

**Physicians Committee for
Responsible Medicine, Inc.
Consolidated Financial Statements
and Supplementary Information
July 31, 2021**

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, 2021, 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, 2021, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position and activities on pages 32 through 35 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 28, 2022

Physicians Committee for Responsible Medicine, Inc.
Consolidated Statement of Financial Position
July 31, 2021

Assets

Current Assets	
Cash	\$ 1,351,350
Investments	16,627,245
Other receivable, net	1,607,577
Receivable from legacies and bequests	486,643
Inventory	89,585
Prepaid expenses	546,888
Total Current Assets	20,709,288
Other Assets, deposit	1,811
Investments Related to Restricted and Designated Funds	10,752,266
Investments Restricted to Charitable Gift Annuity Obligations	3,412,856
Property and Equipment, net	1,296,275
Total Assets	\$ 36,172,496
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable and accrued expenses	\$ 1,316,175
Deferred revenue	6,249
Current portion of annuities payable	135,176
Total Current Liabilities	1,457,600
Long-term Liabilities	
Annuities payable, net of current portion	1,169,978
Paycheck Protection Program loan payable	185,000
Deferred rent credit	1,370,062
Total Long-term Liabilities	2,725,040
Total Liabilities	4,182,640
Net Assets	
Without donor restrictions	19,987,208
Board designated	8,557,430
Total Net Assets Without Donor Restrictions	28,544,638
With donor restrictions	3,445,218
Total Net Assets	31,989,856
Total Liabilities and Net Assets	\$ 36,172,496

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, 2021

	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	\$ 10,189,883	\$ 1,998,931	\$ 12,188,814
Legacies and bequests	3,329,234	398,221	3,727,455
Grant income	2,889,422	-	2,889,422
Net assets released from restrictions:			
Expiration of time restrictions	1,343,793	(1,343,793)	-
Satisfaction of program restrictions	2,961,968	(2,961,968)	-
Total Public Support	<u>20,714,300</u>	<u>(1,908,609)</u>	<u>18,805,691</u>
Other Revenue			
Medical services	492,837	-	492,837
Investment income	2,754,106	429,503	3,183,609
Mailing list rental	88,015	-	88,015
Rental and other income	186,733	-	186,733
Merchandise sales and services			
Gross sales and services	811,390	-	811,390
Cost of goods sold	(6,840)	-	(6,840)
Total Other Revenue	<u>4,326,240</u>	<u>429,503</u>	<u>4,755,743</u>
Total Support and Revenue	<u>25,040,540</u>	<u>(1,479,106)</u>	<u>23,561,434</u>
Expenses			
Program Services			
Research and Regulatory Affairs	4,245,714	-	4,245,714
Clinical Research	720,327	-	720,327
Nutrition Education	2,746,076	-	2,746,076
Legal Advocacy	513,844	-	513,844
Publications	801,962	-	801,962
Education and Policy	589,787	-	589,787
Medical Services	1,405,168	-	1,405,168
Communications	2,463,300	-	2,463,300
Total Program Services	<u>\$ 13,486,178</u>	<u>\$ -</u>	<u>\$ 13,486,178</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, 2021
(continued)

	Net Assets Without Donor <u>Restrictions</u>	Net Assets With Donor <u>Restrictions</u>	<u>Total</u>
Supporting Services			
Operational expenses	\$ 1,555,758	\$ -	\$ 1,555,758
Development expenses	<u>1,907,993</u>	<u>-</u>	<u>1,907,993</u>
Total Supporting Services	<u>3,463,751</u>	<u>-</u>	<u>3,463,751</u>
Total Expenses	<u>16,949,929</u>	<u>-</u>	<u>16,949,929</u>
Change in Net Assets	8,090,611	(1,479,106)	6,611,505
Net Assets, Beginning of Year	<u>20,454,027</u>	<u>4,924,324</u>	<u>25,378,351</u>
Net Assets, End of Year	<u><u>\$ 28,544,638</u></u>	<u><u>\$ 3,445,218</u></u>	<u><u>\$ 31,989,856</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, 2021

	Program Services					
	Research and Regulatory Affairs	Clinical Research	Nutrition Education	Legal Advocacy	Publications	Education and Policy
Salaries, benefits and other personnel expenses	\$ 2,054,024	\$ 351,413	\$ 1,595,965	\$ 246,457	\$ 463,117	\$ 294,833
Member communications	1,115,439	-	25,271	-	-	-
Professional services	300,489	177,044	273,711	195,530	21,369	165,845
General operating expenses	121,981	85,693	218,717	22,682	17,622	57,060
Media and promotion expenses	874	-	118,759	-	-	9,592
Rent and building expenses	429,640	60,545	330,842	38,048	97,004	34,216
Computer, phone, copier	137,817	18,605	121,919	10,985	13,696	22,400
Printing	18,633	19,664	24,825	83	128,367	349
Travel and transportation	1,984	243	1,659	-	-	208
Postage	64,833	7,120	34,408	59	60,787	5,284
Total	\$ 4,245,714	\$ 720,327	\$ 2,746,076	\$ 513,844	\$ 801,962	\$ 589,787
Percent of Total Expenses	25.05%	4.25%	16.21%	3.03%	4.73%	3.48%

