

**Physicians Committee for
Responsible Medicine, Inc.
Consolidated Financial Statements
and Supplementary Information
July 31, 2017**

With Independent Auditors' Report Thereon

PhysiciansCommittee for Responsible Medicine

Physicians Committee for Responsible Medicine, Inc.
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Independent Auditors' Report

To The Board of Directors
Physicians Committee for Responsible Medicine, Inc.
Washington, DC

We have audited the accompanying consolidated financial statements of Physicians Committee for Responsible Medicine, Inc. and affiliates which comprise the consolidated statement of financial position as of July 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 entity'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 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 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 Physicians Committee for Responsible Medicine, Inc. and affiliates as of July 31, 2017, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses and the consolidating schedules of financial position and activities on pages 33 through 38 are 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.

Rockville, Maryland
February 12, 2018

Arkin & Company, Chartered

Physicians Committee for Responsible Medicine, Inc.
Consolidated Statement of Financial Position
July 31, 2017

Assets

Current Assets	
Cash	\$ 1,172,518
Investments	9,922,487
Other receivable, net	202,093
Receivable from legacies and bequests	3,742,960
Inventory	55,508
Prepaid expenses	481,860
Total Current Assets	<u>15,577,426</u>
Other Assets, deposit	5,466
Investments Related to Restricted and Designated Funds	6,923,840
Investments Restricted to Charitable Gift Annuity Obligations	2,212,027
Property and Equipment, net	<u>1,697,701</u>
Total Assets	<u><u>\$26,416,460</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable and accrued expenses	\$ 1,227,483
Current portion of annuities payable	74,097
Current portion of deferred rent credit	5,403
Total Current Liabilities	<u>1,306,983</u>
Long-term Liabilities	
Annuities payable, net of current portion	895,607
Deferred rent credit, net of current portion	77,398
Total Long-term Liabilities	<u>973,005</u>
Total Liabilities	<u>2,279,988</u>
Net Assets	
Unrestricted	12,821,967
Unrestricted - board designated	4,437,595
Total Unrestricted	<u>17,259,562</u>
Temporarily restricted	5,242,650
Permanently restricted	1,634,260
Total Net Assets	<u>24,136,472</u>
Total Liabilities and Net Assets	<u><u>\$26,416,460</u></u>

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Consolidated Statement of Activities
For the Year Ended July 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Public Support				
Contributions and donations	\$ 7,739,414	\$ 1,230,027	\$ 602,988	\$ 9,572,429
Legacies and bequests	1,834,825	814,538	-	2,649,363
Grants	268,900	-	-	268,900
Net assets released from restrictions				
Expiration of time restrictions	157,232	(157,232)	-	-
Satisfaction of program restrictions	1,422,489	(1,422,489)	-	-
	<u>11,422,860</u>	<u>464,844</u>	<u>602,988</u>	<u>12,490,692</u>
Total Public Support				
Other Revenue				
Medical services	316,348	-	-	316,348
Investment income	868,610	156,845	-	1,025,455
Mailing list rental	74,605	-	-	74,605
Rental and other income	78,893	-	-	78,893
Merchandise sales and services				
Gross sales and services	584,474	-	-	584,474
Cost of goods sold	(18,631)	-	-	(18,631)
	<u>1,904,299</u>	<u>156,845</u>	<u>-</u>	<u>2,061,144</u>
Total Other Revenue				
Total Support and Revenue	<u>13,327,159</u>	<u>621,689</u>	<u>602,988</u>	<u>14,551,836</u>
Expenses				
Program Services				
Research and Regulatory Affairs	3,322,623	-	-	3,322,623
Clinical Research	777,945	-	-	777,945
Nutrition Education	2,957,994	-	-	2,957,994
Legal Advocacy	365,595	-	-	365,595
Publications	806,890	-	-	806,890
Education and Policy	482,496	-	-	482,496
Medical Services	1,259,670	-	-	1,259,670
Communications	1,574,315	-	-	1,574,315
	<u>11,547,528</u>	<u>-</u>	<u>-</u>	<u>11,547,528</u>
Total Program Services	<u>\$ 11,547,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,547,528</u>

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Consolidated Statement of Activities
For the Year Ended July 31, 2017
(continued)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Supporting Services				
Operational expenses	\$ 924,374	\$ -	\$ -	\$ 924,374
Development expenses	<u>2,200,167</u>	<u>-</u>	<u>-</u>	<u>2,200,167</u>
Total Supporting Services	<u>3,124,541</u>	<u>-</u>	<u>-</u>	<u>3,124,541</u>
Total Expenses	<u>14,672,069</u>	<u>-</u>	<u>-</u>	<u>14,672,069</u>
Change in Net Assets	(1,344,910)	621,689	602,988	(120,233)
Net Assets, Beginning of Year	<u>18,604,472</u>	<u>4,620,961</u>	<u>1,031,272</u>	<u>24,256,705</u>
Net Assets, End of Year	<u><u>\$ 17,259,562</u></u>	<u><u>\$ 5,242,650</u></u>	<u><u>\$ 1,634,260</u></u>	<u><u>\$ 24,136,472</u></u>

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Consolidated Statement of Cash Flows
For the Year Ended July 31, 2017

Cash Flows from Operating Activities	
Change in net assets	\$ (120,233)
Adjustment to reconcile change in net assets	
to net cash used in operating activities:	
Depreciation	242,441
Realized gain on sale of investments	(141,155)
Unrealized gain on investments	(546,130)
Donated investments	(1,392,604)
Amortization of bond premium and discount	158,999
Change in operating assets and liabilities:	
(Increase) in other receivables	(14,098)
(Increase) in receivable from legacies and bequests	(753,929)
(Increase) in inventory	(13,191)
Decrease in prepaid expenses	28,094
Increase in accounts payable and accrued expenses	37,317
(Decrease) in deferred revenue	(18,828)
Increase in deferred rent credit	14,891
	<u> </u>
Net Cash Used In Operating Activities	<u>(2,518,426)</u>
 Cash Flows from Investing Activities	
Reinvestment of matured securities and purchase of investments	(10,232,758)
Proceeds from sale of investments	13,204,713
Purchase of property and equipment	(362,146)
	<u> </u>
Net Cash Provided By Investing Activities	<u>2,609,809</u>
 Cash Flows from Financing Activities	
Proceeds from annuity contracts	263,795
Principal payments on annuity contract	(62,756)
	<u> </u>
Net Cash Provided By Financing Activities	<u>201,039</u>
 Increase in Cash	292,422
Cash at Beginning of Year	<u>880,096</u>
Cash at End of Year	<u><u>\$ 1,172,518</u></u>
 Supplemental Disclosure of Cash Flows Information:	
Interest paid during the year	<u><u>\$ 33,127</u></u>
Income taxes paid during the year	<u><u>\$ 2,411</u></u>

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization**

The Physicians Committee for Responsible Medicine, Inc. (the Physicians Committee), a nonprofit organization, was incorporated under the laws of the state of Delaware on April 16, 1985. The organization is a nationwide group of physicians and laypersons concerned about issues in modern medicine. The Physicians Committee is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation.

The Physicians Committee promotes preventive medicine, particularly good nutrition, conducts clinical research, and encourages higher standards for ethics and effectiveness in research. The following is a description of the various programs currently being conducted by the Physicians Committee.

Research and Regulatory Affairs

The Physicians Committee promotes alternatives to animal use in research, testing, and education. The Physicians Committee has a full-time team of physicians, scientists, and research staff raising awareness of the ethical and practical research issues and assisting in the implementation of nonanimal methods in research and education.

