes the Board of Trustees, the HOD, Sections and Special Constituencies & 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 & 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 2019, Governance net spending was up \$1.5 million, mainly in the HOD and Sections as a result of expanding section staff support and increased travel and meeting costs.

## Administration and operations

These units provide administrative and operational support for Publishing and Health Solutions, Membership and all other operating groups. Net expenses were up \$3.1 million in 2019, or 4.7 percent. Staff expansion and increased use of consultants in Information Technology accounted for almost half the increase. Finance and Human Resources areas also reported higher costs for staff expansion. The remaining units reported little or no change 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 increased \$0.8 million in 2019 due to a one-time grant to an affiliated entity.

## 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 2019, these expenses totaled \$24.4 million, up from \$21.5 million in 2018. Higher incentive compensation accounted for the entire increase.

## Health2047 and subsidiaries

AMA has established 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 funds initial projects and moves those that demonstrate commercial appeal into separate companies, along with necessary seed funding for the new companies. After the initial stage, it is expected that 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.

Since 2017, Health2047 has spun off four companies, Akiri, Inc. (Akiri), First Mile Care, Inc. (FMC), HXSquare, Inc. (HXS) and Zing Health Holdings, Inc. (Zing). Akiri and FMC are subsidiaries of Health2047 while HXS and Zing are not wholly owned or controlled by Health2047 and therefore not consolidated. Health2047 operating costs, as well as two of the four spinoffs, Akiri and FMC, are included in the consolidated financial results reported herein. Health2047's proportionate share of net earnings or loss from the two affiliated companies is reported as one line on AMA's financial statements and included in Health2047's operating results. Third-party financing is expected to cover most costs for the two entities not consolidated with Health2047, HXS and Zing.

Akiri is a network for facilitating the flow of health care data as well as a protocol for transferring the data in real time, acting as a network for securely transmitting information through a standardized system of codes by leveraging blockchain principles.

FMC is building an affordable, scalable, and sustainable platform that helps people combat prediabetes. Based on the proven DPP method being developed by the CDC, FMC's program fosters community-based, connections that provide people with the guidance they need in the settings where they make their lifestyle choices.

Health2047 has investment income and provides administrative services to a venture fund associated with Health2047, netting \$0.3 million and \$0.6 million revenue in 2019 and 2018, respectively. Health2047 also reflects its proportionate loss in earnings of affiliates, totaling \$2.2 million in 2019 as revenue.

Expenses increased in 2019 by \$2.4 million, mainly due to an increase in reserve for bad debts. The lower service revenue, losses from affiliates and increase in expenses resulted in a \$4.9 million increase in net expenses in 2019, reflects the results of all Health2047 companies.

