

American Medical Association and Subsidiaries

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2020 and 2019,
Schedule of Expenditures of Federal
Awards for the Year Ended
December 31, 2020, and
Independent Auditors' Reports in
accordance with *Government
Auditing Standards* and the Uniform
Guidance

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

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Deloitte & Touche LLP
111 South Wacker Drive
Chicago, IL 60606
USA
Tel: 312 486 1000
Fax: 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
American Medical Association

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the American Medical Association and subsidiaries (collectively, the "AMA"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2020 and 2019, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2021 on our consideration of the AMA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the AMA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the AMA's internal control over financial reporting and compliance.

Deloitte & Touche LLP

Chicago, IL
February 12, 2021

American Medical Association and Subsidiaries
Consolidated Statements of Activities
Years Ended December 31
(in millions)

	2020	2019
Revenues		
Membership dues	\$ 34.4	\$ 35.1
Advertising	13.6	11.9
Journal print subscription revenues	3.7	4.2
Journal online revenues	29.8	28.7
Other publishing revenue	16.9	14.8
Books, newsletters and online product sales	25.7	27.4
Royalties and credentialing products	245.1	208.4
Insurance commissions	36.7	37.0
Investment income (Note 4)	11.6	15.5
Equity in losses of affiliates (Note 2)	(0.6)	(2.2)
Grants and other income	16.5	11.5
Total revenues	433.4	392.3
Expenses		
Cost of products sold and selling expenses	29.3	27.8
Contribution to general and administrative expenses	404.1	364.5
General and administrative expenses		
Compensation and benefits	217.4	204.5
Occupancy	21.1	21.8
Travel and meetings	4.1	18.0
Technology costs	26.0	26.7
Marketing and promotion	17.5	16.2
Professional services and consulting	30.1	24.0
Other operating expenses	25.9	24.1
Pension termination expense (Note 7)	-	38.2
Total general and administrative expenses	342.1	373.5
Operating results before income taxes	62.0	(9.0)
Income taxes (Note 9)	6.0	3.8
Net operating results	56.0	(12.8)
Non-operating items		
Net gain on investments (Note 4)	58.4	75.0
Defined benefit postretirement plan non-service periodic expense (Note 8)	(2.5)	(3.9)
Other	0.2	0.2
Total non-operating items	56.1	71.3
Revenues in excess of expenses	112.1	58.5
Changes in defined benefit postretirement plans, other than periodic expense, net of tax (Notes 7, 8 and 9)	(2.8)	17.0
Change in association equity	109.3	75.5
Change in donor restricted association equity		
Restricted contributions	0.3	0.3
Net assets released from restriction	(1.8)	(0.4)
Change in association equity – donor restricted	(1.5)	(0.1)
Change in total association equity	107.8	75.4
Total association equity at beginning of year	624.2	548.8
Total association equity at end of year	\$ 732.0	\$ 624.2

See accompanying notes to the consolidated financial statements.

American Medical Association and Subsidiaries
Consolidated Statements of Financial Position
As of December 31
(in millions)

	2020	2019
Assets		
Cash, cash equivalents and donor-restricted cash	\$ 35.0	\$ 30.9
Fiduciary funds (Note 2)	21.4	21.3
Investments in affiliates (Note 2)	1.0	-
Accounts receivable and other receivables, net of an allowance for doubtful accounts of \$0.4 in 2020 and \$0.3 in 2019	82.8	67.7
Inventories	2.3	2.7
Prepaid expenses and deposits	10.8	8.9
Deferred income taxes (Note 9)	4.9	4.9
Investments (Note 4)	854.2	750.4
Property and equipment, net (Note 6)	43.3	44.5
Operating lease right-of-use assets (Note 10)	52.0	56.6
Other assets (Note 5)	8.1	8.8
	\$ 1,115.8	\$ 996.7
Liabilities, deferred revenue and association equity		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 17.4	\$ 16.6
Accrued payroll and employee benefits (Notes 7 and 8)	169.3	157.1
Insurance premiums and other fiduciary funds payable	21.5	21.2
Income taxes payable (Note 9)	2.1	0.8
Operating lease liability (Note 10)	85.7	93.1
	296.0	288.8
Deferred revenue		
Membership dues	16.4	15.9
Subscriptions, licensing, insurance commissions and royalties	68.4	65.4
Grants and other	3.0	2.4
	87.8	83.7
Association equity		
Association equity	731.9	622.6
Donor-restricted association equity	0.1	1.6
Total association equity	732.0	624.2
	\$ 1,115.8	\$ 996.7