The Physicians Committee has been instrumental in eliminating animal use in medical school curricula, trauma training courses, and residencies in North America and abroad. Many medical schools and centers offer postgraduate residency or other specialized courses, and a minority of these programs use animals. The Physicians Committee is working to end the use of animals in these programs, which will improve physician and paramedic training and ensure healthy patient outcomes. We have focused on trauma training and on pediatrics and emergency medicine residencies in the United States and Canada. As a result of our work, only two of the 309 Advanced Trauma Life Support (ATLS) programs continue to use animals. A majority (222 of 223) of known pediatrics programs teach critical procedures without the use of animals, and of the 193 responsive emergency medicine residency programs, 174 do not use animals to train residents.

The Physicians Committee is leading the way in urging the National Institutes of Health (NIH) to replace the use of animals in diabetes, Alzheimer's disease, and nutrition research. Physicians Committee scientists and physicians meet with NIH leaders, publish scientific reviews and commentaries, and speak at national and international conferences on these subjects. In 2017, we conducted more than 30 conference presentations promoting human-relevant research and testing methods to other scientists, held two events celebrating progress in nonanimal research in conjunction with major scientific conferences, and wrote a book chapter about the need to make Alzheimer's disease research more human-relevant.

The Physicians Committee is active in efforts to replace, reduce, and refine animal use in chemical testing in the United States and throughout the world. One major aspect of this effort is the Physicians Committee's role as the Secretariat of the International Coalition for Animal Protection in OECD Programmes (ICAPO). The Organization for Economic Cooperation and Development (OECD) is an intergovernmental standard-setting organization that sets harmonized chemical testing guidelines worldwide. The Physicians

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

Committee coordinates the activities of 10 animal protection organizations in North America, Asia, and Western Europe in addressing animal use in global chemical testing programs. In the past year, the Physicians Committee ensured either internal or external animal protection representation on 12 key panels at OECD as invited experts in efforts to replace animals in the assessment of chemical hazards. This year, also as a result of our efforts, two countries were persuaded to drop opposition to a new structure for test method development. These changes to OECD process are the first in the Test Guidelines Program's 30-year history and allow for an easier and more rapid acceptance of nonanimal test methods to replace current animal-based test guidelines than previously possible.

Physicians Committee toxicologists also actively promote the recommendations of the National Research Council's (NRC) June 2007 report for the development and implementation of nonanimal-based tests for chemical toxicity. One way in which this work is manifested is in the co-founding and continued support of the American Society for Cellular and Computational Toxicology (ASCCT). ASCCT, which has more than 275 members, just held its sixth annual meeting, attracting senior scientists from government, academia, and industry, as well as student scientists. All were presenting their work on or discussing issues related to predictive toxicology, the discipline that has evolved from efforts stemming from the NRC's 2007 report.

Finally, this year the Physicians Committee provided training opportunities to more than 700 toxicologists in North America in web and in-person sessions describing new test methods or approaches for safety testing of chemicals, pharmaceuticals, and personal care products. In some cases, we have feedback from specific regulators that the training has resulted in increased acceptance of nonanimal test methods.

Nutrition Education

The Physicians Committee hosts continuing education opportunities for physicians, nurses, dietitians, and other health care professionals aiming to bring nutrition to the forefront of health care and disease prevention. More than 4,612 continuing education credits were earned in FY 2017 on our free continuing education website, NutritionCME.org. Twenty-five new classes were also added during this time. The Physicians Committee also hosted our fifth annual live continuing education conference in Washington, D.C., with more than 700 attendees.

We also offer a yearly course for Food for Life instructors that awards 18.5 continuing education hours for nurses and dietitians, accommodating 26 attendees per session. The Physicians Committee has 289 instructors and partners in 43 states, plus the District of Columbia, and nine countries.

In FY 2017 alone, 47,561 people participated in the Physicians Committee's 21-Day Vegan Kickstart program, which promotes a healthful plant-based diet with daily e-mails, tips and recipes, and webcasts with encouragement from celebrity coaches. We also have the program for India, China, and Spanish-speaking countries. Since launching in 2009, more than half a million people have participated in the 21-day online program.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

The Physicians Committee creates modules to educate medical and other health care professional students about the role nutrition plays in chronic disease prevention and treatment. In FY 2017, the Physicians Committee distributed 9,700 *Nutrition Guide for Clinicians* to medical students at more than 45 different medical schools. We attended two medical conferences (American Medical Student Association and Student National Medical Association) reaching 326 medical students. The Physicians Committee continues to promote curriculum in the form of PowerPoints for medical students on different nutrition related topics.

The Physicians Committee works to stem the growing epidemic of diet-related chronic diseases through educational outreach to health care professionals and the public by providing expert speakers to public and professional forums, offering plant-based cooking demonstrations around the country to more than 5,000 people last year, expanding our web-based resources, and further developing and piloting curricula for nutrition education.

This past year, the Physicians Committee continued efforts to stop the epidemic of diabetes among Native Americans through professional development of health care providers and health educators. We held our second Native Food for Life Leadership Academy meeting, attended by representatives from eight tribal communities in March in Santa Fe, N.M. In May, we co-hosted the Plant-based Prevention of Disease conference in Albuquerque, N.M., along with partner organizations such as the New Mexico Nurses Association and the Navajo Nation Office of the President and Vice President, where 150 people earned continuing education credit. We also supported a preconference Navajo community health fair in To'hajiilee, N.M., featuring endurance athlete Scott Jurek and Navajo Nation Vice President Jonathan Nez, who is also a long-distance runner. We developed new enduring materials, such as a My Native Plate placemat (almost 8,000 copies were distributed), along with an educational video and four public service announcements available at no cost on our NativePowerPlate.org website. And we continue to support the Navajo Nation efforts, for example, by providing speakers to a conference on Food Sovereignty attended by more than 300 people in Chinle, Ariz., and assistance in planning and implementing an employee wellness program for 20 cooks at Navajo Senior Wellness Centers in Teec Nos Pos, Ariz.

The Physicians Committee works to promote plant-based options in school cafeterias around the country through various channels. The Golden Carrot Award, awarded annually, acknowledges schools that are going above and beyond to provide healthful meals to students. HealthySchoolLunches.org offers free resources to assist schools in integrating plant-based meals into the lunch line. The Physicians Committee also works to promote the removal of processed meats out of school lunches through distribution of our toolkit and the launching of our quarterly webinar series. In FY 2017, we had a booth at the School Nutrition Association's Annual Nutrition Conference. Here we reached hundreds of food service professionals encouraging them to "drop the hot dog" and add fantastic plant-based options to their menus instead. Three Golden Carrot Award winners also presented about their successes and challenges in adding vegan entrees to their menus during a plenary session at the conference, which was well attended.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

The Physicians Committee works with plant-based leaders in various cities across the nation to further reach their communities. In FY 2017, we visited Atlanta, Ga., where we partnered with local experts who are actively promoting plant-based nutrition in their communities. We highlighted them in the media, on billboards, and across several events including a *Forks Over Knives* screening, community lectures, grand rounds in a hospital, Food for Life classes, and grocery store tours for the public. We reached laypersons, medical professionals, and city officials with the aim to decrease barriers to accessing nutrition education.

To combat the influx of chronic disease showing up internationally, we focus on special programs in India and China. In FY 2017, the Physicians Committee's India program specialist went on two lecture tours in India and spoke about the power of a plant-based diet for diabetes prevention and reversal. He visited 12 cities and reached more than 2,000 people. The tour was inaugurated by Mr. Sushil Kumar Shinde, Ex-Home minister of India, in Pune and Dr. K. Rosaiah, Ex-Governor of Tamil Nadu, in Hyderabad. The tour received media coverage in Hindi, English, Marathi, and Telugu daily newspapers including *Times of India*, *Sakaal Times*, *Indian Express*, *Dainik Bhaskar*, and *Saakshi*.