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



## American Medical Association group operating results

(in millions)	Revenues		Margin (expenses)	
	2019	2018	2019	2018
<b>Membership</b>	<b>\$ 35.0</b>	\$ 36.4	<b>\$ 17.0</b>	\$ 19.1
<b>Publishing, Health Solutions &amp; Insurance</b>				
Publishing	60.2	62.6	4.8	9.2
Database Products	59.4	56.0	45.9	44.9
Books and Digital Content	176.8	147.3	152.2	124.9
Insurance Agency/Affinity Products	40.9	39.1	23.5	21.5
Other business operations	-	-	(2.8)	(2.1)
	<b>337.3</b>	305.0	<b>223.6</b>	198.4
<b>Investments (AMA-only)</b>	<b>14.5</b>	12.4	<b>13.8</b>	11.7
<b>Strategic Focus Areas &amp; Core Operations</b>				
Strategic Focus Areas	1.0	0.3	(36.3)	(30.8)
Advocacy	0.7	0.8	(26.8)	(26.3)
Health & Science, Health Equity & Core Medical Education	4.3	4.2	(6.9)	(7.3)
AMA Ed Hub	0.3	0.3	(7.5)	(5.9)
Enterprise Communications	-	-	(3.7)	(4.4)
Marketing and Member Experience	-	-	(15.2)	(12.7)
	<b>6.3</b>	5.6	<b>(96.4)</b>	(87.4)
<b>Governance</b>				
Board of Trustees and Officer Services	-	-	(6.3)	(5.9)
House of Delegates, Sections, Special Constituencies & International	0.1	0.1	(9.1)	(8.0)
	<b>0.1</b>	0.1	<b>(15.4)</b>	(13.9)
<b>Administration and operations</b>				
Information Technology	-	-	(31.0)	(29.6)
Corporate Services	-	-	(5.5)	(5.4)
Senior Executive Management	-	-	(5.9)	(6.0)
General Counsel	-	-	(6.4)	(6.5)
Customer Service & Other	-	-	(3.3)	(3.4)
Finance & Risk Management	-	-	(7.3)	(6.7)
Human Resources	-	-	(6.3)	(5.4)
Strategic Planning and Health Analytics	-	-	(3.9)	(3.5)
	-	-	<b>(69.6)</b>	(66.5)
Affiliated Organizations	0.1	0.1	(0.9)	(0.1)
Unallocated Overhead	0.9	1.1	(24.4)	(21.5)
Health2047 & Subsidiaries	(1.9)	0.6	(18.5)	(13.6)
<b>Consolidated revenue and income before tax and noncash pension termination expense</b>	<b>\$ 392.3</b>	\$ 361.3	<b>29.2</b>	26.2
Income tax expense (excluding pension termination benefit)			(5.8)	(5.1)
<b>Consolidated net operating income – pro forma</b>			<b>23.4</b>	21.1
Noncash pension termination expense, net of tax			(36.2)	-
<b>Consolidated net operating (loss) income</b>			<b>\$ (12.8)</b>	\$ 21.1

# **2019 CONSOLIDATED FINANCIAL STATEMENTS**

# Consolidated statements of activities

Years ended December 31

(in millions)	2019	2018
<b>Revenues</b>		
Membership dues	\$ 35.1	\$ 36.4
Advertising	11.9	14.9
Journal print subscription revenues	4.2	4.7
Journal online revenues	28.7	28.5
Other publishing revenue	14.8	13.9
Books, newsletters and online product sales	27.4	30.5
Royalties and credentialing products	208.4	172.6
Insurance commissions	37.0	36.2
Investment income (Note 4)	15.5	13.3
Equity in losses of affiliates (Note 2)	(2.2)	-
Grants and other income	11.5	10.3
<b>Total revenues</b>	<b>392.3</b>	<b>361.3</b>
<b>Expenses</b>		
Cost of products sold and selling expenses	27.8	27.7
<b>Contribution to general and administrative expenses</b>	<b>364.5</b>	<b>333.6</b>
<b>General and administrative expenses</b>		
Compensation and benefits	204.5	188.5
Occupancy	21.8	19.7
Travel and meetings	18.0	15.3
Technology costs	26.7	24.2
Marketing and promotion	16.2	13.4
Professional services and consulting	24.0	25.4
Other operating expenses	24.1	20.9
Pension termination expense (Note 7)	38.2	-
<b>Total general and administrative expenses</b>	<b>373.5</b>	<b>307.4</b>
Operating results before income taxes	(9.0)	26.2
Income taxes (Note 9)	3.8	5.1
<b>Net operating results</b>	<b>(12.8)</b>	<b>21.1</b>
<b>Non-operating items</b>		
Net gain (loss) on investments (Note 4)	75.0	(39.7)
Defined benefit postretirement plan non-service periodic expense (Note 8)	(3.9)	(3.1)
Other	0.2	-
<b>Total non-operating items</b>	<b>71.3</b>	<b>(42.8)</b>
<b>Revenues in excess of (less than) expenses</b>	<b>58.5</b>	<b>(21.7)</b>
Changes in defined benefit postretirement plans, other than periodic expense, net of tax (Notes 7, 8 and 9)	17.0	10.8
<b>Change in association equity</b>	<b>75.5</b>	<b>(10.9)</b>
<b>Change in donor restricted association equity</b>		
Restricted contributions	0.3	0.3
Net assets released from restriction	(0.4)	(0.3)
<b>Change in association equity – donor restricted</b>	<b>(0.1)</b>	<b>-</b>
<b>Change in total association equity</b>	<b>75.4</b>	<b>(10.9)</b>
Total association equity at beginning of year	548.8	559.7
<b>Total association equity at end of year</b>	<b>\$ 624.2</b>	<b>\$ 548.8</b>

See accompanying notes to the consolidated financial statements.

