

**Physicians Committee for
Responsible Medicine, Inc.
Consolidated Financial Statements
and Supplementary Information
July 31, 2019**

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, 2019, and the related consolidated statements of activities, functional expenses, 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, 2019, 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.

Emphasis of a Matter

As discussed in Note 18 to the financial statements, Physicians Committee for Responsible Medicine, Inc. improperly expensed costs related to the development of short films during the fiscal year ended July 31, 2018. Physicians Committee for Responsible Medicine, Inc. has increased beginning net assets without donor restrictions by \$103,975 for the correction of this misstatement. Our opinion on the fiscal year ended July 31, 2019 financial statements is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities on pages 40 through 43 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 4, 2020

Arkin & Company, Chartered

Physicians Committee for Responsible Medicine, Inc.
Consolidated Statement of Financial Position
July 31, 2019

Assets

Current Assets	
Cash	\$ 1,409,062
Investments	11,679,075
Other receivable, net	297,416
Receivable from legacies and bequests	2,682,173
Inventory	109,990
Prepaid expenses	355,906
Total Current Assets	16,533,622
Other Assets, deposit	5,478
Investments Related to Restricted and Designated Funds	8,671,801
Investments Restricted to Charitable Gift Annuity Obligations	2,593,579
Property and Equipment, net	1,721,886
Total Assets	\$ 29,526,366

Liabilities and Net Assets

Current Liabilities	
Accounts payable and accrued expenses	\$ 1,436,603
Current portion of annuities payable	105,702
Current portion of deferred rent credit	29,834
Total Current Liabilities	1,572,139
Long-term Liabilities	
Annuities payable, net of current portion	1,073,057
Deferred rent credit, net of current portion	46,394
Total Long-term Liabilities	1,119,451
Total Liabilities	2,691,590
Net Assets	
Without donor restrictions	14,950,780
Board designated	5,095,198
Total Net Assets Without Donor Restrictions	20,045,978
With donor restrictions	6,788,798
Total Net Assets	26,834,776
Total Liabilities and Net Assets	\$ 29,526,366

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, 2019

	Net Assets Without Donor <u>Restrictions</u>	Net Assets With Donor <u>Restrictions</u>	<u>Total</u>
Support and Revenue			
Public Support			
Contributions and donations	\$ 5,709,705	\$ 3,873,236	\$ 9,582,941
Legacies and bequests	1,599,920	653,751	2,253,671
Grants	618,673	-	618,673
Net assets released from restrictions:			-
Expiration of time restrictions	2,500,701	(2,500,701)	-
Satisfaction of program restrictions	3,694,840	(3,694,840)	-
Total Public Support	<u>14,123,839</u>	<u>(1,668,554)</u>	<u>12,455,285</u>
Other Revenue			
Medical services	439,489	-	439,489
Investment income	802,048	138,052	940,100
Mailing list rental	50,974	-	50,974
Rental and other income	59,355	-	59,355
Merchandise sales and services			
Gross sales and services	1,576,962	-	1,576,962
Cost of goods sold	(45,282)	-	(45,282)
Total Other Revenue	<u>2,883,546</u>	<u>138,052</u>	<u>3,021,598</u>
Total Support and Revenue	<u>17,007,385</u>	<u>(1,530,502)</u>	<u>15,476,883</u>
Expenses			
Program Services			
Research and Regulatory Affairs	3,798,105	-	3,798,105
Clinical Research	1,067,713	-	1,067,713
Nutrition Education	3,574,440	-	3,574,440
Legal Advocacy	511,325	-	511,325
Publications	711,447	-	711,447
Education and Policy	1,020,398	-	1,020,398
Medical Services	1,379,691	-	1,379,691
Communications	2,403,072	-	2,403,072
Total Program Services	<u>\$ 14,466,191</u>	<u>\$ -</u>	<u>\$ 14,466,191</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, 2019
(continued)

	Net Assets Without Donor <u>Restrictions</u>	Net Assets With Donor <u>Restrictions</u>	<u>Total</u>
Supporting Services			
Operational expenses	\$ 1,226,761	\$ -	\$ 1,226,761
Development expenses	<u>2,121,467</u>	<u>-</u>	<u>2,121,467</u>
Total Supporting Services	<u>3,348,228</u>	<u>-</u>	<u>3,348,228</u>
Total Expenses	<u>17,814,419</u>	<u>-</u>	<u>17,814,419</u>
Change in Net Assets	<u>(807,034)</u>	<u>(1,530,502)</u>	<u>(2,337,536)</u>
Net Assets, Beginning of Year, as previously reported	20,749,037	8,319,300	29,068,337
Adjustment for capitalization of intangible asset	<u>103,975</u>	<u>-</u>	<u>103,975</u>
Net Assets, Beginning of Year, as restated	<u>20,853,012</u>	<u>8,319,300</u>	<u>29,172,312</u>
Net Assets, End of Year	<u><u>\$ 20,045,978</u></u>	<u><u>\$ 6,788,798</u></u>	<u><u>\$ 26,834,776</u></u>

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

Physicians Committee for Responsible Medicine, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended July 31, 2019

	Program Services					
	Research and Regulatory Affairs	Clinical Research	Nutrition Education	Legal Advocacy	Publications	Education and Policy
Salaries, benefits and other personnel expenses	\$ 1,716,248	\$ 545,345	\$ 1,349,682	\$ 350,946	\$ 426,974	\$ 441,078
Program communications	921,157	-	21,491	-	-	-
Professional services	228,073	211,400	196,816	77,090	20,783	248,863
General operating expenses	371,706	157,874	1,307,245	34,747	27,265	153,832
Media and promotion expenses	8,160	19,789	79,910	-	-	13,500
Rent and building expenses	195,920	77,114	153,421	30,351	45,796	51,905
Computer, phone, copier	164,081	21,737	119,811	13,785	12,708	41,602
Printing	24,148	15,558	130,077	205	120,223	25,290
Travel and transportation	128,950	14,145	130,489	4,066	2,003	30,097
Postage	39,662	4,751	85,498	135	55,695	14,231
Total	<u>\$ 3,798,105</u>	<u>\$ 1,067,713</u>	<u>\$ 3,574,440</u>	<u>\$ 511,325</u>	<u>\$ 711,447</u>	<u>\$ 1,020,398</u>
Percent of Total Expenses	<u>21.32%</u>	<u>5.99%</u>	<u>20.07%</u>	<u>2.87%</u>	<u>3.99%</u>	<u>5.73%</u>

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

Medical Services	Supporting Services					Total Expenses
	Communications	Total	Operational	Development	Total	
\$ 1,046,126	\$ 819,096	\$ 6,695,495	\$ 632,837	\$ 719,541	\$ 1,352,378	\$ 8,047,873
-	-	942,648	25,156	826,799	851,955	1,794,603
112,385	362,791	1,458,201	147,466	117,890	265,356	1,723,557
150,876	69,186	2,272,731	326,712	104,933	431,645	2,704,376
10,419	981,967	1,113,745	-	3,628	3,628	1,117,373
5,395	99,577	659,479	66,764	76,711	143,475	802,954
33,460	55,658	462,842	24,256	169,723	193,979	656,821
10,105	3,382	328,988	1,659	16,009	17,668	346,656
8,962	10,227	328,939	960	36,564	37,524	366,463
1,963	1,188	203,123	951	49,669	50,620	253,743
<u>\$ 1,379,691</u>	<u>\$ 2,403,072</u>	<u>\$ 14,466,191</u>	<u>\$ 1,226,761</u>	<u>\$ 2,121,467</u>	<u>\$ 3,348,228</u>	<u>\$ 17,814,419</u>
<u>7.74%</u>	<u>13.49%</u>	<u>81.20%</u>	<u>6.89%</u>	<u>11.91%</u>	<u>18.80%</u>	<u>100.00%</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, 2019