Our China program specialist completed two lecture tours in China in FY 2017 and spoke about the health benefits of a plant-based diet. He visited 36 cities, gave 108 lectures, and reached more than 19,000 people. The tours received coverage from media outlets including *VegNews*, Guandong TV, Xiamen TV, and Sohu.com. He also participated in a 5,000-kilometer cycling effort across China from Shanghai to Lhasa to promote a plant-based diet.

In August 2016, the Physicians Committee launched a mobile app for both Android and iOS of plant-based recipes for Spanish-speaking audiences worldwide. Step-by-step photos for more than 60 recipes offer users an engaging introduction to plant-based nutrition and education. App installs exceeded 19,000 across both platforms to date in countries such as Spain, Argentina, Mexico, the United States, and Colombia. Successful marketing via social media posts further expand our promotion of lifesaving plant-based nutrition to these communities.

Communications

Working with physicians, health experts, and celebrities who serve as spokespersons, we aim to inform, persuade, and inspire readers by participating in print, digital, and audio-based interviews, writing op-eds and commentaries, and sharing resources on social media. In the past year, our work was featured and referenced in traditional news outlets, including the *New York Times*, the *Washington Post*, NPR, *U.S. News and World Report*, the *Washingtonian*, Reuters, *USA Today*, STAT, *Today's Dietitian*, MedPage Today, HealthDay, Everyday Health, Medical News Today, Kaiser Health News, *Politico*, *Roll Call*, and the *Hill*, and in monthly health publications, including *Reader's Digest*, *Men's Journal*, *Health* magazine, *Seventeen* magazine, *Woman's World*, and *Women's Health*. Each month, we reach a potential audience of 100 million readers by appearing in an average of 85 news outlets. We further amplify this coverage on social media to empower

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

our followers to make lasting health changes. Our social media content has created conversation daily among more than 1 million followers on 11 social media platforms, in addition to live tweet chats and video campaigns. These communications have reached millions of people around the globe.

On our websites, we post news about our peer-reviewed medical studies, our medical perspective on cultural commentary, our recommendations to strengthen scientific research standards, and expert-authored consumer health tips. In FY 2017, the Physicians Committee's websites received about 4.4 million visitors and 11 million page views.

Legal Advocacy

Through litigation and petitions, the Physicians Committee's legal team promotes better health and compassionate research practices.

In light of the World Health Organization's recent determination that processed meat is a carcinogen, the Physicians Committee petitioned the Department of Veterans Affairs to remove processed meat from food service at the VA's more than 1,700 patient care sites, where 8.76 million veterans receive care each year. The Physicians Committee also petitioned the California Office of Environmental Health Hazard Assessment to list processed meat consumption as a carcinogen in accordance with state law. Additionally, the Physicians Committee filed a lawsuit seeking to remove processed meat from the menus in California public schools, which serve an average of 3 million lunches to school children each day. Regarding nutrition in general, the Physicians Committee petitioned USDA and the U.S. Department of Health and Human Services to implement safeguards in the development of the Dietary Guidelines for Americans, which form the basis for all federal nutrition recommendations.

The Physicians Committee routinely uses federal and state open government laws to obtain documents detailing unethical animal experiments at public institutions or the federal government's promotion of unhealthful food products. The Physicians Committee uses these documents to educate the public about the potential misuse of public funds. When necessary, the Physicians Committee sues public institutions that refuse to disclose such documents, such as an ongoing 2013 lawsuit against the USDA over commodity promotion documents related to food recommendations for infants. During the fiscal year, the Physicians Committee filed a second lawsuit against USDA, over documents related to the agency's enforcement of the Animal Welfare Act, which regulates the care and use of animals in thousands of nationwide locations, including research facilities and medical training institutions.

Publications

The publications department supports the Physicians Committee's nutrition and research ethics educational efforts through the design and production of print and electronic materials. In FY 2017, the department completed approximately 308 separately tracked projects. These projects included ads, fact sheets, brochures, postcards, educational

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

diagrams, posters, billboards, fliers, program booklets, event signage, stationery, program logos, web pages, infographics, and social media graphics. Supported projects included the 2017 International Conference on Nutrition in Medicine, demonstrations at universities and medical centers, Food for Life instructor support, scientific conferences (academic posters), diabetes education curriculum, school nutrition education, Native American diabetes education materials, Capitol Hill events, Kickstart Atlanta, Kickstart Detroit, Barnard Medical Center, and toxicology education and websites.

Good Medicine, the Physicians Committee’s 24-page magazine, keeps members informed and involved. Four issues of *Good Medicine* were published in FY 2017. Total print distribution was 328,000. The magazine also appears in electronic format on our website.

The publications department provided design support for the Physicians Committee website.

Clinical Research

The Physicians Committee designs and conducts clinical health and nutrition research studies, with the goal of motivating more attention in diet and prevention among health care workers, medical researchers, policymakers, and patients.

The paper entitled “Trending Cardiovascular Nutrition Controversies,” published in the *Journal of American College of Cardiology* by Physicians Committee research staff and colleagues, addresses some popular food and dietary recommendations that are promoted for cardiovascular health, assessing the quality of the science in order to provide clinicians with accurate information for patient discussions in the clinical setting.

A Physicians Committee dietitian co-authored the position paper on vegetarian diets in the *Journal of the Academy of Nutrition and Dietetics*, stating that appropriately planned vegetarian, including vegan, diets are healthful, nutritionally adequate, and may provide health benefits for the prevention and treatment of certain diseases.

A paper in the *Journal of American College of Nutrition* by Physicians Committee research staff and colleagues showed that a plant-based diet was twice as effective for weight loss as a conventional hypocaloric diabetic diet in patients with type 2 diabetes. The plant-based diet also resulted in a greater reduction in muscle fat, which was associated with improvements in insulin sensitivity and glucose metabolism. This study demonstrates the potential of plant-based diets for weight and diabetes management.

The Physicians Committee and colleagues also published a paper on meal frequency and timing in the *Journal of Nutrition*. Analysis of data from more than 50,000 Americans suggests that eating less frequently, no snacking, consuming breakfast, and eating the largest meal in the morning may be effective methods for preventing long-term weight gain.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

Our current randomized clinical trial testing the ability of a low-fat, plant-based diet to increase metabolism after a meal will attempt to explain some of the mechanisms responsible for the beneficial effects of plant-based diets on body weight. Using indirect calorimetry, we are measuring metabolism of overweight and/or obese participants in the fasting state, and then for three hours after a standard meal. Dual-energy X-ray absorptiometry (DXA) is used to assess detailed body composition. The participants' insulin sensitivity and glucose metabolism is also tested. A subset of participants gets an MRI spectroscopy to measure the fat content in the liver and muscle cells. All these tests are performed at baseline and after 16 weeks of a low-fat vegan vs. control diet. Seventy-two participants completed the study so far, and another 89 participants were enrolled and started the study. This study will help elucidate the mechanisms of insulin-sensitizing effects of a low-fat vegan diet.

Our goal is to build upon the body of knowledge of the value plant-based diets and generate wider acceptance among the medical and scientific communities, policymakers, and the media, of the power of plant-based diets to prevent and treat disease.

Education and Policy

In FY 2017, Dr. Barnard reached thousands of people through his presentations, book tour, and community events. With the release of his latest book, *The Cheese Trap*, he traveled to Milwaukee, Wis.; Columbus, Ohio; Fargo, N.D.; Dallas, Texas; Port Townsend, Wash.; Claverack, N.Y.; and Norfolk, Va., to share his latest findings on the addictive nature of cheese, and how dopamine responses to cheese in the brain are similar to that of drugs and alcohol. This was his featured topic in July's International Conference on Nutrition in Medicine in Washington, D.C., where he spoke with a lead researcher from Lyon, France, on neural responses to pleasure and disgust from foods. He also incorporated his cheese research to reach many more communities like Atlanta, Ga., and Detroit, Mich., through the Physicians Committee's nutrition initiative, "10 Cities," and through vegetarian festivals in Los Angeles, Valencia, and Santa Barbara, Calif; Madison, Wis.; and Windsor, Canada.