See accompanying notes to the consolidated financial statements.

American Medical Association and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31
(in millions)

	2020	2019
Cash flows from operating activities		
Change in total association equity	\$ 107.8	\$ 75.4
Adjustments to reconcile change in association equity to net cash provided by operating activities		
Depreciation and amortization	12.6	12.3
Pension and postretirement health care expense	4.0	8.7
Noncash operating lease expense	10.0	10.1
Net gain on investments	(58.4)	(75.0)
Equity in losses of affiliates	0.6	2.2
Contribution to pension plan	-	(7.0)
Noncash charge for changes in defined benefit plans other than periodic expense (including pension termination expense in 2019) net of tax	2.8	19.2
Bad debt expense	0.1	2.3
Other	(0.1)	(0.2)
Changes in assets and liabilities		
Accounts receivable and other receivables	(15.2)	(13.3)
Inventories	0.4	(0.5)
Prepaid expenses and deposits	(1.9)	(2.7)
Other assets	1.6	-
Accounts payable, accrued liabilities and income taxes payable	(6.4)	(12.1)
Deferred revenue	4.1	3.3
Net cash provided by operating activities	62.0	22.7
Cash flows from investing activities		
Purchase of property and equipment	(11.0)	(10.6)
Investment in affiliates	(1.5)	(2.2)
Purchase of investments	(636.9)	(486.9)
Proceeds from sale of investments	591.5	466.6
Net cash used in investing activities	(57.9)	(33.1)
Net change in cash, cash equivalents and donor restricted cash	4.1	(10.4)
Cash, cash equivalents and donor restricted cash at beginning of year	30.9	41.3
Cash, cash equivalents and donor restricted cash at end of year	\$ 35.0	\$ 30.9
Noncash investing activities		
Noncash exchange of convertible debt for investment in affiliate (Note 2)	\$ 1.7	\$ -
Accounts payable for property and equipment additions	\$ 0.9	\$ 0.5

See accompanying notes to the consolidated financial statements.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

1. Nature of operations

The American Medical Association (AMA) is a national professional association of physicians with approximately 272 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 association equity includes contributions for scope of practice, restricted for use to areas involved in scope issues and are not available for general use by AMA. Funds previously restricted for use in a national tort reform campaign were released in 2020.

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. Since 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 has investments in four affiliates: HXSquare, Inc., formed in January 2019, Zing Health Enterprises LP (previously named Zing Health Holdings Inc.), formed in March 2019, Medcurio, Inc., formed in February 2020, and Health2047 Spinout Corporation, formed August 2020. 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 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, 2020, AMA ownership interest is 35.1% in HXSquare, Inc., 14.1% in Zing Health Enterprises LP (Zing), 11.8% in Medcurio, Inc. (Medcurio), and 28.9% in Health2047 Spinout Corporation. During 2020, the AMA ceased application of the equity method to account for investments in Zing Health Enterprises LP and Medcurio, Inc., as additional third-party investment in these entities resulted in AMA no longer exercising significant influence over these entities. In addition, in 2020 Zing Health Enterprises LP was formed and holdings in convertible debt of Zing Health Holdings Inc. was converted to Class B shares in Zing Health Enterprises, LP. The investment in zing and Medcurio will be accounted for using the cost method. At the end of 2020, the book value of the equity method investment in HXSquare, Inc., net of convertible debt, and Health2047 Spinout Corporation was approximately zero.