Cash Flows from Operating Activities	
Change in net assets	\$(2,337,536)
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	360,343
Realized loss on sale of investments	121,979
Unrealized gain on investments	(512,171)
Loss on disposition of property and equipment	18,779
Donated investments	(98,028)
Amortization of bond premium and discount	100,380
Income recognized from deceased annuitant	(11,985)
Change in operating assets and liabilities:	
Increase in other receivables	(9,919)
Decrease in receivable from legacies and bequests	1,780,583
Decrease in inventory	8,366
Decrease in prepaid expenses	215,533
Decrease in accounts payable and accrued expenses	(39,387)
Decrease in deferred revenue	(616,968)
Decrease in deferred rent credit	(11,976)
Net Cash Used In Operating Activities	<u>(1,032,007)</u>
Cash Flows from Investing Activities	
Reinvestment of matured securities and purchase of investments	(9,024,268)
Proceeds from sale of investments	10,267,605
Purchase of property and equipment	<u>(142,760)</u>
Net Cash Provided By Investing Activities	<u>1,100,578</u>
Cash Flows from Financing Activities	
Proceeds from annuity contracts	236,673
Principal payments on annuity contract	<u>(90,817)</u>
Net Cash Provided By Financing Activities	<u>145,856</u>
Increase in Cash	214,427
Cash at Beginning of Year	1,194,635
Cash at End of Year	<u><u>\$ 1,409,062</u></u>
Supplemental Disclosure of Cash Flows Information:	
Interest paid during the year	\$ 43,017
Income taxes paid during the year	<u><u>\$ 830</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 one of the 322 Advanced Trauma Life Support (ATLS) programs continues to use animals. All of the known pediatrics programs in North America teach critical procedures without the use of animals, and of the 246 responsive emergency medicine residency programs, 235 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 2019, we expanded the Early-Career Researchers Advancing 21st-Century Research (ERA21) project. ERA21 provides outreach, advice, collaborative events, and resources to early-career researchers looking to conduct research with human cells, tissues, and other human-relevant models. The monthly newsletter has more than 150 subscribers, and the Facebook group engages young researchers as well.

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

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

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). The ASCCT, which has more than 1,600 scientists on its mailing list, just held its eighth 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. The ASCCT holds monthly webinars, attracting approximately 100 attendees each from around the world.

In 2019, we learned that because of a new EPA policy accepting human cell-based methods for skin sensitization (methods which have been shown to be more predictive of the animal method it replaced), companies had submitted 25 dossiers, saving 750 mice in a few short months. The Physicians Committee advocated for the adoption of this policy and continues to encourage other regulatory agencies to adopt the same policy.

Finally, this year the Physicians Committee provided training opportunities to more than 2,000 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. The Physicians Committee also continued to schedule New Approach Methodology Use for Regulatory Application (NURA) training series events, designed to teach industry scientists how to use nonanimal approaches to assess the potential hazards of new chemicals they design through annual multiday, hands-on training events. Two events were held, and the presentations were videotaped and posted to an online portal. The Physicians Committee promotes this portal with online advertising, and the portal has more than 5,000 visitations.

Nutrition Education

The Physicians Committee hosts continuing education opportunities for physicians, nurses, dietitians, medical students, and other health care professionals so they can bring tools of disease prevention into their practice.

NutritionCME.org, an online continuing education website, offers up to 50 free, nutrition-focused continuing medical education courses. In FY 2019, 1,541 medical professionals completed at least one course, a 57 percent increase compared to FY 2018. Those professionals completed a total of 6,242 continuing education credits.

In August 2019, we also hosted our seventh annual International Conference on Nutrition in Medicine, a live, in-person continuing medical education conference in Washington, D.C., attended by 1,000 health care professionals. The vast majority of the planning for this successful event took place in FY 2019.

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

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

In FY 2019, our team coordinated and sponsored six lunch-and-learn events, reaching hundreds of medical and nursing students. Our experts spoke at University of Washington, Bastyr, Boucher, Yale, Florida Atlantic University, George Washington, and Johns Hopkins, reaching 495 students. We attended two medical student conferences: the American Medical Student Association and the Student National Medical Association, reaching 450 students.

The Nutrition Guide for Clinicians app brings evidence-based resources to clinicians' fingertips, and in FY 2019 reached more than 32,000 with more than 200,000 chapter views online.

Our diabetes educator team delivered educational presentations to 2,500 diabetes professionals at national and regional conferences. They were educated on the science and practical applications of plant-based clinical interventions designed to reverse, treat, and prevent diabetes via lectures, workshops, or webinars.

The Physicians Committee runs nutrition education programming to reach communities all across the United States:

In FY 2019, we trained 28 Food for Life instructors to teach our healthful cooking classes in their communities. They came from as far as Italy, Canada, and Hawaii. The training awards 18 continuing education hours for nurses and dietitians. During the past fiscal year, our instructors taught more than 1,000 classes and reached approximately 4,500 students. The Physicians Committee currently has more than 280 instructors and Education Alliance Program partners in 44 states, plus the District of Columbia, and 17 countries.

In FY 2019, more than 105,000 participants followed our free, online 21-Day Vegan Kickstart program, which promotes a healthful plant-based diet with tips and recipes and nutrition education videos from our nutrition experts. We offer this app-based program in both English and Spanish with culturally relevant recipes and nutrition education. We also have resources in Mandarin and for those of Indian origin. Since launching in 2009, more than half a million people have participated in the 21-day online program with more than 92,000 installs of our mobile version.

In FY 2019, the Physicians Committee hosted two two-day Kickstart Intensives, which educated 145 attendees about the health benefits of a plant-based diet. The two-day program included nutrition lectures, cooking demonstrations, testimonials, health measurements, and four meals.

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

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

Our Native American outreach continues as the diabetes epidemic grows. In September 2018, through a collaboration with Clinical Education and Nutritive Services at the Tsehootsooi Medical Center in Fort Defiance, Ariz., we provided a four-hour continuing medical education program for 170 clinicians and members of the public, who were also provided with plant-based meals and resource materials. In January 2019, 100 participants attended a second four-week challenge offered by Tsehootsooi. In February 2019, we offered hands-on instruction on preparation of 17 plant-based dishes for hospital employees. In April, we were invited to assist the Gallup Indian Medical Center (GIMC) in Gallup, N.M., and we partnered with them to train 100 cooks and nutritionists at events at the Gallup Community Pantry in June 2019. In July, 15 people attended a four-week challenge GIMC offered to employees. Both the Tsehootsooi Medical Center and GIMC now offer made-from-scratch plant-based meal options in their cafeterias each day.