Additionally, Dr. Barnard expanded his outreach to medical professionals and medical students through grand rounds lectures, continuing medical education (CME) presentations, and medical student lunch and learn lectures. Dr. Barnard presents on topics ranging from general nutrition to diabetes, obesity, and other chronic diseases, and features peer-reviewed studies he has co-authored, like the GEICO study, as well as the latest in nutrition science. In the past year, he presented at Weill Cornell Medical College in New York City, Florida International University, Kaiser Permanente in San Francisco, University of Illinois in Chicago, Wayne State University in Detroit, aboard the Holistic Holiday at Sea Cruise, and here in Washington, D.C.

The Physicians Committee advocates for reforms in federal, state, and local policies related to nutrition education for health care providers, dietary guidelines, agriculture and nutrition policy, toxicology testing, and medical research and education. The Physicians Committee

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

team conducts outreach to legislators, policymakers, stakeholders, and the public through events, meetings, informational materials, and online advocacy.

The Physicians Committee submitted public comment on the National Toxicology Program’s “Report on Carcinogens” regarding the carcinogenicity of “meat related exposures” and also alerted other researchers and organizations of the comment opportunity.

Following a report from the National Academies of Medicine, our nutrition experts submitted comments and provided in-person oral testimony as part of the Dietary Guidelines for Americans.

Physicians Committee worked with external experts in academia and medical professionals to produce and publish a supplement for the *American Journal of Preventive Medicine* in February 2017. The supplement explored how the Supplementary Nutrition Assistance Program (SNAP) is pertinent to diet-related disease among economically disadvantaged Americans who rely on the program.

In 2017, the Physicians Committee, in cooperation with other groups, facilitated the reintroduction of the BEST Practices Act into the U.S. House of Representatives and U.S. Senate. The bill would require the Department of Defense to phase in human-based training methods and replace the current use of live animals in military medical training courses. With the help of our physician supporters, we continue to increase the bill’s sponsors, and that increases the potential for the bill to make progress toward passage.

The Physicians Committee conducts activities to encourage the funding, development, and implementation by Congress and federal agencies of human-relevant, nonanimal test methods for chemical, product, and drug safety. In 2017, Physicians Committee lobbying prevented severe cuts to Environmental Protection Agency funding of advanced nonanimal test methods, the development of which are required by the Frank R. Lautenberg Chemical Safety for the 21st Century Act. It also funded training for more than 100 government scientists in two separate events on the use of computer- and in-vitro-based nonanimal methods for assessing chemical safety.

Direct outreach and educational efforts at federal agencies and international bodies, including NIH, the Food and Drug Administration, and the OECD has led to changes in regulations and guidance which reduce and replace animal tests with more human-relevant and scientifically advanced methods.

The Physicians Committee’s fulfillment operation provides educational literature and merchandise to its members, the health care community, and the public at large on topics relating to nutrition, disease prevention, and ethics in research and education. All of our literature is available to be downloaded for free, or color hard copies can be purchased in themed kits at a nominal cost. In FY 2017, more than 1.1 million pieces of literature were downloaded from our website, and we fulfilled more than 1,350 physical orders of 67,000 pieces of literature and merchandise (books, DVDs, educational posters, etc.) to locations

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: **Organization, (continued)**

around the globe. Our *Vegetarian Starter Kit* continues to be our most popular publication. The fulfillment operation supports the work of other departments by supplying literature and merchandise for special events and Food for Life nutrition classes in communities across the country. We are excited to be utilizing our nutrition education literature and merchandise in our very own Barnard Medical Center and showcasing our new model of health care to other medical practices.

Medical Services

PCRM Clinic d/b/a Barnard Medical Center (BMC) provides primary care, as well as specialized care for diabetes, obesity, lipid disorders, hypertension, chronic pain, and other conditions for which nutrition plays an important role. BMC accepts all major insurance plans.

BMC's board-certified physicians, clinicians, and registered dietitians provide state-of-the-art medical care. However, many people need more. In particular, improvements in nutrition and lifestyle can make an enormous difference in individuals' health, and BMC's clinicians are expert in using lifestyle management to help patients and their families prevent, treat, and hopefully reverse many chronic diseases. Since opening in January 2016, we have seen 2,474 patients through September 2017. BMC also offers free classes to patients to help them learn about and adopt a healthier lifestyle, as well as one-on-one nutritional counseling. Since opening, BMC has offered 189 classes through September 2017 and has been able to demonstrate significant weight loss and improved knowledge about healthy eating.

In addition, BMC has a robust outreach program, providing nutrition and lifestyle education in the workplace, at places of worship, and other venues in the community.

BMC also offers opportunities for resident physicians and medical students to complete rotations as part of their training and to learn about BMC's medical model.

BMC clinicians also provide nutritional advocacy for the Physicians Committee. This includes editing the 3rd edition of the *Nutrition Guide for Clinicians*, which has been completed and is scheduled for publication later in 2017, and presenting at national and international medical conferences, such as the American College of Cardiology in Chicago, Ill., International Conference on Nutrition in Medicine in Washington, D.C., American Medical Association House of Delegates, American Association of Clinical Endocrinologists in Kansas City, Mo., and International Plant-Based Nutrition Healthcare Conference in Anaheim, Calif.

BMC's community outreach efforts include interviews for podcasts, print articles, and local media such as the Urban Farm podcast, Laurie Marbas, ACLM roundtable, *Mother Jones* and Forks Over Knives. In addition, BMC clinicians spoke and tabled at lunch and learns, health fairs, and several local venues, including PricewaterhouseCoopers PwC; Bureau of Alcohol Tobacco and Firearms; Georgetown Health Fair; Grand Hyatt Health Fair; the

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 1: Organization, (continued)

University of Maryland; the Physicians Committee's Leadership Summit, Washington D.C.; Green Fare; U.S. Fish and Wildlife Service; an educational cooking demo on Capitol Hill with the Congressional Vegetarian staff Association; United States Agency for International Development (USAID) ; the Humane Society of the United States, and the Uniformed Services University of the Health Sciences.

Note 2: Summary of Significant Accounting Policies

Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of the Physicians Committee and its wholly owned and controlled subsidiaries, The PCRM Foundation and PCRM Clinic d/b/a the Barnard Medical Center. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The Physicians Committee follows the Not-for-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under this topic, the Physicians Committee is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The net assets are reported as follows:

Unrestricted

Unrestricted net assets are net assets that are neither temporarily restricted nor permanently restricted by donor-imposed stipulations. Certain unrestricted net assets have been internally designated by the Physicians Committee for use in its "Critical Action Fund."

Temporarily Restricted

The Physicians Committee reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Net assets are released from restrictions when the donor-specified purpose or time restriction is met.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 2: Summary of Significant Accounting Policies, (continued)

Basis of Presentation, (continued)

Permanently Restricted

The Physicians Committee reports gifts of cash as permanently restricted support if they are received with donor stipulations that the corpus shall remain intact in perpetuity. The corpus of these donations is invested and the earnings are recorded in temporarily restricted funds until utilized for the intended purpose. When the donor's purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Donated Materials and Services

Donated materials and equipment are reflected as contributions in the accompanying financial statements at their estimated value at the date of receipt. If the donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of materials and equipment are recorded as unrestricted support. During the fiscal year ended July 31, 2017, the Physicians Committee received donated materials and advertising, with a calculated fair market value of \$482,064.