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

Medical Services	Communications	Total	Supporting Services			Total Expenses
			Operational	Development	Total	
\$ 1,125,932	\$ 1,120,623	\$ 7,252,364	\$ 790,200	\$ 691,023	\$ 1,481,223	\$ 8,733,587
-	-	1,140,710	31,082	748,710	779,792	1,920,502
132,183	207,843	1,474,014	191,856	128,475	320,331	1,794,345
116,803	51,269	691,827	355,681	28,841	384,522	1,076,349
1,848	746,443	877,516	-	845	845	878,361
2,201	244,685	1,237,181	144,319	135,971	280,290	1,517,471
21,848	90,228	437,498	29,205	97,233	126,438	563,936
3,182	1,421	196,524	11,213	14,527	25,740	222,264
-	478	4,572	14	232	246	4,818
1,171	310	173,972	2,188	62,136	64,324	238,296
<u>\$ 1,405,168</u>	<u>\$ 2,463,300</u>	<u>\$ 13,486,178</u>	<u>\$ 1,555,758</u>	<u>\$ 1,907,993</u>	<u>\$ 3,463,751</u>	<u>\$ 16,949,929</u>
<u>8.29%</u>	<u>14.53%</u>	<u>79.56%</u>	<u>9.18%</u>	<u>11.26%</u>	<u>20.44%</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, 2021

Cash Flows from Operating Activities	
Change in net assets	\$ 6,611,505
Adjustment to reconcile change in net assets to net provided by in operating activities:	
Forgiveness of debt - Paycheck Protection Program loan (Round I)	(1,504,635)
Depreciation	311,422
Realized gain on sale of investments	(547,641)
Unrealized gain on investments	(2,280,578)
Donated investments	(1,772,895)
Loss on disposition of property and equipment	119
Amortization of bond premium and discount	179,491
Change in operating assets and liabilities:	
Increase in other receivables	(516,931)
Decrease in receivable from legacies and bequests	200,426
Decrease in inventory	10,365
Increase in prepaid expenses	(178,121)
Increase in accounts payable and accrued expenses	195,207
Decrease in deferred revenue	(309,875)
Increase in deferred rent credit	795,494
Net Cash Provided By Operating Activities	<u>1,193,472</u>
Cash Flows from Investing Activities	
Reinvestment of matured securities and purchase of investments	(30,775,067)
Proceeds from sale of investments	29,308,838
Proceeds from the sale of property and equipment	1,650
Purchase of property and equipment	(74,317)
Net Cash Used In Investing Activities	<u>(1,538,896)</u>
Cash Flows from Financing Activities	
Proceeds from the Paycheck Protection Program loan (Round II)	185,000
Proceeds from annuity contracts	286,656
Principal payments on annuity contract	(116,438)
Net Cash Provided By Financing Activities	<u>355,218</u>
Increase in Cash	9,794
Cash at Beginning of Year	1,341,556
Cash at End of Year	<u><u>\$ 1,351,350</u></u>
Supplemental Disclosure of Cash Flows Information:	
Interest paid during the year	<u>\$ 45,265</u>
Income taxes paid during the year	<u><u>\$ 3,390</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

We promote alternatives to animal use in research, testing, and education. To improve physician training, we work to replace animals in residency training programs. As a result of our work, only eight of 287 surveyed emergency medicine residencies in the U.S. and Canada continue to use animals. In FY 2021, we launched new campaigns by filing federal complaints to challenge the use of live animals for medical training at the Univ. of Arizona-Tucson and the Univ. of Cincinnati. We urged five other medical schools to modernize their medical training through an advertising campaign. We ended animal use for medical or veterinary training at the Univ. of Virginia, Cleveland Clinic, Tuskegee Univ., and four other medical schools.

Our toxicologists actively promote the development and implementation of nonanimal-based tests for chemical toxicity, including training students and career toxicologists. A monthly webinar series attracts between 150 and 300 scientists, students, and regulators from around the world to each session. The library of webinars was viewed more than 4,000 times in FY 2021. We held the first North American Summer School on Innovative Approaches in Science, offering four days of virtual training content on non-animal science from over 30 speakers to 600 students and early-career students from around the world. Finally, we analyzed human clinical reports to understand which chemicals cause occupational asthma and began to validate human cell-based tests to detect these chemicals before they harm workers.