At December 31, 2019, AMA ownership interest is 42.9% and 48% 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.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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 held at December 31, 2020 and 2019.

Inventories

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

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 \$77.7 million and \$66 million as of December 31, 2020 and 2019, 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.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

Income taxes

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

Reclassifications

Certain reclassifications have been made in the notes to the consolidated financial statements to conform the 2019 amounts to the 2020 presentation.

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.

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 in 2019. 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 requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The AMA adopted this guidance on a prospective basis effective January 1, 2020. The adoption of this standard did not have a material impact on the AMA's consolidated financial statements.

4. Investments

Investments include marketable securities and venture capital private equity investments 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.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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 U.S. 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, 2020 totaled \$48 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.

	2020	2019
Level 1 – Quoted prices in active market for identical securities		
Equity securities	\$ 415.2	\$ 341.2
Fixed-income mutual funds	19.5	15.4
	434.7	356.6
Level 2 – Significant other observable inputs		
Debt securities		
Corporate	105.7	94.9
U.S. government and federal agency	247.5	247.4
Foreign government	26.3	25.9
U.S. state government	0.2	0.2
	379.7	368.4
Level 3 – Significant unobservable inputs		
Other investments measured at NAV – Private equity and venture capital funds		
Investments	\$ 39.8	\$ 25.4
	\$ 854.2	\$ 750.4

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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:

	2020	2019
Investment dividend and interest income	\$ 14.3	\$ 18.1
Management fees	(2.7)	(2.6)
	<u>\$ 11.6</u>	<u>\$ 15.5</u>

Non-operating items include:

	2020	2019
Realized (losses) gains on investments, net	\$ (1.9)	\$ 14.9
Unrealized gains on investments, net	60.3	60.1
	<u>\$ 58.4</u>	<u>\$ 75.0</u>

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 \$8.1 million and \$7.2 million at 2020 and 2019, respectively.

Expenses related to the development of custom applications pursuant to a customer contract had been deferred until completion of development and recognition of the revenue under the contract. Deferred costs of \$1.6 million as of December 31, 2019 were recognized during 2020.

6. Property and equipment

Property and equipment at December 31 consists of:

	2020	2019
Leasehold improvements	\$ 38.7	\$ 38.4
Furniture and office equipment	19.5	19.1
Information technology		
Hardware	12.6	12.1
Software	96.4	87.2
	<u>167.2</u>	<u>156.8</u>
Accumulated depreciation and amortization	(123.9)	(112.3)
	<u>\$ 43.3</u>	<u>\$ 44.5</u>

7. Retirement pension and savings plans

Until 2019, 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, provided 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.

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.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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

	2020	2019
Change in benefit obligation		
Benefit obligation		
at beginning of year	\$ -	\$ 117.5
Interest cost	-	4.2
Benefits paid	-	(6.0)
Termination benefit payments	-	(117.7)
Actuarial loss	-	2.0
Benefit obligation		
at end of year	\$ -	\$ -
Change in plan assets		
Fair value of plan assets		
at beginning of year	\$ -	\$ 113.5
Return on plan assets	-	2.4
Employer contributions	-	7.0
Benefits paid	-	(6.0)
Termination benefit payments	-	(117.7)
Plan combination	-	0.8
Fair value of plan assets		
at end of year	\$ -	\$ -

There were no 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, 2020 or 2019.

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 in 2019.

The AMA recognized pension expense in its consolidated statements of activities. The provisions of ASC Topic 958-715 required the AMA to recognize settlement charges based on the lump-sum benefit payments in 2019. The components of pension expense were:

	2020	2019
Interest cost	\$ -	\$ 4.2
Expected return on plan assets	-	(4.9)
Lump-sum settlement charges	-	1.2
Recognition of prior service cost	-	0.2
Recognition of actuarial losses	-	2.4
Pension expense	\$ -	\$ 3.1

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:

	2020	2019
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:

	2020	2019
Actuarial losses arising during period	\$ -	\$ (4.5)
Reclassification adjustment for losses reflected in periodic pension expense	-	3.8
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

Actuarial assumptions used in determining pension expense were:

	2020	2019
Discount rate	NA	4.1%
Expected long-term return on plan assets	NA	4.8%

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.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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, at 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 \$7.4 million and \$6.7 million in 2020 and 2019, respectively.