The organization recognizes contributed services to the extent the services received create or enhance non-financial assets or require specialized skills that would be purchased if not provided by donation. During the fiscal year ended July 31, 2017, the Physicians Committee received donated services, with a calculated fair market value of \$173,000. This amount has been recorded in accordance with FASB ASC 958-605-25-16, Contributed Services, as contributions and salary expense in the period rendered.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid instruments with original maturities of three months or less. Cash and cash equivalents do not include temporary cash held in custodial accounts or restricted investments.

Inventory

Inventories are stated at the lower of cost (first in, first out) or market. Cost includes all direct costs to bring inventory to its present location.

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Codification establishes a fair value hierarchy that is based on the valuation inputs in the fair value measurements. The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 2: Summary of Significant Accounting Policies, (continued)

Fair Value Measurements, (continued)

- Level 1 Quoted market prices in active markets for identical assets or liabilities. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 Observable market-based or unobservable inputs corroborated by - market data. Investments classified as Level 2 trade in markets that are not considered to be active.
- Level 3 Unobservable inputs that are not corroborated by market data. Valuation is accomplished using management's best estimate of fair value.

Property and Equipment

The Physicians Committee records property and equipment at cost and depreciated over estimated useful lives of 3 to 27 ½ years using the straight-line method. Leasehold improvements are amortized over the lesser of the term of the related lease or estimated useful life of the asset. Repairs and maintenance costs are expensed as incurred. It is the policy of the Physicians Committee to capitalize all property and equipment acquisitions in excess of \$3,000. However, it is the policy of The PCRM Foundation and PCRM Clinic d/b/a the Barnard Medical Center to capitalize all property and equipment acquisitions in excess of \$1,000.

Annuities

The Physicians Committee has entered into contracts with donors to pay periodic stipulated payments to the donors or other designated individuals that terminates at a specified time. The Physicians Committee records a liability based on the present value of the future payments resulting from the annuity contracts at the date of the gifts. The excess in the amount of each annuity gift over the liability is recorded as contributions and donations in the accompanying statement of activities. The total annuity liability is fully funded by the Physicians Committee with investments separately stated on the statement of financial position.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been either directly charged to the programs and supporting services as incurred or allocated based on usage.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 2: Summary of Significant Accounting Policies, (continued)

Contributions

The Physicians Committee records the following types of contributions as revenue when they are received, at their fair value: cash, promises to give, and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. At July 31, 2017, no significant conditional contributions existed. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor.

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support, which increases the temporarily restricted net asset class. Unconditional promises to give are recorded at their net realizable value.

Estimates

The preparation of financial statements in conformity with generally accepted accounting procedures requires management to make certain estimates and assumptions that affect specific amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax-Exempt Status

The Physicians Committee is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. Income determined to be from unrelated business income is taxable and to the extent it culminates in taxes due, a provision for income taxes will be provided.

At July 31, 2017, and for the year then ended, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. No provision for income taxes has been made in the accompanying financial statements. At July 31, 2017, the tax filings that are subject to possible examination by major tax jurisdictions are for the years ended July 31, 2016, 2015 and 2014.

In general, when tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 2: Summary of Significant Accounting Policies, (continued)

The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Physicians Committee has determined that no such liabilities were required at July 31, 2017.

Note 3: Other Receivables

Included in other receivables on the accompanying consolidated statement of financial position are pledges, donations, grants, other miscellaneous receivables and patient receivables. All balances reflected are expected to be received within one year and are recorded at their net realizable value.

The pledges and contributions referred to above are reduced by an allowance for uncollectible amounts, if necessary. Management periodically evaluates the adequacy of the allowance for uncollectible accounts by considering past experiences and taking into consideration the inherent risk pledges provide.

Patient receivables are reduced by reserves for contractual and uncollectible accounts. In evaluating the collectability of patient receivables, the Barnard Medical Center analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate reserve for contractual allowance.

Other receivables are comprised of the following as of July 31, 2017:

Accrued donations	\$ 115,172
Miscellaneous receivables	76,689
Patient accounts receivable	<u>56,798</u>
Subtotal	248,659
Less: Contractual allowance and uncollectible amounts	<u>(46,566)</u>
Other receivable, net	<u><u>\$ 202,093</u></u>

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 4: Investments

Investments are comprised of the following as of July 31, 2017:

	Other investments	Endowment	Total
Money funds	\$ 2,585,869	\$ 457,886	\$ 3,043,755
Equity securities	939,299	2,889,663	3,828,962
Debt securities	6,626,763	1,357,755	7,984,518
Mutual funds - equities	101,190	685,100	786,290
Mutual funds - fixed income	378,955	1,533,436	1,912,391
Limited partnership interest	120,278	-	120,278
Certificates of deposit	1,370,451	-	1,370,451
Cash surrender of life insurance policy	11,709	-	11,709
Total	\$ 12,134,514	\$ 6,923,840	\$ 19,058,354
Less: Investments restricted to investment in building (see Note 6)	-	710,078	710,078
Less: Investments restricted to charitable gift annuity obligations	2,212,027	-	2,212,027
Total	\$ 9,922,487	\$ 6,213,762	\$ 16,136,249

Realized and unrealized gains and losses are included in the statement of activities as part of investment income. The following summarizes the investment return for the year ended July 31, 2017:

	Unrestricted	Unrestricted Board Designated	Temporarily Restricted	Total
Interest and dividend income	\$ 185,915	\$ 121,928	\$ 29,013	\$ 336,856
Net realized (loss) gain on investments	(11,200)	115,523	36,558	140,881
Net unrealized gain on investments	190,169	264,687	91,274	546,130
Other investment income	1,588	-	-	1,588
Investment return	\$ 366,472	\$ 502,138	\$ 156,845	\$ 1,025,455

As of July 31, 2017, investment advisory fees in the amount of \$96,677 are included in the Consolidated Schedule of Functional Expenses which carryover to the Consolidated Statement of Activities. These fees are not included in the investment return presented above.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 5: Fair Value Measurements

In determining the appropriate levels, the Physicians Committee performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of July 31, 2017:

	Level 1	Level 2	Level 3	Total
Money funds	\$ 3,043,755	\$ -	\$ -	\$ 3,043,755
Equity securities	3,828,962	-	-	3,828,962
Debt securities	7,984,518	-	-	7,984,518
Mutual funds - equities	786,290	-	-	786,290
Mutual funds - fixed income	1,912,391	-	-	1,912,391
Certificates of deposit	1,370,451	-	-	1,370,451
Cash surrender of life insurance policy	-	11,709	-	11,709
Limited partnership interest	-	-	120,278	120,278
Total	\$ 18,926,367	\$ 11,709	\$ 120,278	\$19,058,354

Investments included in Level 3 consist of a limited partnership and limited liability company. The limited partnership was passed through to the Physicians Committee by way of an estate. The value used is that as provided by the estate. The limited liability company (LLC) is a small privately held company that is developing software that will generate revenue based on transactions fees. The market for this entity is still under development and its future ability to generate profits are not certain at this time. Since there is currently no market for the LLC other than the private equity markets the Physicians Committee has made a significant allowance for the value of this investment as of July 31, 2017.