The Physicians Committee promotes plant-based options in school cafeterias around the country through various channels. HealthySchoolLunches.org offers free resources to assist schools in integrating plant-based meals into the lunch line. In FY 2019, we attended and presented at two Greening School Food forums hosted by Friends of the Earth, reaching a total of 200 school food service professionals combined. Attendees learned from us about policy initiatives supporting the addition of plant-based meals and removal of processed meat in schools. In the fall of 2018, Santa Barbara Unified School District agreed to remove processed meat from its menu for good with our assistance, and we publicized it. The food service director spoke at one of the forums about her success in removing processed meat and having a daily vegan option on their district's menu.

The Physicians Committee also works to promote the removal of processed meat from school lunches through distribution of our toolkit and supporting policy initiatives. A New York City resolution to remove processed meat from school lunches received strong support from action alerts and 12 members who gave testimony at a city council hearing. The resolution later passed, banning processed meat from all New York City public schools.

FY 2019 marked the kick-off of public meetings hosted by the U.S. Department of Agriculture to update the Dietary Guidelines for Americans, a process that occurs every five years. The Physicians Committee also monitored the nomination of members to the Dietary Guidelines Advisory Committee by submitting nominations and weighing-in on those ultimately selected. We sent representatives to all public meetings, posted comments, and presented oral testimony when the opportunities were available.

In FY 2019, our Kickstart Your Health team visited the Triangle area of North Carolina where we partnered with local experts who actively promote plant-based nutrition in their communities. We highlighted them in the media, on billboards, and across several events including a community health fest, Forks Over Knives screening, grand rounds in a hospital, Food for Life classes, and lunch-and-learn sessions for medical students. We reached 490 laypersons, medical professionals, and city officials to offer nutrition education and long-term support.

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

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

The Physicians Committee’s international outreach programs in China and India work to decrease rising chronic disease rates with nutrition education. In FY 2019, our India program specialist went on two tours in India and reached 600 people at the Vegan Indian Conference in July. In February, through a partnership with Bollywood actress Mallika Sherawat, we launched a billboard campaign in five Indian cities with the message “Go Vegan for Someone You Love,” which reached 27.4 million people through Hindi and English media. Our China program specialist delivered plant-based lectures in 70 cities reaching 31,000 people.

Communications

Working with physicians, health experts, and celebrities who serve as spokespeople, we aim to inform, persuade, and inspire readers through strategic media relations, public relations, digital communications, content generation, social media, celebrity engagement, and advertisements. In the past year, our work was featured and referenced in traditional news outlets, including the New York Times, the Washington Post, the Boston Globe, the Star Tribune, the Houston Chronicle, the Miami Herald, and the Denver Post. Our message has been reported by wires including the Associated Press and Reuters, Capitol Hill papers including the Hill and Politico, and by major television networks including ABC News and CNN. International outlets such as the Daily Mail and the Toronto Star have covered our campaigns. Each month, we reach a potential audience of 240 million readers by appearing in an average of 167 news outlets.

We further amplify this coverage on social media to empower our followers to make lasting health changes. Our social media content has created conversations daily among more than 1.3 million followers on 11 social media accounts. In 2018, we launched The Exam Room podcast which has reached more than 2.3 million people to date. These communications combined have reached hundreds of 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 2019, the Physicians Committee's websites received about 6.4 million visitors and 7.7 million page views.

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.

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

Note 1: Organization, (continued)

The paper entitled ‘A plant-based diet in overweight individuals in a 16-week randomized clinical trial: metabolic benefits of plant protein,’ published in *Nutrition & Diabetes* by Physicians Committee research staff, showed that plant protein, as a part of a plant-based diet, and the resulting limitation of leucine and histidine intake are associated with improvements in body composition and reductions in both body weight and insulin resistance. This study demonstrates the potential of plant protein for weight management and may influence the dietary recommendations.

Physicians Committee researchers co-authored a case study demonstrating a complete remission of Crohn’s disease with a plant-based diet. This case study describes a young adult male with newly diagnosed Crohn’s disease who failed to enter clinical remission despite standard medical therapy. After switching to a diet based exclusively on grains, legumes, vegetables, and fruits, he entered clinical remission without need for medication and showed no signs of Crohn’s disease on follow-up colonoscopy. This case study gives hope to patients diagnosed with inflammatory bowel disease and needs to be taken into account when making dietary recommendations to these patients.

A Physicians Committee researcher co-authored a systematic review and meta-analysis on vegetarian dietary patterns and major cardiovascular outcomes, published in *Frontiers in Nutrition*, showing that vegetarian diets reduce cardiovascular mortality and incidence. This paper highlights the usefulness of plant-based diets for people with elevated cardiovascular risk.

The Physicians Committee published a letter to the editor of the *American Journal of Clinical Nutrition*, exposing the dairy industry funding and the methodological issues in a prospective study that was trying to prove that eating dairy is not contributing to cardiovascular disease. We suggest that the contribution of dairy products to cardiovascular risk is best adjudicated in carefully designed randomized trials. Such trials have already indicated weight gain associated with consumption of both low-fat and whole-fat dairy and a considerable risk from saturated fat intake. This suggests that the dairy industry’s appeals for a more generous verdict should not be so easily granted.

Two papers in *Nutrients* by Physicians Committee research staff and colleagues showed that vegetable fat and carbohydrates, as part of a plant-based diet, may play an important role in body weight regulation.

Physicians Committee research staff and colleagues published a review paper entitled ‘The effects of vegetarian and vegan diets on gut microbiota’ in *Frontiers in Nutrition*. A plant-based diet appears to be beneficial for human health by promoting the development of more diverse and stable microbial systems. High fiber intake also encourages the growth of species that ferment fiber into metabolites as short-chain fatty acids, which improve immunity against pathogens, promote blood-brain barrier integrity, provide energy substrates, and regulate critical functions of the intestine. The available literature suggests that a vegetarian/vegan diet is effective in promoting a diverse ecosystem of beneficial bacteria to support both human gut microbiome and overall health.

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

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

Another paper by Physicians Committee research staff and colleagues, entitled ‘Plant-based diets for cardiovascular safety and performance in endurance sports,’ published in *Nutrients*, showed the practical implementation of the research and suggested the use of plant-based diets to boost the performance in athletes.

Physicians Committee research staff published a paper entitled ‘The thermic effect of food: a review’ in *the Journal of American College of Nutrition*. The thermic effect of food is the increase in the metabolic rate that occurs after a meal and represents a potentially modifiable component of energy expenditure, therefore playing an important role in weight management. Evidence suggests that the thermic effect of food is increased by larger meal sizes (as opposed to frequent small meals), intake of carbohydrate and protein (as opposed to dietary fat), and low-fat plant-based diets. This highlights the usefulness of plant-based diets for weight management.

Our current randomized crossover clinical trial is comparing the effects of a low-fat, plant-based diet to a Mediterranean diet on body weight, metabolism, and body composition. 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. All of these tests are performed at baseline and after 16 weeks of a low-fat vegan versus Mediterranean diet, at week 20 (after a four-week wash-out period), and at week 36 (after 16 weeks of the second intervention). Sixty-two participants were enrolled and started the study. This study will provide important insights for dietary recommendations.