# Consolidated statements of financial position

As of December 31

(in millions)	2019	2018
<b>Assets</b>		
Cash, cash equivalents and donor-restricted cash	\$ 30.9	\$ 41.3
Fiduciary funds (Note 2)	21.3	20.7
Accounts receivable and other receivables, net of an allowance for doubtful accounts of \$0.3 in 2019 and \$0.2 in 2018	67.7	56.7
Inventories	2.7	2.2
Prepaid expenses and deposits	8.9	6.2
Deferred income taxes (Note 9)	4.9	3.7
Investments (Note 4)	750.4	655.1
Property and equipment, net (Note 6)	44.5	46.2
Operating lease right-of-use assets (Note 10)	56.6	60.7
Other assets (Note 5)	8.8	7.1
	<b>\$ 996.7</b>	<b>\$ 899.9</b>
<b>Liabilities, deferred revenue and association equity</b>		
<b>Liabilities</b>		
Accounts payable, accrued expenses and other liabilities	\$ 16.6	\$ 15.6
Accrued payroll and employee benefits (Notes 7 and 8)	157.1	134.1
Insurance premiums and other fiduciary funds payable	21.2	20.6
Income taxes payable (Note 9)	0.8	1.2
Operating lease liability (Note 10)	93.1	99.2
	288.8	270.7
<b>Deferred revenue</b>		
Membership dues	15.9	16.1
Subscriptions, licensing, insurance commissions and royalties	65.4	61.7
Grants and other	2.4	2.6
	83.7	80.4
<b>Association equity</b>	622.6	547.1
Donor-restricted association equity	1.6	1.7
<b>Total association equity</b>	624.2	548.8
	<b>\$ 996.7</b>	<b>\$ 899.9</b>

See accompanying notes to the consolidated financial statements.



# Consolidated statements of cash flows

Years ended December 31

(in millions)	2019	2018
<b>Cash flows from operating activities</b>		
Change in total association equity	\$ 75.4	\$ (10.9)
Adjustments to reconcile change in association equity to net cash provided by operating activities		
Depreciation and amortization	12.3	12.1
Pension and postretirement health care expense	8.7	8.5
Noncash operating lease expense	10.1	9.5
Net (gain) loss on investments	(75.0)	39.7
Equity in losses of affiliates	2.2	-
Contribution to pension plan	(7.0)	-
Noncash charge (credit) for changes in defined benefit plans other than periodic expense (including pension termination expense) net of tax	19.2	(10.8)
Bad debt expense	2.3	0.2
Other	(0.2)	0.1
Changes in assets and liabilities		
Accounts receivable and other receivables	(13.3)	2.7
Fiduciary funds, net of payable	-	(0.5)
Inventories	(0.5)	0.1
Prepaid expenses and deposits	(2.7)	(0.3)
Deferred income taxes	-	(0.1)
Accounts payable, accrued liabilities and income taxes payable	(12.1)	(9.3)
Deferred rent obligations and tenant improvement allowances	-	0.6
Deferred revenue	3.3	6.0
Net cash provided by operating activities	22.7	47.6
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(10.6)	(12.9)
Investment in affiliates	(0.5)	-
Investment in convertible debt of affiliates	(1.7)	-
Purchase of investments	(486.9)	(412.6)
Proceeds from sale of investments	466.6	371.2
Net cash used in investing activities	(33.1)	(54.3)
<b>Net change in cash, cash equivalents and donor restricted cash</b>	(10.4)	(6.7)
Cash, cash equivalents and donor restricted cash at beginning of year	41.3	48.0
<b>Cash, cash equivalents and donor restricted cash at end of year</b>	<b>\$ 30.9</b>	<b>\$ 41.3</b>
<b>Noncash investing activities</b>		
Accounts payable for property and equipment additions	\$ 0.5	\$ 0.3

See accompanying notes to the consolidated financial statements.