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

Note 1: Organization, (continued)

Nutrition Education

Nutrition experts and project managers grew a variety of educational programming and outreach centered on promoting a plant-based diet for health. To educate clinicians on plant-based diets, our International Conference on Nutrition in Medicine reached 1,000 people. The Nutrition Guide for Clinicians, a diagnostic and treatment mobile application, reached 8,079 new users, with over 51,000 total users to date. NutritionCME.org brought in 3,272 health care professionals through novel and practical educational content and we provided lectures at 20 medical schools, reaching 945 students. The clinician referral network brought in 73 new providers, for a total of 367 worldwide. The Let's Beat Breast Cancer Campaign reached 7,300 pledges, appeared 5.3 million times on social media, and garnered the support of renowned experts and celebrities who joined together to promote breast cancer risk reduction through four easy nutrition and lifestyle steps. The bilingual 21-Day Vegan Kickstart mobile application has now reached over 350,000 people with menus, recipes, and education and cooking videos to support individuals transitioning to a plant-based diet. Online educational offerings allowed us to reach tens of thousands of people. English and Spanish immersions reached over 8,000 registrants, the Fight Diabetes with Food in India online program reached 4,525 people, and in China, we reached more than 5,700 people through a total of 54 lectures across 30 cities. The Native American Food for Life Online course taught by community leaders reached hundreds of participants. The Food for Life Nutrition and Education Program, via our global network of 300 instructors, reached 6,260 students through more than 1,346 individual classes across 36 U.S. states plus Washington, D.C., and nine other countries.

Clinical Research

We design and conduct 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. Research staff and colleagues published 12 papers in peer-reviewed journals and presented their research at the American Diabetes Association's Scientific Sessions and at the annual meeting of the Association of Diabetes Care and Education Specialists. We finished a 12-week clinical study for employees at Sibley Hospital, tracking their body weight, blood pressure, blood lipids, and glucose control. This study will help in implementing plant-based nutrition in hospitals. We finished a randomized crossover trial, exploring the power of a plant-based diet to reduce pain and inflammation in rheumatoid arthritis. We are currently testing the ability of a vegan diet in combination with soybeans to reduce the number of hot flashes experienced by postmenopausal women, and 72 women have completed the study so far. 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.

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

Note 1: Organization, (continued)

Communications

Working with physicians, health experts, and celebrities who serve as spokespeople, we inform, persuade, and inspire readers through strategic media relations, public relations, digital communications, content generation, social media, celebrity engagement, and advertisements. Our work was featured in traditional news outlets, including The Washington Post, USA Today, ABC News, TODAY, The Wall Street Journal, Politico, and many others. Each month, we reach a potential audience of 100 million by appearing in an average of 120 news outlets. Our social media content created conversations daily among more than 1.4 million followers on 11 social media accounts. In FY 2021, 3.6 million people engaged with our content, up 11.4% from FY 2020. We reached 168 million accounts, up 207% from FY 2020. Our YouTube channel received 9.6 million views in FY 2021 and gained 106,400 subscribers, bringing our total to 212,627. The Exam Room podcast was downloaded more than 2.5 million times during FY 2021 and 5.7 million since its launch in 2018.

Legal Advocacy

Through litigation and petitions, we promote better health and compassionate research practices. In light of the World Health Organization’s determination that processed meat is a carcinogen, we pursued litigation against the California Office of Environmental Health Hazard Assessment for refusing to designate processed meat as a carcinogen, in violation of state law. On behalf of the general public, we sued two federal agencies for withholding public records regarding the federal Dietary Guidelines Advisory Committee, which advises on federal nutrition policy. As a result of these lawsuits, the agencies produced the records. On behalf of our California membership, we also sued the same two agencies to challenge improprieties in the development of the most recent Dietary Guidelines for Americans.

Publications

We support nutrition and research ethics educational efforts through the design and production of print and electronic materials. In FY 2021, more than 600 separately tracked projects were completed, including print and display materials, promotional merchandise, and electronic graphics and e-publications. Good Medicine, the Physicians Committee’s 24-page magazine, keeps members informed and involved. Four issues of Good Medicine were published in FY 2021. Total print distribution was 335,084.

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

Note 1: Organization, (continued)

Education and Policy

We partner to conduct advocacy for plant-based diets. In California, we supported funding to incentivize plant-based meals in public schools. We advocated for an Oregon bill (HB2348) that would require plant-based options in hospitals, prisons, and long-term care facilities. We advocated and built support in the state legislature for three bills in New York, including a measure to expand access to plant-based meals in schools (S1726/A301); a bill to require physicians to take nutrition education (A7695/S5887); and a bill to ban live animal markets. We advocated, including by coordinating testimony from physicians, for a bill in Maryland (HB1071/SB322) to require hospitals and prisons to make plant-based meals available. We continue to advocate for a bill in the District of Columbia to make plant-based foods available to patients, staff, and visitors in all hospitals and expect this measure to be reintroduced in late 2021.