Prior to 2020, 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 was eliminated in 2019 due to 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.

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 generally mirroring 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 expected 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:

	2020	2019
Benefit obligation		
at beginning of year	\$ 115.4	\$ 92.3
Service cost	1.5	1.6
Interest cost	3.2	4.2
Benefits paid	(2.9)	(4.1)
Participant contributions	1.3	1.2
Federal subsidy	0.1	0.1
Actuarial loss	1.9	20.1
Accrued postretirement benefit costs	<u>\$ 120.5</u>	<u>\$ 115.4</u>

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:

	2020	2019
Actuarial losses	\$ 27.8	\$ 25.9
Prior service credits	(0.3)	(1.0)
	<u>\$ 27.5</u>	<u>\$ 24.9</u>

An estimated \$0.4 million in prior service credits and \$2 million of actuarial losses will be included as components of non-operating expense in 2021.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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

	2020	2019
Discount rate	2.5%	3.3%
Initial health care cost trend	5.64%	5.84%
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:

	2020	2019
Service cost	\$ 1.5	\$ 1.6
Interest cost	3.2	4.2
Amortization of prior service credit	(0.7)	(0.8)
Amortization of actuarial loss	-	0.5
	\$ 4.0	\$ 5.5

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

	2020	2019
Actuarial losses arising during period	\$ (1.9)	\$ (20.1)
Reclassification adjustment for recognition of actuarial losses	-	0.5
Reclassification adjustment for recognition of prior service credit	(0.7)	(0.8)
Change in unrestricted equity	\$ (2.6)	\$ (20.4)

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:

	2020	2019
Discount rate	3.3%	4.3%
Initial health care cost trend	5.84%	6.03%

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	\$ 1.1	\$ (0.8)
Effect on postretirement benefit obligation	\$ 24.9	\$ (19.5)

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

2021	\$ 3.0
2022	3.2
2023	3.5
2024	3.6
2025	3.9
2026 – 2030	22.3

9. Income taxes

The provision for income taxes includes:

	2020	2019
Operating		
Current	\$ 6.2	\$ 6.2
Deferred	-	(2.1)
Valuation allowance	(0.2)	(0.3)
	6.0	3.8
Tax expense related to credits or charges to equity		
Deferred	0.2	0.9
	\$ 6.2	\$ 4.7

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 \$2.1 million in 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.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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:

	2020	2019
Benefit plans and compensation	\$ 7.7	\$ 7.8
Other	(0.1)	-
	7.6	7.8
Valuation allowance	(2.7)	(2.9)
	<u>\$ 4.9</u>	<u>\$ 4.9</u>

Cash payments for income taxes were \$4.9 million and \$6.5 million in 2020 and 2019, respectively, net of refunds.

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 right-of-use (ROU) asset or lease liability. AMA also leases copiers and printers in several locations. All office and equipment leases are classified as operating leases.

During 2020, AMA entered into new office space operating leases which resulted in establishing an additional \$0.9 million in ROU assets and 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 million in both 2020 and 2019. Cash paid for amounts included in the measurement of lease liabilities totaled \$12.8 million and \$12.3 million in 2020 and 2019, respectively.

The weighted-average remaining lease term for operating leases is 8 years. The weighted-average discount rate used for operating leases is 5%.

The maturity of lease liabilities as of December 31, 2020:

2021	\$ 13.1
2022	13.1
2023	12.8
2024	12.4
2025	12.5
2026 and beyond	41.0
Total lease payments	104.9
Less imputed interest	(19.2)
Present value of lease obligations	<u>\$ 85.7</u>

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.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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 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.

