

**American Medical
Association Foundation**

**Financial Statements and
Independent Auditors' Report**

June 30, 2016 and 2015

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MILLER COOPER & Co., Ltd

ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
American Medical Association Foundation
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the American Medical Association Foundation which comprise the statements of financial position, as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Medical Association Foundation, as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MILLER, COOPER & CO., LTD.

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

Certified Public Accountants

Deerfield, Illinois
November 18, 2016

FINANCIAL STATEMENTS

American Medical Association Foundation
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 674,611	\$ 1,158,454
Contributions receivable, net of allowance for uncollectible pledges of \$86,189 and \$68,694 in 2016 and 2015, respectively	631,216	493,068
Investments	<u>21,822,181</u>	<u>23,112,622</u>
	<u>\$ 23,128,008</u>	<u>\$ 24,764,144</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 116,587	\$ 156,936
Accrued expenses	<u>76,966</u>	<u>61,463</u>
	193,553	218,399
 NET ASSETS		
Unrestricted	16,786,352	17,988,141
Temporarily restricted	1,637,422	2,351,762
Permanently restricted	<u>4,510,681</u>	<u>4,205,842</u>
Total net assets	<u>22,934,455</u>	<u>24,545,745</u>
	<u>\$ 23,128,008</u>	<u>\$ 24,764,144</u>

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of this statement.

American Medical Association Foundation
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Contributions and grants	\$ 1,318,329	\$ 368,399	\$ 77,517	\$ 1,764,245
Investment income, net of expenses	407,694	43,159	20,661	471,514
Sales of health literacy kits	850	-	-	850
Net assets released from donor restrictions	609,089	(609,089)	-	-
Net asset transfers	21,366	(195,281)	173,915	-
	<u>2,357,328</u>	<u>(392,812)</u>	<u>272,093</u>	<u>2,236,609</u>
Expenses				
Grants and educational programs	1,386,990	-	-	1,386,990
Management and general	712,271	-	-	712,271
Fundraising	581,922	-	-	581,922
	<u>2,681,183</u>	<u>-</u>	<u>-</u>	<u>2,681,183</u>
Change in net assets before net realized and unrealized gains on investments	(323,855)	(392,812)	272,093	(444,574)
Net realized and unrealized gains on investments	678,143	71,791	34,370	784,304
CHANGE IN NET ASSETS	354,288	(321,021)	306,463	339,730
Net assets at beginning of year	<u>17,633,853</u>	<u>2,672,783</u>	<u>3,899,379</u>	<u>24,206,015</u>
Net assets at end of year	<u>\$ 17,988,141</u>	<u>\$ 2,351,762</u>	<u>\$ 4,205,842</u>	<u>\$ 24,545,745</u>

The accompanying notes are an integral part of this statement.

American Medical Association Foundation
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (1,611,290)	\$ 339,730
Adjustments to reconcile change in net assets to net cash used in operating activities		
Contributions restricted for long-term investment	(112,404)	(77,517)
Investment income restricted for long-term investment	(25,888)	(20,661)
Net realized and unrealized losses (gains) on investments	895,599	(784,304)
Increase (decrease) in allowance for uncollectible pledges	17,495	(10,383)
Increase (decrease) in assets		
Contributions receivable	(155,643)	86,045
Increase (decrease) in liabilities		
Accounts payable	(40,349)	53,753
Accrued expenses	15,503	-
Net cash used in operating activities	<u>(1,016,977)</u>	<u>(413,337)</u>
Cash flows from investing activities		
Purchases of investments	(13,005,673)	(22,187,775)
Sales of investments	13,400,515	22,212,451
Net cash provided by investing activities	<u>394,842</u>	<u>24,676</u>
Cash flows from financing activities		
Contributions restricted for long-term investment	112,404	77,517
Investment income restricted for long-term investment	25,888	20,661
Net cash provided by financing activities	<u>138,292</u>	<u>98,178</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(483,843)	(290,483)
Cash and cash equivalents, beginning of year	<u>1,158,454</u>	<u>1,448,937</u>
Cash and cash equivalents, end of year	<u>\$ 674,611</u>	<u>\$ 1,158,454</u>

The accompanying notes are an integral part of these statements.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE A - NATURE OF ORGANIZATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting

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

2. Cash Equivalents

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

3. Investments

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

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

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Contributions

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

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

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

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

5. Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Investment Income

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

7. Expenses and Allocations

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

8. Income Taxes

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

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

Management has analyzed the tax position taken by the Foundation and has concluded that as of June 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Fair Value of Financial Instruments

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

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

NOTE C - FAIR VALUE MEASUREMENTS

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the accounting standards are described below:

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

- Level 2 Inputs to the valuation methodology include the following:
 - * Quoted prices for similar assets or liabilities in active markets;
 - * Quoted prices for identical or similar assets or liabilities in inactive markets;
 - * Inputs other than quoted prices that are observable for the asset or liability;
 - * Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth the Foundation's investments measured at fair value on a recurring basis and the basis of measurement as of June 30, 2016 and 2015:

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

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

	Investments at Fair Value as of June 30, 2015			
	Quoted Prices in	Significant	Significant	Total
	Active Markets	Other	Unobservable	
	For Identical	Observable	Inputs	
Assets	Inputs	Inputs		
	(Level 1)	(Level 2)	(Level 3)	
Common stocks				
Consumer discretionary	\$ 1,983,818	\$ -	\$ -	\$ 1,983,818
Consumer staples	895,137	-	-	895,137
Energy	826,999	-	-	826,999
Financials	2,115,946	-	-	2,115,946
Healthcare	1,980,765	-	-	1,980,765
Industrials	1,395,797	-	-	1,395,797
Information technology	2,321,375	-	-	2,321,375
Materials	347,041	-	-	347,041
Telecommunications services	235,608	-	-	235,608
Utilities	284,713	-	-	284,713
Equity mutual funds				
International	2,941,701	-	-	2,941,701
Fixed income				
Treasury and Federal Agencies	-	1,595,980	-	1,595,980
State and Municipal	-	1,157,822	-	1,157,822
Non-Government Obligations	-	2,452,482	-	2,452,482
International	-	679,653	-	679,653
Corporate bonds	-	1,897,785	-	1,897,785
	\$ 15,328,900	\$ 7,783,722	\$ -	\$ 23,112,622

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE C - FAIR VALUE MEASUREMENTS (Continued)

Total investment returns for 2016 and 2015 are summarized as follows:

Investment income, net of expenses		<u>2016</u>		<u>2015</u>
Dividends and interest	\$	568,202	\$	581,830
Investment management fees		<u>(104,324)</u>		<u>(110,316)</u>
	\$	<u>463,878</u>	\$	<u>471,514</u>
Net realized (losses) gains	\$	(170,250)	\$	3,438,289
Net unrealized losses		<u>(725,349)</u>		<u>(2,653,985)</u>
Net realized and unrealized gains (losses)	\$	<u>(895,599)</u>	\$	<u>784,304</u>

NOTE D - PLEDGES RECEIVABLE, NET

Future collections of pledges receivable are anticipated as follows at June 30, 2016:

Fiscal year ending June 30,		
2017	\$	312,699
2018		182,430
2019		110,513
2020		70,434
2021		<u>52,166</u>
		728,242
Discount		(10,837)
Allowance for uncollectible pledges		<u>(86,189)</u>
	\$	<u>631,216</u>

The discount rate used was 1.01% and 1.63% for pledges received during the years ended June 30, 2016 and 2015, respectively.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE E - INVESTMENTS

Investments consisted of the following as of June 30, 2016 and 2015:

	2016		2015	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stocks	\$ 10,090,332	\$ 11,361,414	\$ 10,515,850	\$ 12,387,199
Equity mutual funds	2,786,120	2,566,838	2,909,679	2,941,701
Fixed income	<u>7,764,392</u>	<u>7,893,929</u>	<u>7,780,407</u>	<u>7,783,722</u>
	<u>\$ 20,640,844</u>	<u>\$ 21,822,181</u>	<u>\$ 21,205,936</u>	<u>\$ 23,112,622</u>

At June 30, 2016 and 2015, \$268,991 and \$904,256 of cash and cash equivalents were included in the investment brokerage account, respectively, which are included in cash and cash equivalents on the statements of financial position.

At June 30, 2016, fixed income investments mature in the following years:

2017	\$ 1,869,953
2018	929,845
2019	893,018
2020	702,634
2021	1,080,363
Thereafter	<u>2,418,116</u>
	<u>\$ 7,893,929</u>

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Arthur N. Wilson Scholarships for Students from Southeast Alaska	\$ 8,391	\$ 14,515
General Scholarship Fund Awards	115,767	428,930
Grants for research on women in medicine program	166,417	189,156
Funds for health literacy programs and tools	932	1,201
Grants for community health programs	9,835	8,906
Grants for physicians of tomorrow scholarship program	94,858	67,564
Grants for the study of cardiovascular disorders	45,469	88,909
National Business Group Health	10,000	10,000
Dr. Richard Allen Williams and Genita Evangelista Johnson/ABC Fund	92,621	94,221
Grants for the study of neoplastic disorders	74,093	39,838
Group Honor Funds	696,995	888,631
Grants for other trusts and research	322,044	519,891
	<u>\$ 1,637,422</u>	<u>\$ 2,351,762</u>

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE G - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

During 2016 and 2015, the following net assets were released from temporary donor restrictions by satisfying the stated restricted purposes, the passage of time or by occurrence of other events specified by donors:

	<u>2016</u>	<u>2015</u>
Arthur N. Wilson Scholarships for Students from Southeast Alaska	\$ 5,688	\$ 6,819
General Scholarship Fund Awards	279,356	191,973
Grants for research on women in medicine program	15,976	14,032
Funds for health literacy programs and tools	269	855
Grants for community health programs	54,389	46,353
Grants for physicians of tomorrow scholarship program	23,739	37,579
Grants for the study of cardiovascular disorders	43,440	64,878
Grants for the study of neoplastic disorders	117,011	112,662
Excellence in Medicine	3,834	-
Hypertension/diabetes prevention	-	77,580
Minority scholars awards	-	30,573
Group Honor Funds	61,620	-
Grants for other trusts and research	<u>24,251</u>	<u>25,785</u>
	<u>\$ 629,573</u>	<u>\$ 609,089</u>

NOTE H - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include the following endowment funds:

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

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

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

Honor Funds

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

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

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

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

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

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

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

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

Honor Funds (Continued)

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

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

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

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

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

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

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

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

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

Honor Funds (Continued)

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

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

The balance of each of the permanently restricted funds as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
General Endowment Fund	\$ 322,609	\$ 320,611
Named Funds	566,780	546,254
Honor Funds		
Alliance Grassroots Honor Fund	295,571	281,854
Ohio Honor Fund	335,587	337,309
Ronald M. Davis, MD Legacy Honor Fund	308,362	309,515
California / Ronald P. Bangasser, MD Memorial Honor Fund	177,356	194,850
North Central Medical Conference / Kenneth Viste, MD Memorial Honor Fund	186,079	181,676
Medical Society of the State of New York / Dr. Duane and Joyce Cady Honor Fund	300,108	303,223
International Medical Graduates Honor Fund	150,734	147,631
Council on Medical Service Honor Fund	120,392	114,608
Oklahoma Honor Fund	143,223	139,902
Illinois Honor Fund	170,557	152,497
Missouri Honor Fund	202,050	170,614
Formica Riggs New Jersey Honor Fund	115,123	-
LGBT Honor Fund	110,852	-
Mary Francis Alexander Fund	243,178	243,178
Dr. Johnson F. Hammond Memorial Fund	97,360	97,360
Lurah L. Weaver Memorial Fund	664,760	664,760
	<u>\$ 4,510,681</u>	<u>\$ 4,205,842</u>

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

Interpretation of Existing Relevant State Law

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

Endowment Spending Policies

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

Endowment Investment Policies

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

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

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

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

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

Endowment Investment Policies (Continued)

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

Endowment Net Asset Composition and Changes in Endowment Net Assets as of and for the Years Ended June 30, 2016 and 2015:

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

* In 2016, \$26,520 was transferred to unrestricted net assets for administrative and other expenses.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE H - PERMANENTLY RESTRICTED NET ASSETS (Continued)

Endowment Net Asset Composition and Changes in Endowment Net Assets as of and for the Years Ended June 30, 2016 and 2015 (Continued)

	June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 18,698	\$ 3,899,379	\$ 3,918,077
Investment return:				
Investment income	-	15,176	20,661	35,837
Net appreciation (realized and unrealized)	-	25,240	34,370	59,610
Total investment return	-	40,416	55,031	95,447
Contributions	-	-	77,517	77,517
Net asset transfers *	-	84,750	173,915	258,665
Expenditures	-	(22,651)	-	(22,651)
Endowment net assets, end of year	\$ -	\$ 121,213	\$ 4,205,842	\$ 4,327,055

* In 2015, \$21,366 was transferred to unrestricted net assets for administrative and other expenses.

NOTE I - AFFILIATED ORGANIZATION

The Foundation and the American Medical Association (the "AMA") are organizations affiliated through common members of their respective boards. The Foundation receives some of its management and operating support from the AMA and reimburses the AMA for direct expenses incurred. The total amount of expenses incurred with the AMA for the years ended June 30, 2016 and 2015 was \$1,247,074 and \$1,052,186, respectively. Amounts due to the AMA, included in accounts payable and accrued expenses, was \$99,734 and \$99,328 as of June 30, 2016 and 2015, respectively.

American Medical Association Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE J - CONCENTRATIONS OF CREDIT RISK

1. Uninsured cash

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

2. Major Donors

The Foundation had one donor in 2016 and three donors in 2015 who accounted for approximately 13% and 35% of total contributions, respectively.

NOTE K - IN-KIND CONTRIBUTIONS

The Foundation received certain administrative support services from the AMA. The Foundation recorded \$108,531 and \$93,152 for the years ended June 30, 2016 and 2015, respectively, for these services, as in-kind contributions and expenses.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2016, the date that these financial statements were available to be issued. Management has determined that no events or transactions have occurred subsequent to the statement of financial position date that require disclosure in the financial statements.