We also conduct 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. In Rhode Island, we advocated for H5295 and S278 aimed at convincing Brown Univ. to halt the use of pigs for training emergency medicine residents. Physicians Committee members testified in support of both bills. We plan to continue this work. In Michigan, we supported the introduction of SB582 to outlaw the use of dogs in painful experiments at public institutions. At the federal level, we lobbied Congress to include report language in the FY 2021 Appropriations bill that directed FDA to modify regulations mandating animal testing and establish a pathway for regulatory acceptance of nonanimal approaches. We hosted a virtual Hill Day event to engage our membership to lobby their Congressmembers to support nonanimal research and testing. Ninety people participated in virtual lobbying meetings, and we reached 48 congressional offices over three days.

Physicians Committee president Neal Barnard, MD, FACC, reached thousands of people through his presentations and community events. He spoke at online events across the U.S. and to 100,000 attendees at the International Conference for Nutrition and Lifestyle Medicine in China. He also presented to medical students and health professionals at several universities and hospitals.

Our ecommerce and fulfillment operation provide educational literature and merchandise to supporters, the health care community, and the public at large on topics relating to nutrition, disease prevention, and ethical science. In FY 2021, our top 25 pieces of literature were downloaded 29,000 times and viewed on our website more than 331,000 times.

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

Note 1: Organization, (continued)

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 offer specialized care through nutrition and prevention to patients with diabetes, obesity, hypertension, lipid disorders, heart disease, arthritis, and migraines. BMC offers consultations, annual exams, medical office visits, telehealth visits, nutrition counseling, and medical nutrition therapy services. Since opening in January 2016, BMC has had more than 21,600 appointments. BMC offers rotation programs for students and medical residents and has had more than 70 domestic and international participants rotate through the center since January 2018.

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.

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. Donated services are recognized as contributions in the accompanying consolidated financial statements 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 year ended July 31, 2021, The Physicians Committee received donated consulting services, advertising, and equipment with a calculated fair market value of \$629,997.

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

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

Cash and Cash Equivalents

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

Inventory

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

Fair Value Measurements

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

- 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.

Patient Receivables and Bad Debts

Patient receivables are reduced by reserves for contractual allowance 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 allowances and provisions for bad debts.

Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the reserves for contractual allowances and uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, BMC analyzes contractually due amounts and provides a reserve for contractual allowances and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). The difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the reserves for contractual allowance and uncollectible accounts. At July 31, 2021, BMC's reserve for contractual allowances and uncollectible accounts was \$40,495.

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

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

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 consolidated statement of financial position.

Revenue Recognition

In May 2014 and March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 and ASU 2016-08, Revenue from Contracts with Customers (Topic 606)" and Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), respectively, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. Under the new standards, the estimate for amounts not expected to be collected based on historical experience will continue to be recognized as a reduction to net revenue. However, subsequent changes in estimate of collectability due to a change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operational expenses.

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

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

Revenue Recognition, (continued)

BMC's revenues generally relate to contracts with patients in which the performance obligations are to provide healthcare services. The Organization recognizes revenues in the period in which obligations to provide health care services are satisfied and reports the amount that reflects the consideration to which the organization expects to be entitled. The Organization's performance obligations are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (e.g., Medicare, Medicaid, managed care health plans, employers and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by or negotiated with the third-party payors. The payment arrangements with third-party payors for the services provided to the related patients typically specify payments at amounts less than the Organization's standard charges. BMC continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in contractual terms resulting from contract renegotiations and renewals.

BMC recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by the policy) for uninsured patients that do not qualify for charity care.

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, 2021, no significant conditional contributions existed. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor.

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as 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

At July 31, 2021, and for the year then ended, The Physicians Committee has determined that there were no material unrecognized/derecognized tax benefits, tax penalties or interest. No provision for income taxes has been made in the accompanying consolidated financial statements. At July 31, 2021, the tax filings that are subject to possible examination by major tax jurisdictions are for the years ended July 31, 2020, 2019 and 2018.

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

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

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.

Functional Allocation of Expenses

The consolidated 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.

Recent accounting pronouncements

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, 2021, including interim periods within those fiscal years.

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 consolidated statement of financial position in amounts that will be material.

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

Note 3: Liquidity and Availability of Financial Assets

Physicians Committee has \$18,384,561 available within one year of the balance sheet date to meet cash needs for general expenditure. The amount consists of the following:

Cash and cash equivalents	\$ 1,351,350
Short-term investments	15,888,586
Minimum endowment distribution	300,000
Receivable from legacies and bequests	486,643
Donations receivable	169,577
Other receivables	<u>1,438,000</u>
	19,634,156
Less: amount subject to donor restrictions and therefore unavailable for general expenditures	<u>(1,249,595)</u>
Total financial assets and other liquid resources	<u><u>18,384,561</u></u>

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 \$8,257,430 (excluding the minimum amount earmarked for annual distribution within one year) on July 31, 2021 and is not reflected in the total financial assets available within one-year balance of \$18,384,561.