# Notes to financial statements

Years ended December 31, 2019 and 2018  
(Columnar amounts in millions)

## 1. Nature of operations

The American Medical Association (AMA) is a national professional association of physicians with approximately 256 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, defined benefit postretirement plan non-service expense 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.

AMA, through its wholly owned subsidiary, Health2047, Inc. has investments in two affiliates: HXSquare, Inc., formed in January 2019, and Zing Health Holdings, Inc., formed in

March 2019. The equity method of accounting is used to account for investments in affiliates in which the AMA has significant influence but not overall control. The investments were initially recorded at the original amounts paid for common and convertible preferred stock, and subsequently adjusted for the AMA's share of undistributed earnings and losses (including unrealized and realized gains and losses) from the underlying entities from the dates of formation. The investment will be increased or reduced by any future additional contributions and distributions received, respectively.

At December 31, 2019, AMA ownership interest is 42.9 percent and 48 percent in HXSquare, Inc., and Zing Health Holdings, Inc., respectively. The book value of the equity method investments in affiliates, net of convertible debt issued by Zing Health Holdings, Inc., was approximately zero.

### Use of estimates

Preparation of consolidated 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 \$2.7 million and \$2.6 million held at December 31, 2019 and 2018, 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 scientific journals, 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 journal 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 consolidated statements of financial position and the balance, net of allowance for doubtful accounts, was

\$66 million and \$54.7 million as of December 31, 2019 and 2018, 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, AMA has determined that these 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

In 2019, the AMA adopted Accounting Standards Update (ASU) No. 2017-07, *Compensation Retirement Benefits*, which changed the presentation within the consolidated statements of activities. As a result, the AMA conformed the 2018 amounts to the 2019 presentation. See Note 3 for additional information.

## 3. New accounting standards update

In March 2017, the Financial Accounting Standards Board (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 consolidated statements of activities separately from the service cost component, as a non-operating expense.

The AMA adopted this guidance effective January 1, 2019, and classified the components of net periodic postretirement benefit cost other than service costs from compensation and benefits expense to non-operating expense within the consolidated statements of activities for all periods presented. Refer to Note 8 for additional information. The adoption of this guidance resulted in the reclassification of \$3.1 million of net periodic benefit cost components other than service cost from compensation and benefits expense to non-operating expense for the year ended December 31, 2018 with no impact on change in total equity. Non-operating expense includes \$3.9 million of benefit cost components other than service cost for the year ended December 31, 2019.

Due to the termination of the pension plan in 2018 and subsequent distributions from the plan in 2019, the AMA did not adopt the new accounting standard for costs related to the pension plan. See Note 7 for discussion on the pension 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 January 1, 2020. There will be no material impact on the AMA's consolidated 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 Accounting Standards Codification (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, 2019 totaled \$26.4 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 ASC 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 consolidated statements of financial position.

	2019	2018
Level 1 – Quoted prices in active market for identical securities		
Equity securities	\$ 341.2	\$ 271.0
Fixed-income mutual funds	15.4	15.7
	356.6	286.7

Level 2 – Significant other observable inputs		
Debt securities		
Corporate	94.9	89.3
U.S. government and federal agency	247.4	238.5
Foreign government	25.9	25.9
U.S. state government	0.2	0.2
	368.4	353.9

Level 3 – Significant Unobservable inputs	-	-
Other investments measured at NAV –		
Private equity and venture capital funds	25.4	14.5
Investments	\$ 750.4	\$ 655.1

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:

	2019	2018
Investment dividend and interest income	\$ 18.1	\$ 15.8
Management fees	(2.6)	(2.5)
	\$ 15.5	\$ 13.3

Non-operating items include:

	2019	2018
Realized gains on investments, net	\$ 14.9	\$ 15.2
Unrealized gains (losses) on investments, net	60.1	(54.9)
	\$ 75.0	\$ (39.7)

## 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 \$7.2 million and \$5.9 million at 2019 and 2018, 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. The deferred costs totaled \$1.6 million and \$1.2 million in 2019 and 2018, respectively.