	2020
Financial assets	\$ 889.2
Less assets unavailable for general expenditures:	
Restricted by donor with purpose restrictions	(0.1)
Restricted by governing body primarily for long-term investing or for governing body approved outlays	(748.7)
Financial assets available to meet cash needs for general expenditures within one year	\$ 140.4

	2019
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, 2020, the AMA has evaluated all subsequent events through February 12, 2021, 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 or disclosure in these consolidated financial statements that have not already been accounted for.

Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019
(Columnar amounts in millions)

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 Arcs and Core Activities, 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 Arcs and Core Activities	Governance, Administration and Operations	Health2047 and Subsidiaries	Total
Cost of goods sold and selling expense	\$ -	\$ 27.7	\$ -	\$ -	\$ -	\$ 1.6	\$ 29.3
Compensation and benefits	5.5	58.1	-	63.5	84.2	6.1	217.4
Occupancy	0.5	5.7	-	6.7	6.7	1.5	21.1
Travel and meetings	0.1	0.8	-	1.8	1.3	0.1	4.1
Technology costs	1.8	9.6	-	4.4	10.1	0.1	26.0
Marketing and promotion	8.4	0.5	-	7.8	0.2	0.6	17.5
Professional services and consulting	0.4	4.9	0.2	16.1	4.3	4.2	30.1
Other operating expense	0.8	5.3	0.5	10.9	7.6	0.8	25.9
2020 total expense	\$ 17.5	\$ 112.6	\$ 0.7	\$ 111.2	\$ 114.4	\$ 15.0	\$ 371.4
Cost of goods sold and selling expense	\$ -	\$ 27.8	\$ -	\$ -	\$ -	\$ -	\$ 27.8
Compensation and benefits	5.3	55.0	-	59.0	78.1	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
2019 total expense	\$ 18.0	\$ 113.7	\$ 0.7	\$ 103.4	\$ 148.9	\$ 16.6	\$ 401.3



Deloitte & Touche LLP
111 South Wacker Drive
Chicago, IL 60606
USA
Tel: 312 486 1000
Fax: 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
American Medical Association
Chicago, IL

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of American Medical Association and subsidiaries (collectively, the "AMA"), as of and for the year ended December 31, 2020 and the related notes to the consolidated financial statements, which collectively comprise the AMA's consolidated financial statements, and have issued our report thereon dated February 12, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the AMA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AMA's internal control. Accordingly, we do not express an opinion on the effectiveness of the AMA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the AMA's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AMA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

Chicago, IL
February 12, 2021



Deloitte & Touche LLP
111 South Wacker Drive
Chicago, IL 60606
USA
Tel: 312 486 1000
Fax: 312 486 1486
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
American Medical Association
Chicago, IL

Report on Compliance for Each Major Federal Program

We have audited the American Medical Association's and subsidiaries (collectively, the "AMA") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the AMA's major federal programs for the year ended December 31, 2020. The AMA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the AMA's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the AMA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the AMA's compliance.

Opinion on Each Major Federal Program

In our opinion, the AMA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the AMA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the AMA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the AMA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Deloitte & Touche LLP

Chicago, IL
February 12, 2021

**SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2020

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:			
U.S. Department of Health and Human Services — Agency for Healthcare Research & Quality — passed through RAND Corporation — Health Insurance Expansion and Physician Distribution	93.226	R01HS025750	\$ 34,266
		6 NU38OT000293-01-01	
		5 NU38OT000293-02-00	
		6 NU38OT000293-03-01	
U.S. Department of Health and Human Services — Centers for Disease Control and Prevention — Engaging Physicians to Strengthen the Public Health System and Improve the Nation's Public Health	93.421	5 NU38OT000293-02-01 5 NU38OT000293-03-00 6 NU38OT000293-03-02	433,522
U.S. Department of Health and Human Services — Centers for Disease Control and Prevention — passed through American College of Preventive Medicine — Building Healthcare Provider Capacity to Screen, Test, and Refer Disparate Populations with Prediabetes	93.421	6 NU38OT000289-01-01 5 NU38OT000289-02-00 5 NU38OT000289-03-00	237,115
U.S. Department of Health and Human Services — Centers for Disease Control and Prevention — passed through National Association of Community Health Centers, Inc. — Preventing Heart Attacks and Strokes in Primary Care	93.421	NU38OT000223	<u>369,825</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 1,074,728</u>