In addition to these available financial assets, a significant portion of Physicians Committee's annual expenditures will be funded by current year operating revenues, including contributions and donations, investment income and medical services revenue.

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

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.

The pledges and contributions referred to above are reduced by an allowance for bad debts, 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.

Other receivables are comprised of the following as of July 31, 2021:

Grants receivable	\$ 1,215,537
Accrued donations	169,577
Miscellaneous receivables	178,254
Patient accounts receivable	<u>91,260</u>
Subtotal	1,654,628
Less: Contractual allowance and uncollectible amounts	(40,495)
Less: Allowance for bad debt	<u>(6,556)</u>
Other receivable, net	<u><u>\$ 1,607,577</u></u>

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

Note 5: Investments

Investments are comprised of the following as of July 31, 2021:

	Other Investments	Endowment and Other Investments with Donor Restrictions	Total
Money funds	\$ 281,098	\$ 276,426	\$ 557,524
Equity securities	1,335,198	5,139,283	6,474,481
Debt securities	12,288,603	2,057,865	14,346,468
Mutual funds - equities	562,296	2,264,718	2,827,014
Mutual funds - fixed income	136,217	684,014	820,231
Exchange Traded Funds	205,988	329,960	535,948
Limited partnership interest	325,014	-	325,014
Certificates of deposit	4,892,260	-	4,892,260
Cash surrender of life insurance policy	13,427	-	13,427
Total	\$ 20,040,101	\$ 10,752,266	\$ 30,792,367
Less: Investments related to restricted and designated funds	-	10,752,266	10,752,266
Less: Investments restricted to charitable gift annuity obligations	3,412,856	-	3,412,856
Total	\$ 16,627,245	\$ -	\$ 16,627,245

Realized and unrealized gains and losses are included in the consolidated statement of activities as part of investment income. The following summarizes the investment return for the year ended July 31, 2021:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Foundation:			
Interest and dividend income	\$ 324,802	\$ 28,595	\$ 353,397
Net realized and unrealized gains	2,427,192	400,908	2,828,100
Other investment income	2,112.00	-	2,112.00
Investment return	\$ 2,754,106	\$ 429,503	\$ 3,183,609

As of July 31, 2021, investment advisory fees in the amount of \$111,183 are included in the consolidated schedule of functional expenses which carryover to the consolidated statement of activities. These fees are not included in the investment return presented above.

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

Note 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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money funds	\$ 557,524	\$ -	\$ -	\$ 557,524
Equity securities	6,474,481	-	-	6,474,481
Debt securities	14,346,468	-	-	14,346,468
Mutual funds - equities	2,827,014	-	-	2,827,014
Mutual funds - fixed income	820,231	-	-	820,231
Exchange traded funds	535,948	-	-	535,948
Certificates of deposit	4,892,260	-	-	4,892,260
Cash surrender of life insurance policy	-	13,427	-	13,427
Limited partnership interest	-	-	325,014	325,014
Total	\$ 30,453,926	\$ 13,427	\$ 325,014	\$ 30,792,367

Investments included in Level 3 consist of a limited partnership, limited liability company and a position in a trust. The limited partnership was passed through to the Physicians Committee by way of an estate. The value used is that as provided by the estate.

The limited liability company (LLC) is a small privately held company that is developing software that will generate revenue based on transactions fees. The market for this entity is still under development and its future ability to generate profits is 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, 2021.

The Trust consists of units of ownership which were donated. The Trust's primary asset is in insurance policies. There is no current active market for these units. Because of this lack of available market for any potential disposition of the units the Physicians Committee has made an allowance for the value of the holding equal to 20% of the net asset value of the units held.

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

Note 6: Fair Value Measurements, (continued)

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

	Units in Trust	Private Equity Investment	Total
Fair value, August 1, 2020	\$ 176,818	\$ 120,278	\$ 297,096
Unrealized gains	<u>27,918</u>	<u>-</u>	<u>27,918</u>
Fair value, July 31, 2021	<u>\$ 204,736</u>	<u>\$ 120,278</u>	<u>\$ 325,014</u>

Note 7: Investment Restricted to Investment in Building

On June 28, 2018, the Physicians Committee received \$1,000,000 with donor restrictions. The Physicians Committee was instructed, by the donor, to invest this money in United States treasury debt. In addition, the money was to be spent to purchase a building that Physicians Committee would occupy. Lastly, the donor indicated that if an owner-occupied building was not purchased within three years, the donation, plus any earned interest, can be used for general operating expenses. During the year ended July 31, 2021, the donor restriction expired and the full amount of \$1,031,601 was released from this restriction and moved into another investment which will support the Critical Action Fund (quasi-endowment fund). During the fiscal year ended July 31, 2021, the donation had earned \$165 of interest income which is included as part of the investment income from net assets with donor restrictions.