The following is a rollforward of the financial instruments classified by the Physicians Committee within Level 3 of the fair value hierarchy:

	Level 3 Investments
Fair value, August 1, 2016	\$ 120,278
Purchase of investment	-
Unrealized gain or (loss)	-
Fair value, July 31, 2017	\$ 120,278

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 6: Investment Restricted to Investment in Building

In December of 2001 and January of 2003 the Physicians Committee received proceeds of a foundation bequest in the amount of \$1,660,331. A final distribution of \$18,182 was received in January of 2013. As a result of this bequest, the Physicians Committee has created an endowment which shall have a life expectancy of 20 years from each receipt unless certain events occur. Events that would allow the endowment to terminate sooner than 20 years would be acquiring a new building or renovating an existing building and such building would be designated with the name of the donor. In accordance with all the terms of the bequest, income from the endowment (see Note 6) shall be used solely and exclusively for the charitable purpose of the Physicians Committee. During the fiscal year ended July 31, 2008, the Physicians Committee acquired The Constance Matheson Baker Residence for Responsible Medicine at a cost of \$1,028,718. This residence satisfied a portion of the endowment restriction. As of July 31, 2017, the restricted balance totals \$710,078. The endowment's life has just over 4 years remaining unless events occur to cause an earlier termination.

Note 7: Property and Equipment

At July 31, 2017 property and equipment consists of the following:

Building	\$ 500,270
Membership list	321,142
Equipment	752,154
Land	545,080
Leasehold improvements	796,070
Furniture and fixtures	<u>84,496</u>
Subtotal	2,999,212
Less: Accumulated depreciation	<u>1,301,511</u>
Property and Equipment, net	<u><u>\$ 1,697,701</u></u>

Depreciation expense for the year ended July 31, 2017 was \$242,441.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 8: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Investment in building (See Note 6)	\$	710,078
Endowment Fund		141,907
Subtotal (See Note 10)		851,985
Legacies and bequests receivable for general operations		3,742,960
Donations, grants and pledges receivable for general operations		96,071
Clinical Research, Nutrition Education and Research and Regulatory Affairs		551,634
Total	\$	5,242,650

Note 9: Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Research and Regulatory Affairs	\$	1,362,900
Endowment		59,589
Expiration of time restrictions		154,737
Total	\$	1,577,226

Note 10: Endowment Funds

Interpretation of Relevant Law

The Physicians Committee has interpreted the District of Columbia’s version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Physicians Committee to appropriate for expenditure or accumulate so much of an endowment as the Foundation determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor restricted assets until appropriated for expenditure by the Board of Directors.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 10: Endowment Funds, (continued)

As a result of this interpretation, the Physicians Committee classifies as permanently-restricted net assets (a) the original value of gifts donated to the permanent endowment (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently-restricted net assets is classified as temporarily-restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) the duration and preservation of the endowment fund;
- 2) the purposes of the Physicians Committee and the endowment fund;
- 3) general economic conditions;
- 4) the possible effect of inflation and deflation;
- 5) the expected total return from income and the appreciation of investments;
- 6) other resources of the Physicians Committee;
- 7) the investment policies of the Physicians Committee.

Endowment net asset composition by type of fund as of July 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor Restricted	\$ -	\$ 851,985	\$ 1,634,260	\$ 2,486,245
Board-designated	<u>4,437,595</u>	<u>-</u>	<u>-</u>	<u>4,437,595</u>
Total funds	<u>\$ 4,437,595</u>	<u>\$ 851,985</u>	<u>\$ 1,634,260</u>	<u>\$ 6,923,840</u>

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 10: Endowment Funds, (continued)

Changes in endowment net assets for fiscal year ended July 31, 2017:

	Unrestricted board <u>designated</u>	Temporarily <u>restricted</u>	Permanently <u>restricted</u>	<u>Total</u>
Beginning of year	\$ 2,208,632	\$ 754,729	\$ 1,031,272	\$ 3,994,633
Contributions	2,000,000	-	602,988	2,602,988
Investment return:				
Investment income	121,928	29,013	-	150,941
Net Appreciation (Depreciation) (Realized and Unrealized)	<u>380,210</u>	<u>127,832</u>	<u>-</u>	<u>508,042</u>
Total endowment income	2,502,138	156,845	602,988	3,261,971
Distributions	(219,996)	(46,465)	-	(266,461)
Appropriations for expenditures	<u>(53,179)</u>	<u>(13,124)</u>	<u>-</u>	<u>(66,303)</u>
End of year	<u>\$ 4,437,595</u>	<u>\$ 851,985</u>	<u>\$ 1,634,260</u>	<u>\$ 6,923,840</u>

The Physicians Committee's endowment consists of money funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Return Objectives and Risk Parameters

The Physicians Committee has adopted investment and spending policies that enhance the value of the PCRM Endowment and at the same time provide a dependable, growing source of income that will be used to support various programs of the Physicians Committee, all while assuming a moderate level of risk. Total return shall be the method for measuring the performance of the PCRM Endowment. This refers to the combination of income (interest and dividends) and appreciation in value for a certain period of time. The investment objectives are to enhance total return and achieve real growth in the value of the PCRM Endowment. An appropriate share of total return will be distributed to the Physicians Committee and become part of its operating budget, and an appropriate share of total return will remain invested, preserving the future purchasing power of the endowed assets, resulting in real growth in the value of the PCRM Endowment. It is important to note that although real growth will not be attained every year due to market fluctuations, it is expected to be attained over the long run.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 10: Endowment Funds, (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation has adopted a policy requiring diversification of investments so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. Monitoring and adjustment of the mix of assets among investments classes will be a major factor in achieving the desired investment return. As a long-term policy guideline the allocation for each asset class shall fall within the following maximum ranges: Equities 70%; Fixed Income Securities 100%; and Cash/Equivalents 20%. The board of directors may from time to time depart from these parameters.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

To ensure that the PCRM Endowment strikes a balance between meeting Physicians Committee's current and future needs, its spending policy should both provide a stable source of funding that minimizes year-over-year fluctuations in spending, and be responsive to changes in the PCRM Endowment's value and economic conditions.

Thus the PCRM Endowment spending rate will be determined using the following formula:

$$\text{Spending Rate} = 75\% \times (4\%) + 25\% \times (\text{Inflation-adjusted total return})$$

The 25% component has a floor of 0%. The total spending rate is not to exceed 7% and must be approved by the board of directors each year.

Annual distributions will be determined by multiplying the Spending Rate x the average market value of the PCRM Endowment for the previous 4 quarters. To facilitate equitable allocation of investment returns, income distribution and expenses among the various funds that participate in and comprise the PCRM Endowment, the Foundation employs unitized fund accounting. Each fund that is part of the PCRM Endowment will receive a distribution per the spending policy, based on participating units assigned to the fund for a given period.

This Endowment Spending Policy is effective for fiscal years 2017 through 2021 (five years in total), and replaces the previous policy which expired in fiscal year 2016. The investment committee will propose a replacement to the board of directors prior to its expiration in 2022.

The spending policy is consistent with the Physicians Committee's objectives to have the Endowment achieve real growth, while at the same time providing a dependable growing source of income to the Physicians Committee's budget.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 11: Leases

Operating Leases

The Physicians Committee leases office and storage space in Washington, DC. As of the date of the statement of financial position, the lease term was scheduled to expire in July 2020. The lease was subsequently amended in September of 2016 to extend the lease term for another year until July 2021. Although the Physicians Committee assumed the lease agreement during 2011 from The PCRM Foundation, the Foundation still maintains ultimate responsibility for the lease through the end of the lease term which will be July 21, 2021.

The Physicians Committee leases photocopying equipment which began in May 2015. As part of the lease agreement, the Physicians Committee will make payments of \$1,354 per month through the end of the lease term which is April 2020. There is an additional lease for photocopying equipment that renew on month to month basis.

The Physicians Committee leases data storage and data backup equipment with an off-site vendor which began in January 2017. As part of the lease agreement, the Physicians Committee will make payments of \$2,010 per month through the end of the lease term which is December 2017.