See accompanying notes to the schedule of expenditures of federal awards.

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2020

1. SCOPE OF AUDIT

Entity Subject to Single Audit — The American Medical Association (the “AMA”) is a national professional association of physicians with approximately 272,000 members. All federally funded operations of the AMA are included under the scope of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Programs Subject to Single Audit — The accompanying schedule of expenditures of federal awards (the “schedule”) is presented for the federally funded grants subject to audit in accordance with the Uniform Guidance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting —The schedule includes expenditures charged to federally funded grants administered by the AMA for the year ended December 31, 2020. The schedule is presented in accordance with the Uniform Guidance using the accrual basis of accounting and should be read in conjunction with AMA’s consolidated financial statements.

For purposes of the schedule, federal awards include all grants and cooperative agreements entered into directly between AMA and agencies and departments of the federal government as well as federal awards passed through to the AMA by other governmental entities or not-for-profit organizations.

Direct and Indirect Expenditures —Expenditures presented in the schedule consist of direct and indirect costs. Direct costs are those that can be easily attributed to a federal award, such as the salary of a principal investigator. Indirect costs cannot be easily attributed to a federal award and relate to the cost of services and resources that benefit federal awards as well as non-federal activities of the AMA.

The AMA has a policy that allows for the allocation of indirect costs such as salaries, employee benefits, occupancy, and other miscellaneous organizational costs relating to federal grants. Indirect costs are charged to federal grants based on the indirect cost rate approved by the U.S. Department of Health and Human Services. As such, the AMA did not elect to use the de minimus indirect cost rate as allowed under the Uniform Guidance.

3. NONCASH ASSISTANCE AND FEDERAL INSURANCE

The AMA did not receive any noncash federal awards, federal insurance, or in-kind contributions during the year ended December 31, 2020.

* * * * *

**SCHEDULE OF
FINDINGS AND QUESTIONED COSTS**

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2020

PART I — SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report Issued:

Unmodified

Internal control over financial reporting:

- | | | | | |
|---|---------------|-----|--------------|---------------|
| • Material weakness(es) identified? | <u> </u> | Yes | <u> X </u> | No |
| • Significant deficiency(ies) identified? | <u> </u> | Yes | <u> X </u> | None reported |
| • Noncompliance material to financial statements noted? | <u> </u> | Yes | <u> X </u> | No |

Federal Awards

Internal control over major federal programs:

- | | | | | |
|---|---------------|-----|--------------|---------------|
| • Material weakness(es) identified? | <u> </u> | Yes | <u> X </u> | No |
| • Significant deficiency(ies) identified? | <u> </u> | Yes | <u> X </u> | None reported |

Type of Auditors' Report Issued on Compliance for Major Federal Programs:

Unmodified

- | | | | | |
|--|---------------|-----|--------------|----|
| • Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | <u> </u> | Yes | <u> X </u> | No |
| • AMA's major federal program was the Research and Development Cluster | | | | |
| • A threshold of \$750,000 was used to distinguish between Type A and Type B programs | | | | |
| • AMA qualifies as a low-risk auditee as that term is defined in 2 CFR 200.520 | | | | |

PART II — FINANCIAL STATEMENT FINDINGS

None.

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

AMERICAN MEDICAL ASSOCIATION AND SUBSIDIARIES

**SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Prior-Year Financial Statement Findings

None.

Prior-Year Federal Award Findings and Questioned Costs

None.