Note 8: Property and Equipment

At July 31, 2021 property and equipment consists of the following:

Building	\$ 500,270
Membership list	321,142
Equipment	731,413
Land	545,079
Leasehold improvements	1,125,272
Furniture and fixtures	96,754
Digital assets	<u>377,830</u>
Subtotal	3,697,760
Less: Accumulated depreciation	<u>2,401,485</u>
Property and Equipment, net	<u>\$ 1,296,275</u>

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

Note 8: Property and Equipment, (continued)

Depreciation expense for the year ended July 31, 2021 was \$311,421. 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: Paycheck Protection Program Loans

The Physicians Committee and BMC each received loans of \$1,319,635 and \$185,000, respectively, under the Paycheck Protection Program (“PPP”) on April 20, 2020 and May 20, 2020, respectively. The PPP, established as part of the Coronavirus Aid Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying business for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four week period.

As of July 31, 2021, the applications for the round I loan forgiveness have been submitted for both the Physicians Committee and BMC. The round I loans to the Physicians Committee and BMC have been fully forgiven as of July 31, 2021 and are included in the accompanying consolidated statement of activities as part of grant income. In addition, BMC received a second PPP loan for \$185,000 on January 25, 2021. This amount remains outstanding as of July 31, 2021.

The unforgiven portion of the round II PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for ten months after the end of the covered period. Under the CARES Act, the covered period is defined as the 24 week period from the date the loan proceeds are received. As of July 31, 2021, the application for the round II loan forgiveness has not been submitted. If round II loan forgiveness is not obtained, the loan is due to be repaid beginning in June of 2022 with monthly installments of \$7,789 for BMC.

The following are maturities of the round II PPP loan payable for each of the next five years:

	Physicians Committee	Barnard Medical Center	Total
July 31, 2022	\$ -	\$ 15,276	\$ 15,276
July 31, 2023	-	92,191	92,191
July 31, 2024	-	77,533	77,533
July 31, 2025 and thereafter	-	-	-
	\$ -	\$ 185,000	\$ 185,000

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

Note 9: Paycheck Protection Program Loans, (continued)

BMC intend to use the proceeds for purposes consistent with the CARES Act requirements. As of July 31, 2021, no determination had been made as to whether the loans will be forgiven in whole or in part. However, BMC expect the use of the loan proceeds will meet the conditions to achieve full forgiveness under the CARES Act.

Note 10: Employee Retention Credit Receivable

On March 18, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law. Within the act was the Employee Retention Credit (ERC). The ERC is a 50% credit per employee for qualified wages paid up to \$10,000 per year. This was only available for wages paid between March 18, 2020 and December 31, 2020. An employer qualified for this credit one of two ways. First, an employer qualified if they suffered a 50% or greater reduction in gross receipts in a given quarter as compared to the same quarter in 2019. The second way an employer would qualify is if their business was shut down due to government order and that shut down significantly impacted operations. In the original bill included in the CARES Act, an additional provision of the CARES Act was employers that received funding from the paycheck protection program were disqualified employers for purposes of the ERC (See Note 6). Congress amended this with the Consolidation Appropriations Act (CCA). The CCA was signed into law on December 27, 2020, which included many revisions to the CARES Act provisions. The first revision was that employers no longer were disqualified for the ERC if they received PPP funding. The CCA also extended the ERC through June 30, 2021 and increased the credit from 50% per employee per year for qualified wages up to \$10,000 to 70% per employee per quarter for each quarter the employer qualifies in 2021. In addition, the CCA reduced the gross receipts test qualification for employers from a 50% reduction to a 20% reduction for the first and second quarter of 2021.

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law which included language that extended the ERC through December 31, 2021. However, on November 15, 2021, the Infrastructure Investment and Jobs Act repealed the ERC for the fourth quarter of 2021.

In the first quarter of 2021, BMC suffered a greater than 20% reduction in gross receipts as compared to the first quarter of 2019, consequently qualifying for the ERC in that quarter. BMC then utilized the “lookback” provision for the second quarter of 2021. The “lookback” provision allows an employer to “lookback” to the previous quarter when determining their qualified status. This provision was part of the original CARES Act and extended by the CCA and again with the ARPA. Once an employer qualifies for one quarter, they remain qualified until they become no longer qualified, even if gross receipts exceed the test in the subsequent quarter. Therefore, BMC was a qualified employer for the first and remained qualified through the second quarter of 2021. BMC did not meet the gross receipts test in the second quarter of 2021 and therefore their qualified status ended on June 30, 2021. BMC has filed amended payroll tax forms requesting a refund of the ERC. As of July 31, 2021, BMC has requested a refund of the employee retention credit in the amount of \$124,016.