Total rent expense pertaining to space and equipment for the year ended July 31, 2017 was \$680,921. Future minimum lease payments under noncancelable leases having remaining terms in excess of 1 year as of July 31, 2017 are as follows:

July 31, 2018	\$ 658,282
July 31, 2019	665,610
July 31, 2020	679,406
July 31, 2021	666,646
July 31, 2022	<u>-</u>
Total	<u><u>\$ 2,669,944</u></u>

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 12: Allocation of Joint Costs

In the fiscal year ended July 31, 2017, the Physicians Committee conducted activities that included requests for contributions, as well as program and policy components. Those activities consisted of direct mail campaigns. The cost of conducting those activities totaled \$1,186,426. These costs are not specifically attributable to particular components of the activities (joint costs).

These joint costs were allocated as follows by the Physicians Committee:

Research and Regulatory Affairs	\$ 811,094
Development	<u>375,332</u>
Total	<u><u>\$ 1,186,426</u></u>

Note 13: Concentration of Credit Risk

The Physicians Committee maintains bank accounts at institutions that are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time the balance in the account may exceed federally insured limits. The Physicians Committee has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. The amount in excess of the FDIC as of July 31, 2017 was \$540,354.

The Physicians Committee also maintains accounts with a brokerage firm. The accounts contain cash and securities. Balances are insured up to \$500,000 per organization (with a limit of \$250,000 for cash) by the Securities Investor Protection Corporation. The SIPC insurance is limited to \$1,000,000 in aggregate given the Barnard Medical Center does not have investments. The amount in excess of the Securities Investor Protection Corporation limit as of July 31, 2017 was \$18,058,354. The Physicians Committee monitors the risk, and does not anticipate any credit losses and has not experienced any credit losses on these financial instruments.

Note 14: Defined Contribution Pension Plan

The Physicians Committee sponsors a 403(b) or tax sheltered annuity plan and a profit sharing plan for its employees and the employees of its affiliated organizations. Eligible employees may participate in this plan immediately upon employment. Employer matching commences on the quarter following or coinciding with the employees' date of hire. The Physicians Committee matches 50% of the employee's contribution, with a maximum matching contribution of 3% of the employee's gross annual salary. Pension expense for the year ended July 31, 2017 for the Physicians Committee totaled \$84,988.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 15: Merchandise Sales and Services

The Physicians Committee's inventory mainly consists of educational materials that help promote the mission of the organization. Service income is generated from nutrition-themed conferences attended by laypersons and health care professionals. In addition, the Physicians Committee charges a fee for services rendered during the Food for Life instructor training program.

Merchandise sales and services presented on the Consolidated Statement of Activities consist of the following:

Sale of services	\$ 495,431
Merchandise sales	89,043
Gross sales and services	<u>584,474</u>
Cost of goods sold	<u>(18,631)</u>
Gross profit from sales and services	<u><u>\$ 565,843</u></u>

Note 16: Reconciliation of The PCR Foundation Program Service to the Physicians Committee Consolidating Statement of Activities

As noted in Note 1, The PCR Foundation was established to support the Physicians Committee and other related charitable organizations. The financial statements of The PCR Foundation are included in the consolidated financial statements of the Physicians Committee for the year ended July 31, 2017.

The activities of The PCR Foundation individually are presented as program expenses, yet when presented in the consolidated financial statements of the Physicians Committee for the year ended July 31, 2017, these activities become supporting activities. In addition, The PCR Foundation does not incur development costs for itself but incurs expenses related to development for the Physicians Committee. These costs are passed through to the Physicians Committee and ultimately eliminated on the consolidated financial statements.

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 16: Reconciliation of The PCRM Foundation Program Service to the Physicians Committee Consolidating Statement of Activities, (continued)

The following presents reclassification of supporting services presented by The PCRM Foundation on the Physicians Committee Consolidating Statement of Activities:

Total Supporting Services as presented on the Statement of Activities for The PCRM Foundation	<u><u>\$ 247,891</u></u>
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The PCRM Foundation supporting services are reclassified as follows for the purposes of presentation on the Physicians Committee Consolidating Statement of Activities:

Operational expenses	\$ 247,891
Development expenses	-
	<u><u>\$ 247,891</u></u>

The PCRM Foundation expenses as presented individually and consolidated:

	<u>Statement of Activities per The PCRM Foundation Financial Statements</u>	<u>Consolidating Statement of Activities per the Physicians Committee Financial Statements</u>	<u>Difference</u>
Expenses			
Program Services			
Support services	\$ 247,891	\$ -	\$ 247,891
Contributions to supported organizations	1,309,461	-	\$ 1,309,461
Supporting Services			
Operational expenses	-	247,891	(247,891)
Contributions to supported organizations	-	1,309,461	(1,309,461)
	<u><u>\$ 1,557,352</u></u>	<u><u>\$ 1,557,352</u></u>	<u><u>\$ -</u></u>
Total Expenses			

Physicians Committee for Responsible Medicine, Inc.
Notes to Consolidated Financial Statements

Note 17: Subsequent Events

In accordance with FASB ASC 855-50-1, *Date Through Which Subsequent Events Have been Evaluated*, management has evaluated the accounts of the Organization from July 31, 2017 through February 12, 2018, the date the financial statements were available to be issued, to determine whether there are any subsequent events that would have an impact on the financial statements that have not been properly disclosed. From their review, management has determined there were no significant subsequent events that were not properly disclosed.

Physicians Committee for Responsible Medicine, Inc.
Consolidated Schedule of Functional Expenses
For the Year Ended July 31, 2017

	Program Services					
	<u>Research and Regulatory Affairs</u>	<u>Clinical Research</u>	<u>Nutrition Education</u>	<u>Legal Advocacy</u>	<u>Publications</u>	<u>Education and Policy</u>
Salaries, benefits and other personnel expenses	\$ 1,494,473	\$ 234,350	\$ 1,343,664	\$ 223,604	\$ 525,096	\$ 216,878
Rent and building expenses	193,607	36,724	168,355	24,618	64,315	28,544
General operating expenses	229,712	71,953	583,540	20,960	26,421	97,817
Program communications	864,691	-	19,964	-	-	-
Printing	26,631	4,772	232,728	187	97,076	24,952
Postage	43,551	1,520	92,177	214	55,790	16,625
Computer, phone, copier	132,493	7,830	97,387	5,762	20,109	30,202
Professional services	222,927	309,669	301,724	87,331	17,632	30,668
Media and promotion expenses	16,090	85,001	34,054	-	-	3,211
Travel and transportation	98,448	26,126	84,401	2,919	451	33,599
Total	<u>\$ 3,322,623</u>	<u>\$ 777,945</u>	<u>\$ 2,957,994</u>	<u>\$ 365,595</u>	<u>\$ 806,890</u>	<u>\$ 482,496</u>
Percent of total expenses	<u>22.65%</u>	<u>5.30%</u>	<u>20.16%</u>	<u>2.49%</u>	<u>5.50%</u>	<u>3.29%</u>

The accompanying notes are an integral part of the consolidated financial statements

			Supporting Services			
Medical Services	Communications	Total	Operational	Development	Total	Total Expenses
\$ 983,081	\$ 745,331	\$ 5,766,477	\$ 412,154	\$ 732,250	\$ 1,144,404	\$ 6,910,881
12,075	110,709	638,947	52,654	89,009	141,663	780,610
101,589	56,135	1,188,127	276,434	122,178	398,612	1,586,739
-	-	884,655	30,489	843,224	873,713	1,758,368
16,064	4,895	407,305	958	26,404	27,362	434,667
1,881	840	212,598	897	59,421	60,318	272,916
28,509	27,313	349,605	22,402	141,604	164,006	513,611
68,234	58,992	1,097,177	128,024	148,793	276,817	1,373,994
41,413	563,905	743,674	-	1,108	1,108	744,782
6,824	6,195	258,963	362	36,176	36,538	295,501
<u>\$ 1,259,670</u>	<u>\$ 1,574,315</u>	<u>\$ 11,547,528</u>	<u>\$ 924,374</u>	<u>\$ 2,200,167</u>	<u>\$ 3,124,541</u>	<u>\$ 14,672,069</u>
<u>8.58%</u>	<u>10.73%</u>	<u>78.70%</u>	<u>6.30%</u>	<u>15.00%</u>	<u>21.30%</u>	<u>100.00%</u>