Using the design of a randomized crossover trial, we are testing the effects of dietary cholesterol on serum cholesterol levels in vegans who have no baseline dietary cholesterol intake. This study will provide the dose-response information on how much dietary cholesterol affects blood lipids and cardiovascular risk.

We are currently conducting a randomized crossover trial, exploring the power of a plant-based diet to reduce pain and inflammation in rheumatoid arthritis. Patients with rheumatoid arthritis switch to a plant-based diet for 16 weeks. A rheumatologist assesses the changes in their joint pain and inflammation. Ten participants are currently going through the study. This study will show how much can be achieved through diet to relieve the rheumatoid arthritis symptoms.

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

Legal Advocacy

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

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

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

In light of the World Health Organization’s determination that processed meat is a carcinogen, the Physicians Committee continued to urge the California Office of Environmental Health Hazard Assessment to list processed meat as a carcinogen in accordance with state law. The Physicians Committee also continued its 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.

The Physicians Committee 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 then uses these documents to educate the public. When necessary, the Physicians Committee sues public institutions that refuse to disclose such documents, such as a lawsuit the Physicians Committee filed this fiscal year against USDA over documents related to fecal contamination in poultry products. The Physicians Committee is also a party in two lawsuits 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.

The Physicians Committee regularly submits regulatory comments on research practices and nutrition. This fiscal year, the Physicians Committee submitted comments regarding standards of identity for plant-based foods, community-based health improvement, California’s nutrition guidelines for school meals, regulatory burden considerations under the federal 21st Century Cures Act, Animal Welfare Act licensing standards, and USDA’s Freedom of Information Act regulations.

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 2019, the department completed approximately 615 separately tracked projects. These design projects included a book, ads, fact sheets, brochures, postcards, educational diagrams, posters, billboards, fliers, program booklets, event signage, stationery, program logos, web graphics, infographics, merchandise graphics, and social media graphics. Supported projects included the 870-page third edition of the *Nutrition Guide for Clinicians* (2,500 printed copies), the 2019 International Conference on Nutrition in Medicine, demonstrations at universities, medical centers, and fast-food franchises, Food for Life instructor training, scientific conferences (academic posters and promotion), healthy hospital food initiative, Native American diabetes education, Alzheimer’s education Capitol Hill event, Kickstart Intensive event, Barnard Medical Center promotion and education campaigns, and toxicology education and websites. Many of our educational materials are available for free download from our website—PCRM.org.

Good Medicine, the Physicians Committee’s 24-page magazine, keeps members informed and involved. Four issues of *Good Medicine* were published in FY 2019. Total print distribution was 364,485. The magazine also appears in electronic format on our website.

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

Note 1: Organization, (continued)

Education and Policy

Dr. Barnard reached thousands of people through his presentations and community events. With the release of his latest book, *The Vegan Starter Kit*, Dr. Barnard underscored the power of nutrition in treating and preventing chronic diseases, managing weight, and healthy eating at all life stages. He spoke on these topics when expanding his outreach to medical professionals and medical students. He presented at grand rounds lectures, CME presentations, and medical student lunch-and-learn lectures. He reached health professionals and medical students in many communities, including through a four-week class series at the George Washington University, at the Montefiore Preventative Cardiology Conference and the Brooklyn Borough Hall in New York City, to the Mayo Clinic in Rochester, at the Cigna headquarters in Hartford, at the Virginia Beach Nutrition as Medicine Conference, at the National Health Association Conference in Cleveland, and here in Washington, D.C., at our very own sixth and seventh annual International Conferences on Nutrition in Medicine. He also spoke to communities in Raleigh and Durham, N.C., through the Physicians Committee’s nutrition initiative “10 Cities” and through other vegetarian festivals and conferences in Newark-on-Trent, United Kingdom, Las Vegas, Nev., aboard the Holistic Holiday at Sea Cruise, at the Navajo Nation in Window Rock, Ariz., in Melbourne and Wellington, Australia, in Auckland, New Zealand, at Rockford University in Illinois, and at the Parliament of the World’s Religions in Toronto.

The Physicians Committee works with external experts in academia and medical professionals, as well as advocates in other nonprofit organizations, to advocate for policy that encourages healthful plant-based diets. As part of this effort, we advocated for legislation in several jurisdictions, which included California, Oregon, and New York during legislative sessions leading up to and beginning in January 2019. These bills would require or facilitate the offering of plant-based meals and plant-based beverages in hospitals, prisons, schools, and other facilities. These improvements would reduce rates of diet-related disease among patients and consumers in the institutions where food is regularly served. In addition it would improve the food environment generally, leading to improved health outcomes for others.

We advocated for an Oregon bill that would have required plant-based options in hospitals, prisons, and long-term care facilities. This bill, HB3342 introduced by Representative Marty Wilde in the House and Senator Rob Wagner in the Senate, passed the Oregon House but ultimately died in the Senate Committee on Health Care. As part of this effort, we generated positive momentum and achieved positive media and grassroots attention on the merits of this legislation, and intend to introduce new legislation in the next session.

We advocated for a bill in California, AB479 introduced by Assemblymember Adrin Nazarian, which would provide incentives to public schools that offer additional plant-based food and beverage options, in addition to grants to schools for implementation of this program. The legislation passed the Assembly, passed through the Senate Health Committee, and is expected to proceed through the Senate Budget Committee and pass the full Senate floor in early 2020.

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

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

We advocated for a bill in New York that would require hospitals to provide plant-based meals and list these items anywhere food options are listed (e.g., printed menus). The bill, S1471A introduced by Senator Brad Hoylman in the Senate and Assemblymember Richard Gottfried in the Assembly, passed the full legislature and is expected to be signed into law by the governor by the end of 2019.

We advocated for a bill in New York that would require public schools to make plant-based food and beverages available to students upon request. The bill, S1472 introduced by Senator Hoylman in the Senate and Assemblymember Gottfried in the Assembly, awaits a hearing in the Education Committees of both chambers. We have had lobby meetings with all relevant committee staff (more than 60 members), which were mostly positive.

The Physicians Committee contracted with another nonprofit, along with registered lobbyists, in California to advocate for legislation that would alert people to the cancer-causing effect of consuming processed meat and to remove processed meat from the menus of hospitals, prisons, and schools, as well as require a plant-based option be available. We have continually put pressure through direct communication and media work on the California regulatory body (OEHHA) responsible for listing processed meat as a carcinogen under Proposition 65. As part of this effort, we have begun advocating for legislation that would require OEHHA to move forward.

The Physicians Committee worked with external experts in academia and medical professionals, as well as advocates in other nonprofit organizations, to advocate for addressing a gap in the nutrition education of health professionals, especially licensed medical doctors (MDs). As part of this effort, we advocated for legislation in California, New York, the District of Columbia, and the federal Congress during legislative sessions leading up to and beginning in January 2019. These bills would require or encourage some amount of continuing medical education credits in nutrition (nutrition CME).

We advocated for a bill in California that would have required six nutrition CME credits per licensing cycle for MDs. We succeeded in finding a bill sponsor (author in California) who submitted the language to legislative council, so we have a bill ready for introducing, but we ultimately did not introduce the bill due to the negative influence of the California Medical Association (CMA) to any mandatory CMEs. We succeeded in learning more about the CMA position and history and have begun preparing for introducing the bill in the next legislative session.