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

Note 10: Employee Retention Credit Receivable, (continued)

In the first quarter of 2021, the Physicians Committee suffered a greater than 20% reduction in gross receipts as compared to the first quarter of 2019, consequently qualifying for the ERC in that quarter. Therefore, the Physicians Committee was a qualified employer for the first and remained qualified through the second quarter of 2021. The Physicians Committee did not meet the gross receipts test in the second quarter of 2021 and therefore their qualified status ended on June 30, 2021. The Physicians Committee has filed amended payroll tax forms requesting a refund of the ERC. As of July 31, 2021, the Physicians Committee has requested a refund of the employee retention credit in the amount of \$1,091,521.

Note 11: Net Assets With Donor Restrictions

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

Endowment Fund	\$ 2,195,623
Legacies and bequests receivable for general operations	486,643
Donations and pledges receivable for general operations	169,577
General operations	16,812
Clinical Research, Nutrition Education and Research and Regulatory Affairs	576,563
Total	\$ 3,445,218

Note 12: Net Assets Released From Restrictions

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

Research and Regulatory Affairs	\$ 1,772,927
Investment in building	1,031,600
Endowment	157,441
Expiration of time restrictions	1,343,793
Total	\$ 4,305,761

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

Note 13: 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 it 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.

Endowment net asset composition by type of fund as of July 31, 2021:

	Net Assets without donor restrictions	Net Assets with donor restrictions	<u>Total</u>
Donor restricted	\$ -	\$ 2,195,623	\$ 2,195,623
Board-designated	8,556,643	-	8,556,643
Total funds	\$ 8,556,643	\$ 2,195,623	\$ 10,752,266

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

Note 13: Endowment Funds, (continued)

Changes in endowment net assets for fiscal year ended July 31, 2021:

	Net Assets without donor restrictions	Net Assets with donor restrictions	<u>Total</u>
Beginning of year	\$ 5,249,284	\$ 1,895,665	\$ 7,144,949
Contributions	2,241,678	27,895	2,269,573
Investment return:			
Investment income	99,359	28,595	127,954
Net Appreciation (Realized and Unrealized)	1,511,324	400,909	1,912,233
Total endowment income	3,852,361	457,399	4,309,760
Distributions	(479,064)	(138,773)	(617,837)
Appropriations for expenditures	(65,938)	(18,668)	(84,606)
End of year	<u>\$ 8,556,643</u>	<u>\$ 2,195,623</u>	<u>\$ 10,752,266</u>

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

Return Objectives and Risk Parameters

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

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

Note 13: Endowment Funds, (continued)

Strategies Employed for Achieving Objectives

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

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

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

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

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

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

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

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

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

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

Note 14: Operating Leases

The Physicians Committee leases office and storage space in Washington, DC.

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 November 30, 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.

Total rent expense pertaining to space and equipment for the year ended July 31, 2021 was \$1,492,595.

Future minimum lease payments under noncancelable leases having remaining terms in excess of 1 year as of July 31, 2021 are as follows:

July 31, 2022	\$ 660,032
July 31, 2023	1,281,183
July 31, 2024	1,380,462
July 31, 2025	1,524,980
July 31, 2026	1,584,859
After July 31, 2026	<u>14,851,002</u>
Total	<u>\$ 21,282,518</u>

Note 15: Allocation of Joint Costs

In the fiscal year ended July 31, 2021, 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 \$1,376,472. 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	\$ 1,040,645
Development	<u>335,827</u>
Total	<u>\$ 1,376,472</u>

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

Note 16: 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, 2021 was \$603,082.

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, 2021 was \$29,453,926. The Physicians Committee monitors the risk, and does not anticipate any credit losses and has not experienced any credit losses on these financial instruments.

Note 17: 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, 2021 for the Physicians Committee totaled \$143,718.

Note 18: 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	\$ 798,616
Merchandise sales	12,774
Gross sales and services	<u>811,390</u>
Cost of goods sold	<u>(6,840)</u>
Gross profit from sales and services	<u>\$ 804,550</u>

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

Note 19: Reconciliation of The PCRM Foundation Program Service to the Physicians Committee Consolidating Statement of Activities

As stated in Note 1 of The PCRM Foundation’s financial statements, The PCRM Foundation was established to support the Physicians Committee and other related charitable organizations. The financial statements of The PCRM Foundation are included in the consolidated financial statements of the Physicians Committee for the year ended July 31, 2021.

The activities of The PCRM 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, 2021, these activities become supporting activities. In addition, The PCRM 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.