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Consolidating Schedule of Financial Position
July 31, 2017

Assets

	Physicians Committee for Responsible Medicine, Inc.	The PCRM Foundation	PCRM Clinic D/B/A Barnard Medical Center	Eliminations	Consolidated
Current Assets					
Cash	\$ 577,891	\$ 155,694	\$ 438,933	\$ -	\$ 1,172,518
Investments	2,984,432	6,938,055	-	-	9,922,487
Other receivable, net	146,663	23,934	77,136	(45,640)	202,093
Receivable from legacies and bequests	3,742,960	-	-	-	3,742,960
Inventory	55,508	-	-	-	55,508
Prepaid expenses	440,465	-	41,395	-	481,860
	<u>7,947,919</u>	<u>7,117,683</u>	<u>557,464</u>	<u>(45,640)</u>	<u>15,577,426</u>
Total Current Assets					
Other Assets, deposits	<u>5,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,466</u>
Noncurrent Assets					
Investments Related to Restricted and Designated Funds	-	6,923,840	-	-	6,923,840
Investments Designated for Charitable Gift Annuity Obligations	2,212,027	-	-	-	2,212,027
Property and Equipment, net	1,201,100	469,496	27,105	-	1,697,701
	<u>3,413,127</u>	<u>7,393,336</u>	<u>27,105</u>	<u>-</u>	<u>10,833,568</u>
Total Noncurrent Assets					
Total Assets	<u>\$ 11,366,512</u>	<u>\$ 14,511,019</u>	<u>\$ 584,569</u>	<u>\$ (45,640)</u>	<u>\$ 26,416,460</u>

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Consolidating Schedule of Financial Position
July 31, 2017
(continued)

Liabilities and Net Assets

	Physicians Committee for Responsible Medicine, Inc.	The PCRM Foundation	PCRM Clinic D/B/A Barnard Medical Center	Eliminations	Consolidated
Current Liabilities					
Accounts payable and accrued expenses	\$ 1,162,480	\$ 25,667	\$ 84,976	\$ (45,640)	\$ 1,227,483
Current portion of annuities payable	74,097	-	-	-	74,097
Current portion of deferred rent credit	5,403	-	-	-	5,403
Total Current Liabilities	1,241,980	25,667	84,976	(45,640)	1,306,983
Long-term Liabilities					
Annuities payable, net of current portion	895,607	-	-	-	895,607
Deferred rent credit, net of current portion	77,398	-	-	-	77,398
Total Long-term Liabilities	973,005	-	-	-	973,005
Total Liabilities	2,214,985	25,667	84,976	(45,640)	2,279,988
Net Assets					
Unrestricted	4,760,862	7,561,512	499,593	-	12,821,967
Unrestricted - board designated	-	4,437,595	-	-	4,437,595
Total Unrestricted	4,760,862	11,999,107	499,593	-	17,259,562
Temporarily restricted	4,390,665	851,985	-	-	5,242,650
Permanently restricted	-	1,634,260	-	-	1,634,260
Total Net Assets	9,151,527	14,485,352	499,593	-	24,136,472
Total Liabilities and Net Assets	\$ 11,366,512	\$ 14,511,019	\$ 584,569	\$ (45,640)	\$ 26,416,460

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Consolidating Schedule of Activities
For the Year Ended July 31, 2017

	Physicians Committee for Responsible Medicine, Inc.	The PCRM Foundation	PCRM Clinic D/B/A Barnard Medical Center	Eliminations	Consolidated
Change in Unrestricted Net Assets					
Support and Revenue					
Public Support					
Contributions and donations	\$ 8,484,198	\$ 217,173	\$ 1,256,166	\$ (2,218,123)	\$ 7,739,414
Legacies and bequests	1,834,825	-	-	-	1,834,825
Grants	268,900	-	-	-	268,900
Net assets released from restrictions:					
Expiration of time restrictions	157,232	-	-	-	157,232
Satisfaction of purpose restrictions.	1,362,900	59,589	-	-	1,422,489
Total Public Support	12,108,055	276,762	1,256,166	(2,218,123)	11,422,860
Other Revenue					
Medical services	-	-	316,348	-	316,348
Investment income	217,769	650,841	-	-	868,610
Mailing list rental	-	90,605	-	(16,000)	74,605
Rental and other income	162,262	102,053	14,578	(200,000)	78,893
Advocacy services	-	-	61,626	(61,626)	-
Merchandise sales and services					
Gross sales and services	699,617	-	-	(115,143)	584,474
Cost of goods sold	(18,631)	-	-	-	(18,631)
Total Other Revenue	1,061,017	843,499	392,552	(392,769)	1,904,299
Total Support and Revenue	13,169,072	1,120,261	1,648,718	(2,610,892)	13,327,159
Expenses					
Program Services					
Research and Regulatory Affairs	3,314,720	-	-	7,903	3,322,623
Clinical Research	800,298	-	-	(22,353)	777,945
Nutrition Education	3,007,131	-	-	(49,137)	2,957,994
Legal Advocacy	364,259	-	-	1,336	365,595
Publications	803,399	-	-	3,491	806,890
Education and Policy	1,389,608	-	-	(907,112)	482,496
Medical Services	-	-	1,424,763	(165,093)	1,259,670
Communications	1,568,306	-	-	6,009	1,574,315
Total Program Services	11,247,721	-	1,424,763	(1,124,956)	11,547,528
Supporting Services					
Operational expenses	764,472	247,891	79,847	(167,836)	924,374
Development expenses	2,206,919	-	1,887	(8,639)	2,200,167
Contributions to supported organizations	-	1,309,461	-	(1,309,461)	-
Total Supporting Services	2,971,391	1,557,352	81,734	(1,485,936)	3,124,541
Total Expenses	14,219,112	1,557,352	1,506,497	(2,610,892)	14,672,069
Change in Unrestricted Net Assets	(1,050,040)	(437,091)	142,221	-	(1,344,910)

The accompanying notes are an integral part of the consolidated financial statements

Physicians Committee for Responsible Medicine, Inc.
Consolidating Schedule of Activities
For the Year Ended July 31, 2017
(continued)

	Physicians Committee for Responsible Medicine, Inc.	The PCR Foundation	PCR Clinic D/B/A Barnard Medical Center	Eliminations	Consolidated
Change in Temporarily Restricted Net Assets					
Contributions and donations	1,230,027	-	-	-	1,230,027
Legacies and bequests	814,538	-	-	-	814,538
Investment income	-	156,845	-	-	156,845
Net assets released from restrictions:					
Expiration of time restrictions	(157,232)	-	-	-	(157,232)
Satisfaction of program restrictions.	(1,362,900)	(59,589)	-	-	(1,422,489)
Change in Temporarily Restricted Net Assets	<u>524,433</u>	<u>97,256</u>	<u>-</u>	<u>-</u>	<u>621,689</u>
Change in Permanently Restricted Net Assets					
Contributions and donations	<u>-</u>	<u>602,988</u>	<u>-</u>	<u>-</u>	<u>602,988</u>
Total Change in Net Assets	<u><u>\$ (525,607)</u></u>	<u><u>\$ 263,153</u></u>	<u><u>\$ 142,221</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (120,233)</u></u>

The accompanying notes are an integral part of the consolidated financial statements