We advocated for a bill in New York that would require six nutrition CME credits per licensing cycle. We worked with consultants in Albany to find sponsors, drafted the legislation, and succeeded in having a bill introduced in both the Senate and Assembly. The bill, A7695 introduced by Assemblymember Rosenthal and Senator Stavisky, is expected to come up for a vote in early 2020. We have also succeeded in getting positive media on this issue, and have had mostly receptive legislative staff during lobby meetings.

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

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

We advocated for a bill in the DC Council that would require mandatory nutrition CME, and succeeded in introducing a bill that would require two nutrition CME credits per licensing cycle for MDs as well as for nurse practitioners and other health professionals. We have had lobby meetings with all members of the DC Council, and none are opposed. We have met and discussed nutrition CME policy with officers with DC Department of Health. We have generated grassroots support, as well as support from DC medical professionals, and expect a yes vote from the health committee.

We advocated for a bill in the federal House of Representatives that would require the Secretary of Health and Human Services to issue guidance to all federal agencies, requiring some amount of nutrition CME for federally employed physicians. We succeeded in finalizing a draft bill, which Representative Raul Grijalva (D-N.M.) will introduce with a Republican co-sponsor. We have met with several potential republican co-sponsors of the bill and expect the bill to be introduced.

The Physicians Committee conducts activities to encourage the funding, development, and implementation by federal and state legislatures and agencies of human-relevant, nonanimal test methods for chemical, product, and drug safety.

The Physicians Committee contracted with another nonprofit, along with registered lobbyists, in California to advocate for legislation that would establish a first-of-its-kind reporting database on the number of animals used in research, testing, and education. The bill (AB889) was introduced by Assemblymember Brian Maienschein. After extensive lobbying, the bill lost support in the Assembly Health Committee because of misleading lobbying by pro-animal research organizations. The bill will be revisited in 2020.

Also, in California, we supported a bill that would replace the use of live fish as a way to designate waste as hazardous in California, an expensive and lethal practice for tens of thousands of fish every year. The bill has passed both chambers of the California legislature but was vetoed by the governor.

In Rhode Island, Rep. Joseph Solomon introduced HB5267 following media coverage of the Physicians Committee's campaign aimed at convincing Brown University to halt the use of pigs for training emergency medicine residents. Rep. Solomon hoped his bill would make Brown's animal use illegal. The Physicians Committee sent five physicians to testify in support of the bill on Feb. 27. The bill stalled in committee, and the Physicians Committee plans to work on it again in 2020.

At the federal level, the Physicians Committee partnered with Senator Cory Booker's office to write the Food and Drug Administration (FDA) and encourage it to adopt human-based methods for checking injectable pharmaceuticals for contamination from fever-causing bacteria. Current methods use either live rabbits or the blood of horseshoe crabs and are not as accurate as the human-blood-based method. We are awaiting the FDA's response.

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

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

We also hosted a briefing to educate Capitol Hill staff about the need to modernize drug development regulations and featured companies developing next-generation human-based tools for drug development. Modernization of these regulations will lead to safer and more effective drugs and save money and animals. Approximately 100 staff attended.

Direct outreach and educational efforts at federal agencies and international bodies, including the NIH, the FDA, and the Organisation for Economic Co-operation and Development 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 individually and in themed kits at a nominal cost. In FY 2019, more than 18,000 pieces of literature were downloaded from our website, and we fulfilled more than 1,500 physical orders of 96,877 pieces of literature and merchandise (books, DVDs, educational posters, etc.) to locations around the globe. The Physicians Committee Shop was introduced to more than 900 new customers. Our *Vegetarian Starter Kit* continues to be our most popular publication, and we added Dr. Neal Barnard's newest book, *The Vegan Starter Kit*. We are continuing to specifically reach out to physicians and health care professionals to introduce them to our patient education resources including our waiting room literature kits. 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. In FY 2019, we gathered and shipped supplies for more than 130 outreach events.

Medical Services

PCRM Clinic d/b/a Barnard Medical Center (BMC) is a primary care facility providing comprehensive care for adults. Along with providing primary care needs, the clinicians at BMC also offer top-notch specialized care through nutrition and prevention to patients with diabetes, obesity, hypertension, lipid disorders, heart disease, arthritis, and migraines. BMC offers consultation, annual exams, telehealth visits, nutrition counseling, and medical nutrition therapy services. BMC clinicians try to tackle the root causes of the illness by providing extra attention to the patient and help patients adopt a healthier lifestyle.

Although BMC's board-certified physicians, nurse practitioners, and registered dietitians provide state-of-the-art medical care, many of the patients still need more support. While lifestyle changes and nutrition can make a huge difference in a patient's health, it can be hard for patients to adapt to a new lifestyle. That is why the experts at BMC offer lifestyle management for patients to help prevent, treat, and in many cases, reverse some chronic conditions. BMC offers free 12-week nutrition classes to patients and their families to help provide support and to help guide patients with lifestyle changes. The registered dietitians who facilitate discussions host these 12-week nutrition classes and provide nutrition education and tips on how to manage chronic diseases.

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

Note 1: Organization, (continued)

Along with serving communities within Washington, D.C., BMC helps the patients who reside in Maryland and Northern Virginia. BMC accepts various major insurance plans, along with seeing patients without insurance. BMC also offers a sliding fee scale for patients who qualify for financial assistance. Since the opening of the medical center in January 2016, BMC has had more than 12,807 appointments. Along with providing nutrition education to patients and families, BMC also offers educational opportunities for future clinicians. The physicians at BMC currently hold faculty appointments at the George Washington University Medicinal School and the Uniformed Services University of the Health Sciences (USUHS). BMC's medical director has provided multiple lectures and speaking engagements at USUHS to educate students and residents on how to integrate nutrition in medicine. BMC currently offers rotation programs for students and medical residents and has had more than 46 domestic and international participants rotate through the center since January 2018.

BMC clinicians provide nutritional advocacy for the Physicians Committee (controlling organization). They present at national and international medical conferences, such as the American College of Lifestyle Medicine, International Conference on Nutrition in Medicine in Washington, D.C., International Plant-Based Nutrition Healthcare Conference, Medical School Speaking Tour in India, Nutrition Education Lecture at USUHS, Kickstart your Health Rochester, Plant Stock Seminar, and Switch 4 Good Seminar.

BMC offers a robust community outreach program to provide nutrition and lifestyle education to the community. Though BMC primarily serves the Friendship Heights, Chevy Chase, Bethesda, and Tenleytown neighborhoods, BMC has expanded its outreach efforts to communities outside of the district. Within the past year, BMC has extended its outreach efforts to communities in Central and Southern Maryland and Northern Virginia. BMC's physicians, nurse practitioners, and registered dietitians spoke and tabled at many community health fairs, hospitals, and lunch-and-learn programs. Some of these events include the MedStar Georgetown University Hospital's Wellness Fair, the Physicians Committee's Leadership Summit in Washington, D.C., Green Fare, USUHS, Capitol Hill Village Health Exploratorium, Crunch Fitness, lunch-and-learn at American University, American University Benefits and Wellness Fair, VSDC Thanksgiving Gala; *Eating You Alive* screening event, D.C. United Youth Academy, AmeriHealth Caritas D.C. National Nutrition Month event, AmeriHealth Caritas D.C. Wellness Circle Talk, Fairfax VegFest, D.C. VegFest, Southwest Florida VegFest.