## 6. Property and equipment

Property and equipment at December 31 consists of:

	2019	2018
Leasehold improvements	\$ 38.4	\$ 37.6
Furniture and office equipment	19.1	18.7
Information technology hardware and software	99.3	97.9
	156.8	154.2
Accumulated depreciation and amortization	(112.3)	(108.0)
	\$ 44.5	\$ 46.2

## 7. Retirement pension and savings plans

During 2019 and 2018, the AMA had a defined benefit pension plan covering eligible salaried and hourly employees. The plan was 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 participated in this plan and assets and liabilities were allocated between the AMA and other employers.

The AMA amended the pension plan to freeze pension benefits as of December 31, 2002. After that date, no individual could become a participant in the plan and no further benefits accrued 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 equals the accumulated benefit obligation for this plan.

In June 2018, the AMA adopted plan amendments that terminated the pension plan effective October 31, 2018. Plan participants were given the option to accept either a lump-sum payment, immediate annuity or annuity contract purchased from an insurance company selected by AMA.

All pension distributions to participants and the purchase of a group annuity contract for participants electing to remain in the plan were finalized in 2019.

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

	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 117.5	\$ 124.0
Interest cost	4.2	4.0
Benefits paid	(6.0)	(10.9)
Termination benefit payments	(117.7)	-
Plan amendments	-	1.6
Actuarial loss (gain)	2.0	(1.2)
Benefit obligation at end of year	\$ -	\$ 117.5

Change in plan assets		
Fair value of plan assets at beginning of year	\$ 113.5	\$ 125.1
Return (loss) on plan assets	2.4	(0.7)
Employer contributions	7.0	-
Benefits paid	(6.0)	(10.9)
Termination benefit payments	(117.7)	-
Plan combination	0.8	-
Fair value of plan assets at end of year	\$ -	\$ 113.5

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

	2019	2018
Fair value of plan assets	\$ -	\$ 113.5
Projected benefit obligation	-	117.5
Accrued pension costs	\$ -	\$ (4.0)

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:

	2019	2018
Actuarial losses	\$ -	\$ 36.7
Prior service cost	-	1.6
	\$ -	\$ 38.3

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

	2019	2018
Discount rate	NA	4.1%

As discussed in Note 3, AMA did not adopt the new accounting standard for costs related to the pension plan due to the plan termination.

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 2019 and 2018. The components of pension expense are:

	2019	2018
Interest cost	\$ 4.2	\$ 4.0
Expected return on plan assets	(4.9)	(6.5)
Lump-sum settlement charges	1.2	2.7
Recognition of prior service cost	0.2	-
Recognition of actuarial losses	2.4	3.6
Pension expense	\$ 3.1	\$ 3.8

Previously unrecognized actuarial losses and prior service cost recognized as a result of the pension termination are included on a separate line in the statements of activities titled pension termination expense:

	2019	2018
Actuarial losses	\$ 37.6	\$ -
Prior service cost	1.4	-
Plan combination	(0.8)	-
	\$ 38.2	\$ -

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

	2019	2018
Actuarial losses arising during period	\$ (4.5)	\$ (6.0)
Prior service costs for plan amendments	-	(1.6)
Reclassification adjustment for losses reflected in periodic pension expense	3.8	6.3
Actuarial losses reclassified to expense related to plan termination	37.6	-
Prior service cost reclassified to expense related to plan termination	1.4	-
Change in unrestricted equity	\$ 38.3	\$ (1.3)

Actuarial assumptions used in determining pension expense were:

	2019	2018
Discount rate	4.1%	3.4%
Expected long-term return on plan assets	4.8%	5.5%

Prior to the pension plan termination, to develop the expected long-term rate of return on plan assets assumption 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 was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. The investment strategy reflected the expectation that equity securities will outperform debt securities over the long term. Assets were invested in a prudent manner to maintain the security of funds while maximizing returns within the plan's investment policy guidelines. The strategy was implemented utilizing actively managed assets from the categories listed below.