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 BMC. All intercompany balances and transactions have been eliminated in consolidation.

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

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

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, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Physicians Committee and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to donor-imposed stipulations that may be met either by actions of the Physicians Committee and/or the passage of time or that are subject to donor-imposed stipulations that may be maintained permanently by the Physicians Committee.

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, 2019, the Physicians Committee received donated materials and advertising, with a calculated fair market value of \$189,318.

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, 2019, the Physicians Committee received donated services, with a calculated fair market value of \$226,000. 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.

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

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

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:

- 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 BMC 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.

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, 2019, no significant conditional contributions existed. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor.

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

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

Contributions, (continued)

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

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, 2019, 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, 2019, the tax filings that are subject to possible examination by major tax jurisdictions are for the years ended July 31, 2018, 2017 and 2016.

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.

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, 2019.

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.

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

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

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries, rent, depreciation, information technology and other expenses are allocated based on estimates of time and effort.

Recently adopted accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958), which supersedes the existing accounting standards for presentation of financial statements. This ASU changes the presentation of the financial statements for the net assets.

Net assets will be presented in two categories; net assets with donor restrictions and net assets without donor restrictions. The ASU also requires additional disclosure about amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits of the use of resources without donor-imposed restrictions as of the end of the period. Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

Qualitative information that communicates how the organization manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date. Quantitative information that communicates the availability of the organization's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet.

Present amount of expenses both by their natural classification and their functional classification. Disclosure of method used to allocate costs among program and support functions.

Reporting of any underwater endowment funds, including policy and any actions taken during the period, aggregate value of such funds, aggregate value of the original gift amount, and the aggregate amount by which the funds are underwater, which are to be classified as part of net assets with donor restrictions.

Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses.

Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

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

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

Recently adopted accounting pronouncements, (continued)

The new standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The organization has adopted this new pronouncement and disclosed the effects on its financial statements as well as its accounting policies and procedures.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, resulting in a one-year deferral of the effective date of ASU No. 2014-09, which will become effective for the Organization on August 1, 2019. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five step process to achieve this principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each performance obligation.

The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of applying the guidance recognized at the date of initial application (the modified retrospective method). The organization has adopted this new pronouncement and disclosed the effects on its financial statements as well as its accounting policies and procedures. In transition, the Physicians Committee utilized the modified retrospective method of implementing ASC 606. It was determined that all performance obligations are satisfied at a point in time and not recognized over time. Therefore, there is no material change to the way the Physicians Committee recognizes revenue as compared to prior periods and therefore no cumulative adjustment as of August 1, 2018.

Recent accounting pronouncements, not yet adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern or expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.

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

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

Recent accounting pronouncements, not yet adopted, (continued)

A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Physicians Committee currently expects that upon adoption of ASU 2016-02, right-of-use assets and lease liabilities will be recognized in the statement of financial position in amounts that will be material.

Note 3: Liquidity and Availability of Financial Assets

Physicians Committee has \$16,258,273 available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash and cash equivalents of \$13,905,962, an anticipated minimum endowment distribution of \$229,529 (per the endowment spending policy), legacies and bequests receivable of \$1,553,751, the expiration of an endowment in April, 2020 of \$710,078, accounts receivable of \$35,888 and donations receivable of 205,666, the sum of which is reduced by (\$382,601) subject to donor restrictions and therefore unavailable for general expenditure. Legacies and bequests receivable and donations receivable are subject to implied time restrictions. Legacies and bequests receivable, donations receivable and accounts receivable are all expected to be collected within one year.

Physicians Committee maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, Physicians Committee maintains three tiers of reserves. Tier 1 reserves (short term) are invested in cash, money market funds and certificates of deposit. Tier 2 reserves (mid-term) are allocated to an investment-grade bond ladder. Tier 3 reserves (long-term) are invested in a quasi-endowed fund. Although Physicians Committee does not intend to spend from its quasi-endowment (other than amounts appropriated for general expenditure as part of the endowment's annual distribution), amounts from its quasi-endowment could be made available with approval from the board of directors, if necessary. The quasi-endowment had a balance of \$4,836,411 (excluding the minimum amount earmarked for annual distribution within one year) on July 31, 2019 and is not reflected in the total financial assets available within one year balance of \$16,258,273.

Note 4: 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.

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

Note 4: Other Receivables, (continued)

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, BMC 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, 2019:

Accrued donations	\$ 153,576
Miscellaneous receivables	118,183
Patient accounts receivable	61,173
Subtotal	332,931
Less: Contractual allowance and uncollectible amounts	(35,515)
Other receivable, net	\$ 297,416

Note 5: Investments

Investments are comprised of the following as of July 31, 2019:

	Other investments	Endowment	Total
Money funds	\$ 3,114,052	\$ 205,202	\$ 3,319,254
Equity securities	1,017,249	3,717,029	4,734,278
Debt securities	6,614,622	1,381,157	7,995,779
Mutual funds - equities	413,540	1,362,496	1,776,036
Mutual funds - fixed income	152,923	570,786	723,709
Exchange Traded Funds	148,756	414,283	563,039
Limited partnership interest	120,278	-	120,278
Certificates of deposit	3,699,535	-	3,699,535
Cash surrender of life insurance policy	12,547	-	12,547
Total	\$ 15,293,502	\$ 7,650,953	\$ 22,944,455
Less: Investments related to restricted and designated funds	1,020,848	7,650,953	8,671,801
Less: Investments restricted to charitable gift annuity obligations	2,593,579	-	2,593,579
Total	\$ 11,679,075	\$ -	\$ 11,679,075

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

Note 5: Investments, (continued)

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, 2019:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Interest and dividend income	\$ 477,706	\$ 70,220	\$ 547,926
Net realized and unrealized gains	322,361	67,832	390,193
Other investment income	1,981	-	1,981
Investment return	<u>\$ 802,048</u>	<u>\$ 138,052</u>	<u>\$ 940,100</u>

As of July 31, 2019, investment advisory fees in the amount of \$89,072 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.

Note 6: 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, 2019:

	Level 1	Level 2	Level 3	Total
Money funds	\$ 3,319,254	\$ -	\$ -	\$ 3,319,254
Equity securities	4,734,278	-	-	4,734,278
Debt securities	7,995,779	-	-	7,995,779
Mutual funds - equities	1,776,036	-	-	1,776,036
Mutual funds - fixed income	723,709	-	-	723,709
Exchange traded funds	563,039	-	-	563,039
Certificates of deposit	3,699,535	-	-	3,699,535
Cash surrender of life insurance policy	-	12,547	-	12,547
Limited partnership interest	-	-	120,278	120,278
Total	<u>\$ 22,811,630</u>	<u>\$ 12,547</u>	<u>\$ 120,278</u>	<u>\$ 22,944,455</u>

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

Note 6: Fair Value Measurements, (continued)

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 valued 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, 2019.