The investment goal was to provide a total return that, over the long term, increased 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 was required by the policy.

During 2018 and early 2019, plan assets were liquidated and transferred to short-term investments in anticipation of distributing plan assets. All plan assets were distributed to participants or paid to the group annuity provider in 2019. The AMA has no additional obligation to the pension plan.

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.

	2019	2018
Level 1 – Quoted prices in active markets for identical securities		
U.S. equity securities	\$ -	\$ 31.6
International mutual funds	-	-
Fixed-income mutual funds	-	56.6
High-yield fixed income mutual fund	-	-
	-	88.2
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	-	8.9
U.S. government and agency	-	15.4
Foreign government	-	1.0
	-	25.3
Level 3 – Significant unobservable inputs	-	-
Marketable investments – all levels	\$ -	\$ 113.5

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 \$6.7 million and \$6.1 million in 2019 and 2018, respectively.

During 2019 and 2018, the AMA also maintained a non-qualified, unfunded supplemental pension plan for certain long-term employees. Participation in the plan was closed in 1994. The AMA recognized the liability in its consolidated statements of financial position. The accumulated benefit obligation and liability totaled \$0.3 million in 2018 and was eliminated in 2019 due to the final distributions resulting from the pension plan termination. The supplemental pension plan termination was triggered by the termination of the AMA defined benefit pension plan and all distributions were finalized in 2019.

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 and a \$0.1 million increase in prior service costs due to plan amendments in 2018. Payments from the plan totaled \$0.4 million in 2019 and \$0.1 million in 2018.

## 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:

	2019	2018
Benefit obligation at beginning of year	\$ 92.3	\$ 103.1
Service cost	1.6	1.7
Interest cost	4.2	3.5
Benefits paid	(4.1)	(4.0)
Participant contributions	1.2	1.2
Federal subsidy	0.1	0.2
Plan amendments	-	0.8
Actuarial loss (gain)	20.1	(14.2)
Accrued postretirement benefit costs	\$ 115.4	\$ 92.3

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:

	2019	2018
Actuarial losses	\$ 25.9	\$ 6.3
Prior service credits	(1.0)	(1.8)
	\$ 24.9	\$ 4.5



An estimated \$0.7 million in prior service credits and \$1.6 million of actuarial losses will be included as components of non-operating expense in 2020.

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

	2019	2018
Discount rate	3.3%	4.3%
Initial health care cost trend	5.84%	6.03%
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 statements of activities. The service cost component is included as part of compensation and benefits expense and the other components of expense are recognized as a non-operating item:

	2019	2018
Service cost	\$ 1.6	\$ 1.7
Interest cost	4.2	3.5
Amortization of prior service cost	0.5	0.5
Amortization of actuarial gain	(0.8)	(0.9)
	\$ 5.5	\$ 4.8

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

	2019	2018
Actuarial (losses) gains arising during period	\$ (20.1)	\$ 14.2
Reclassification adjustment for recognition of actuarial losses	0.5	0.5
Reclassification adjustment for recognition of prior service credits	(0.8)	(0.9)
Plan amendments	-	(0.8)
Change in unrestricted equity	\$ (20.4)	\$ 13.0

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:

	2019	2018
Discount rate	4.3%	3.7%
Initial health care cost trend	6.03%	6.22%

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	\$ 23.7	\$ (18.5)

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

2020	\$ 3.0
2021	3.2
2022	3.4
2023	3.7
2024	3.8
2025 – 2029	23.0

## 9. Income taxes

The provision for income taxes includes:

	2019	2018
Operating		
Current	\$ 6.2	\$ 5.5
Deferred	(2.1)	(0.1)
Valuation allowance	(0.3)	(0.3)
	3.8	5.1
Tax expense related to credits or charges to equity		
Deferred	0.9	0.8
	\$ 4.7	\$ 5.9

In 2019, AMA made final distributions from the pension plan, as discussed in Note 7, resulting in a \$2 million credit to income taxes reported in operating results and a \$2.1 million income tax expense included as a charge to equity.

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

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

	2019	2018
Benefit plans and compensation	\$ 7.8	\$ 6.6
Other	-	-
	7.8	6.6
Valuation allowance	(2.9)	(2.9)
	\$ 4.9	\$ 3.7

Cash payments for income taxes were \$6.5 million and \$5.9 million in 2019 and 2018, respectively.

## 10. 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 ASU No. 2016-02, *Leases*, as of January 1, 2018 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. An ROU asset in an equivalent amount of \$61.4 million was also established on the consolidated statement of financial position.

During 2019, AMA entered into new office space operating leases which resulted in establishing an additional \$1.2 million in ROU assets and \$1.4 million liability for the present value of future lease payments.

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 costs totaled \$10.1 million and \$9.5 million in 2019 and 2018, respectively. Cash paid for amounts

included in the measurement of lease liabilities totaled \$12.3 million and \$11.2 million in 2019 and 2018, respectively.

The weighted-average remaining lease term for operating leases is 9 years. The weighted-average discount rate used for operating leases is 5 percent.

The maturity of lease liabilities as of December 31, 2019:

2020	\$ 12.7
2021	12.9
2022	13.0
2023	12.5
2024	12.2
2025 and beyond	53.4
Total lease payments	116.7
Less imputed interest	(23.6)
Present value of lease obligations	\$ 93.1

## 11. 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, 2019 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	\$ 781.3
Less assets unavailable for general expenditures:	
Restricted by donor with purpose restrictions	(1.6)
Restricted by governing body primarily for long-term investing or for governing body approved outlays	(662.7)
Financial assets available to meet cash needs for general expenditures within one year	\$ 117.0

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 on an annual basis.

## 12. Contingencies

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

## 13. Subsequent events

ASC Topic 855, *Subsequent Events*, establishes general standards of accounting for and disclosure of events that occur after the consolidated balance sheet date but before consolidated financial statements are issued or are available to be issued.

For the year ended December 31, 2019, the AMA has evaluated all subsequent events through February 14, 2020, which is the date the consolidated financial statements were available to be issued, and concluded no additional subsequent events have occurred that would require recognition that have not already been recognized or that require disclosure.

## 14. Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the consolidated 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	\$ -	\$ 27.8	\$ -	\$ -	\$ -	\$ -	\$ 27.8
Compensation and benefits	5.3	55.0	-	58.3	78.8	7.1	204.5
Occupancy	0.5	5.7	-	6.7	7.4	1.5	21.8
Travel and meetings	0.2	3.4	-	7.3	6.6	0.5	18.0
Technology costs	1.4	10.5	-	4.7	10.0	0.1	26.7
Marketing and promotion	9.5	0.9	-	5.1	-	0.7	16.2
Professional services and consulting	0.1	3.7	0.2	12.5	4.0	3.5	24.0
Other operating expense	1.0	6.7	0.5	8.1	4.6	3.2	24.1
Pension termination expense	-	-	-	-	38.2	-	38.2
<b>2019 total expense</b>	<b>\$ 18.0</b>	<b>\$ 113.7</b>	<b>\$ 0.7</b>	<b>\$ 102.7</b>	<b>\$ 149.6</b>	<b>\$ 16.6</b>	<b>\$ 401.3</b>

Cost of goods sold and selling expense	\$ -	\$ 27.7	\$ -	\$ -	\$ -	\$ -	\$ 27.7
Compensation and benefits	4.5	52.4	-	51.3	73.3	7.0	188.5
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
<b>2018 total expense</b>	<b>\$ 17.3</b>	<b>\$ 106.6</b>	<b>\$ 0.7</b>	<b>\$ 93.0</b>	<b>\$ 103.3</b>	<b>\$ 14.2</b>	<b>\$ 335.1</b>

# 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, 2019 and 2018, 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, 2019 and 2018, and the results of its activities and changes in its equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP  
Chicago, Illinois  
February 14, 2020

## **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, 2019 and 2018 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 14, 2020

# **2019-2020 OFFICERS AND TRUSTEES**



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