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

	<u>Level 3</u> <u>Investments</u>
Fair value, August 1, 2018	\$ 120,278
Purchase of investment	-
Unrealized gain or (loss)	-
	\$ 120,278

Note 7: 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 created an endowment which shall have a life expectancy of 20 years from the date of the Grantor's death on April 11, 2000. 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 11) 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, 2019, the restricted balance totals \$710,078. The endowment's life has just under 1 year remaining unless events occur to cause an earlier termination.

On June 28, 2018, the Physicians Committee received a restricted donation for their building fund of \$1,000,000. These funds were contributed to The Foundation along with the related donor restrictions. The donor indicated the funds are to be invested in United States treasury debt. The donor also indicated that if an owner-occupied building is not purchased within three years the gift and earned interest can be used for general operating expenses. As of July 31, 2019, the restricted donation had earned \$20,848 of interest income which is included as part of the investment income from net assets with donor restrictions.

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

Note 8: Property and Equipment

At July 31, 2019 property and equipment consists of the following:

Building	\$ 500,270
Membership list	321,142
Equipment	968,323
Land	545,080
Leasehold improvements	1,102,642
Furniture and fixtures	96,754
Digital assets	<u>257,755</u>
 Subtotal	 3,791,966
 Less: Accumulated depreciation	 <u>1,950,500</u>
 Property and Equipment, net	 <u><u>\$ 1,841,466</u></u>

Depreciation expense for the year ended July 31, 2019 was \$360,343. Included in digital assets are costs related to the development of short films related to the Physicians Committee's exempt purpose. When the films are completed and ready for release, they will be amortized over their estimated useful life.

Note 9: Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

Endowment Fund	\$ 1,845,677
Investment in building/endowment	<u>710,078</u>
Total endowment fund	2,555,755
Investment in building	<u>1,020,848</u>
Subtotal	3,576,603
Legacies and bequests receivable for general operations	2,682,173
Donations and pledges receivable for general operations	147,420
Clinical Research, Nutrition Education and Research and Regulatory Affairs	<u>382,602</u>
 Total	 <u><u>\$ 6,788,798</u></u>

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

Note 10: Net Assets Released From Restrictions

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

Research and Regulatory Affairs	\$ 3,644,174
Endowment	67,332
Expiration of time restrictions	2,484,035
	<hr/>
Total	\$ 6,195,541
	<hr/> <hr/>

Note 11: 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.

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.

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

Note 11: Endowment Funds, (continued)

Endowment net asset composition by type of fund as of July 31, 2019:

	<u>Net Assets without restrictions</u>	<u>Net Assets with restrictions</u>	<u>Total</u>
Donor Restricted	\$ -	\$ 2,555,755	\$ 2,555,755
Board-designated	<u>5,095,198</u>	<u>-</u>	<u>5,095,198</u>
Total funds	<u>\$ 5,095,198</u>	<u>\$ 2,555,755</u>	<u>\$ 7,650,953</u>

Changes in endowment net assets for fiscal year ended July 31, 2019:

	<u>Net Assets without restrictions</u>	<u>Net Assets with restrictions</u>	<u>Total</u>
Beginning of year	<u>\$ 4,440,084</u>	<u>\$ 2,504,955</u>	<u>\$ 6,945,039</u>
Contributions	500,000	745	500,745
Investment return:			
Investment income	153,614	49,555	203,169
Net Appreciation (Depreciation) (Realized and Unrealized)	<u>214,205</u>	<u>67,832</u>	<u>282,037</u>
Total endowment income	867,819	118,132	985,951
Distributions	(159,946)	(50,213)	(210,159)
Appropriations for expenditures	<u>(52,759)</u>	<u>(17,119)</u>	<u>(69,878)</u>
End of year	<u>\$ 5,095,198</u>	<u>\$ 2,555,755</u>	<u>\$ 7,650,953</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.

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

Note 11: Endowment Funds, (continued)

Return Objectives and Risk Parameters

The Physicians Committee has adopted investment and spending policies that enhance the value of the PCRME 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 PCRME 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 PCRME 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 PCRME 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.

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 PCRME 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 PCRME Endowment's value and economic conditions.

Thus the PCRME 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 PCRME 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 PCRME Endowment, the Foundation employs unitized

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

Note 11: Endowment Funds, (continued)

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.

Note 12: Operating Leases

The Physicians Committee leases office and storage space in Washington, DC. The lease was amended in September of 2016, extending it for another year, and is now set to expire in 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 December 15, 2019.

Effective December 16, 2019, the Physicians Committee entered into a new lease arrangement for office space. This new lease has several conditions that affect the final outcome and ultimately the amount of lease payments over the lease term. Based on current estimates, the new lease is anticipated to end on July 21, 2034. There are periods of rent abatement that coincide with the leased space becoming available for occupancy.

The Physicians Committee leases photocopying equipment which began in April 2018. As part of the lease agreement, the Physicians Committee will make payments of \$1,711 per month through the end of the lease term which is March 2023.

The Physicians Committee leases data storage and data backup equipment with an off-site vendor which began in January 2018. As part of the lease agreement, the Physicians Committee will make payments of \$2,111 per month through the end of the lease term which is December 2018.

Total rent expense pertaining to space and equipment for the year ended July 31, 2019 was \$676,700.

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

Note 12: Operating Leases, (continued)

Future minimum lease payments under noncancelable leases having remaining terms in excess of 1 year as of July 31, 2019 are as follows:

July 31, 2020	699,364
July 31, 2021	687,182
July 31, 2022	744,715
July 31, 2023	504,250
July 31, 2024	1,508,472
After July 31, 2024	<u>17,322,374</u>
 Total	 <u><u>\$ 21,466,357</u></u>

Note 13: Allocation of Joint Costs

In the fiscal year ended July 31, 2019, 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 \$1,233,362. 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	\$ 859,522
Development	<u>373,839</u>
 Total	 <u><u>\$ 1,233,362</u></u>

Note 14: 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, 2019 was \$705,514.

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 BMC does not have investments. The amount in excess of the Securities Investor Protection Corporation limit as of July 31, 2019 was \$21,811,634. The Physicians Committee monitors the risk, and does not anticipate any credit losses and has not experienced any credit losses on these financial instruments.

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

Note 15: 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, 2019 for the Physicians Committee totaled \$116,262.

Note 16: 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	\$ 1,451,504
Merchandise sales	<u>125,457</u>
Gross sales and services	1,576,962
Cost of goods sold	<u>(45,282)</u>
Gross profit from sales and services	<u><u>\$ 1,531,680</u></u>

Note 17: Reconciliation of The PCR Foundation Program Service to the Physicians Committee Consolidating Statement of Activities

As noted in Note 1 of The PCR Foundation's financial statements, 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, 2019.

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, 2019, 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 17: 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>\$ 267,146</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	\$ 267,146
Development expenses	-
	<u><u>\$ 267,146</u></u>

The PCRM Foundation expenses as presented individually and consolidated:

	Statement of Activities per The PCRM Foundation Financial Statements	Consolidating Statement of Activities per the Physicians Committee Financial Statements	Difference
Expenses			
Program Services			
Support services	\$ 267,146	\$ -	\$ 267,146
Contributions to supported organizations	1,233,159	-	1,233,159
Supporting Services			
Operational expenses	-	267,146	(267,146)
Contributions to supported organizations	-	1,233,159	(1,233,159)
Total Expenses	<u><u>\$ 1,500,305</u></u>	<u><u>\$ 1,500,305</u></u>	<u><u>\$ -</u></u>

Note 18: Correction of Error

During the year ended July 31, 2019, it was determined that costs related to the development of short films related to Physicians Committee exempt purpose should be capitalized and amortized over their useful life. As a result, \$103,975 of costs that were expensed in the fiscal year ended July 31, 2018, have been capitalized as digital assets in the consolidated statement of financial position. The effect of this restatement is to increase beginning net assets without donor restrictions by \$103,975. The digital assets are included in the consolidated statement of financial position as part of property and equipment.

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

Note 19: 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, 2019 through February 4, 2020, 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.
Consolidating Schedule of Financial Position
July 31, 2019

	<u>Assets</u>				
	Physicians Committee for Responsible Medicine, Inc.	The PCRM Foundation	PCRM Clinic D/B/A Barnard Medical Center	Eliminations	Consolidated
Current Assets					
Cash	\$ 746,269	\$ 167,425	\$ 495,368	\$ -	\$ 1,409,062
Investments	5,092,302	6,586,773	-	-	11,679,075
Other receivable, net	238,337	22,235	67,189	(30,345)	297,416
Receivable from legacies and bequests	2,682,173	-	-	-	2,682,173
Inventory	109,990	-	-	-	109,990
Prepaid expenses	313,193	-	42,713	-	355,906
	<u>9,182,264</u>	<u>6,776,433</u>	<u>605,270</u>	<u>(30,345)</u>	<u>16,533,622</u>
Other Assets, deposits	<u>5,478</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,478</u>
Noncurrent Assets					
Investments Related to Restricted and Designated Funds	-	8,671,801	-	-	8,671,801
Investments Restricted to Charitable Gift Annuity Obligations	2,593,579	-	-	-	2,593,579
Property and Equipment, net	1,386,219	302,622	33,045	-	1,721,886
	<u>3,979,798</u>	<u>8,974,423</u>	<u>33,045</u>	<u>-</u>	<u>12,987,266</u>
Total Assets	<u>\$ 13,167,540</u>	<u>\$ 15,750,856</u>	<u>\$ 638,315</u>	<u>\$ (30,345)</u>	<u>\$ 29,526,366</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, 2019
(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	\$ 1,377,354	\$ 1,504	\$ 88,090	\$ (30,345)	\$ 1,436,603
Current portion of annuities payable	105,702	-	-	-	105,702
Current portion of deferred rent credit	29,834	-	-	-	29,834
Total Current Liabilities	1,512,890	1,504	88,090	(30,345)	1,572,139
Long-term Liabilities					
Annuities payable, net of current portion	1,073,057	-	-	-	1,073,057
Deferred rent credit, net of current portion	46,394	-	-	-	46,394
Total Long-term Liabilities	1,119,451	-	-	-	1,119,451
Total Liabilities	2,632,341	1,504	88,090	(30,345)	2,691,590
Net Assets					
Without donor restrictions	7,339,672	7,060,883	550,225	-	14,950,780
Board designated	-	5,095,198	-	-	5,095,198
Total Net Assets Without Donor Restrictions	7,339,672	12,156,081	550,225	-	20,045,978
With donor restrictions	3,195,527	3,593,271	-	-	6,788,798
Total Net Assets	10,535,199	15,749,352	550,225	-	26,834,776
Total Liabilities and Net Assets	\$ 13,167,540	\$ 15,750,856	\$ 638,315	\$ (30,345)	\$ 29,526,366

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, 2019

	Physicians Committee for Responsible Medicine, Inc.	The PCRM Foundation	PCRM Clinic D/B/A Barnard Medical Center	Eliminations	Consolidated
Change in Net Assets Without Donor Restrictions					
Support and Revenue					
Public Support					
Contributions and donations	\$ 5,810,494	\$ 1,702,225	\$ 1,203,674	\$ (3,006,688)	\$ 5,709,705
Legacies and bequests	1,599,920	-	-	-	1,599,920
Grants	618,673	-	-	-	618,673
Net assets released from restrictions:					
Expiration of time restrictions	2,500,701	-	-	-	2,500,701
Satisfaction of purpose restrictions	3,627,508	67,332	-	-	3,694,840
Total Public Support	14,157,296	1,769,557	1,203,674	(3,006,688)	14,123,839
Other Revenue					
Medical services	-	-	439,489	-	439,489
Investment income	215,265	586,783	-	-	802,048
Mailing list rental	-	66,974	-	(16,000)	50,974
Rental and other income	164,192	105,609	554	(211,000)	59,355
Advocacy services	-	-	24,500	(24,500)	-
Merchandise sales and services					
Gross sales and services	1,697,418	-	-	(120,456)	1,576,962
Cost of goods sold	(45,282)	-	-	-	(45,282)
Total Other Revenue	2,031,593	759,366	464,543	(371,956)	2,883,546
Total Support and Revenue	16,188,889	2,528,923	1,668,217	(3,378,644)	17,007,385
Expenses					
Program Services					
Research and Regulatory Affairs	3,786,763	-	-	11,342	3,798,105
Clinical Research	1,101,247	-	-	(33,534)	1,067,713
Nutrition Education	3,588,018	-	-	(13,578)	3,574,440
Legal Advocacy	509,072	-	-	2,253	511,325
Publications	708,048	-	-	3,399	711,447
Education and Policy	2,790,074	1,233,159	-	(3,002,835)	1,020,398
Medical Services	-	-	1,536,092	(156,401)	1,379,691
Communications	2,395,680	-	-	7,392	2,403,072
Total Program Services	14,878,902	1,233,159	1,536,092	(3,181,962)	14,466,191
Supporting Services					
Operational expenses	1,047,158	267,146	102,098	(189,641)	1,226,761
Development expenses	2,128,508	-	-	(7,041)	2,121,467
Total Supporting Services	3,175,666	267,146	102,098	(196,682)	3,348,228
Total Expenses	18,054,568	1,500,305	1,638,190	(3,378,644)	17,814,419
Change in Net Assets Without Donor Restrictions	(1,865,679)	1,028,618	30,027	-	(807,034)

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, 2019
(continued)

	Physicians Committee for Responsible Medicine, Inc.	The PCR Foundation	PCR Clinic D/B/A Barnard Medical Center	Eliminations	Consolidated
Change in Net Assets With Donor Restrictions					
Contributions and donations	3,855,824	17,412	-	-	3,873,236
Legacies and bequests	653,751	-	-	-	653,751
Grants	-	-	-	-	-
Investment income	-	138,052	-	-	138,052
Net assets released from restrictions:					
Expiration of time restrictions	(2,500,701)	-	-	-	(2,500,701)
Satisfaction of program restrictions.	(3,627,508)	(67,332)	-	-	(3,694,840)
Change in Net Assets With Donor Restrictions	<u>(1,618,634)</u>	<u>88,132</u>	<u>-</u>	<u>-</u>	<u>(1,530,502)</u>
Total Change in Net Assets	<u>\$ (3,484,313)</u>	<u>\$ 1,116,750</u>	<u>\$ 30,027</u>	<u>\$ -</u>	<u>\$ (2,337,536)</u>

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