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

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	\$ 286,412	\$ -	\$ 286,412
Contributions to supported organizations	1,348,837	1,348,837	-
Supporting Services			
Operational expenses	-	286,412	(286,412)
Total Expenses	<u>\$ 1,635,249</u>	<u>\$ 1,635,249</u>	<u>\$ -</u>

Note 20: 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, 2021 through February 28, 2022, 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. 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, 2021

	<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	\$ 334,528	\$ 447,541	\$ 569,281	\$ -	\$ 1,351,350
Investments	9,035,529	7,591,716	-	-	16,627,245
Other receivable, net	1,403,208	34,654	179,339	(9,624)	1,607,577
Receivable from legacies and bequests	486,643	-	-	-	486,643
Inventory	89,585	-	-	-	89,585
Prepaid expenses	443,401	12,724	90,763	-	546,888
	<u>11,792,894</u>	<u>8,086,635</u>	<u>839,383</u>	<u>(9,624)</u>	<u>20,709,288</u>
Other Assets, deposits	<u>1,811</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,811</u>
Noncurrent Assets					
Investments Related to Restricted and Designated Funds	-	10,752,266	-	-	10,752,266
Investments Restricted to Charitable Gift Annuity Obligations	3,412,856	-	-	-	3,412,856
Property and Equipment, net	1,099,129	183,411	13,735	-	1,296,275
	<u>4,511,985</u>	<u>10,935,677</u>	<u>13,735</u>	<u>-</u>	<u>15,461,397</u>
Total Assets	<u>\$ 16,306,690</u>	<u>\$ 19,022,312</u>	<u>\$ 853,118</u>	<u>\$ (9,624)</u>	<u>\$ 36,172,496</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, 2021
(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	\$ 1,197,573	\$ 23,095	\$ 105,131	(9,624)	\$ 1,316,175
Deferred revenue	6,249	-	-	-	6,249
Current portion of annuities payable	135,176	-	-	-	135,176
Total Current Liabilities	1,338,998	23,095	105,131	(9,624)	1,457,600
Long-term Liabilities					
Annuities payable, net of current portion	1,169,978	-	-	-	1,169,978
Paycheck Protection Program loan payable	-	-	185,000	-	185,000
Deferred rent credit	1,370,062	-	-	-	1,370,062
Total Long-term Liabilities	2,540,040	-	185,000	-	2,725,040
Total Liabilities	3,879,038	23,095	290,131	(9,624)	4,182,640
Net Assets					
Without donor restrictions	11,194,704	8,229,517	562,987	-	19,987,208
Board designated	-	8,557,430	-	-	8,557,430
Total Net Assets Without Donor Restrictions	11,194,704	16,786,947	562,987	-	28,544,638
With donor restrictions	1,232,948	2,212,270	-	-	3,445,218
Total Net Assets	12,427,652	18,999,217	562,987	-	31,989,856
Total Liabilities and Net Assets	\$ 16,306,690	\$ 19,022,312	\$ 853,118	\$ (9,624)	\$ 36,172,496

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, 2021

	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	\$ 10,698,523	\$ 2,305,575	\$ 894,741	\$ (3,708,956)	\$ 10,189,883
Legacies and bequests	3,329,234	-	-	-	3,329,234
Grant income	2,510,406	-	379,016	-	2,889,422
Net assets released from restrictions:					
Expiration of time restrictions	1,343,793	-	-	-	1,343,793
Satisfaction of purpose restrictions	1,756,260	1,205,708	-	-	2,961,968
Total Public Support	19,638,216	3,511,283	1,273,757	(3,708,956)	20,714,300
Other Revenue					
Medical services	-	-	492,837	-	492,837
Investment income	679,256	2,074,820	30	-	2,754,106
Mailing list rental	-	104,015	-	(16,000)	88,015
Rental and other income	290,984	117,065	2,684	(224,000)	186,733
Merchandise sales and services					
Gross sales and services	942,536	-	25,450	(156,596)	811,390
Cost of goods sold	(6,840)	-	-	-	(6,840)
Total Other Revenue	1,905,936	2,295,900	521,001	(396,596)	4,326,240
Total Support and Revenue	21,544,152	5,807,183	1,794,758	(4,105,552)	25,040,540
Expenses					
Program Services					
Research and Regulatory Affairs	4,244,845	-	-	869	4,245,714
Clinical Research	719,376	-	-	951	720,327
Nutrition Education	2,768,743	-	-	(22,667)	2,746,076
Legal Advocacy	513,518	-	-	326	513,844
Publications	801,132	-	-	830	801,962
Education and Policy	2,949,388	1,348,837	-	(3,708,438)	589,787
Medical Services	-	-	1,568,523	(163,355)	1,405,168
Communications	2,461,206	-	-	2,094	2,463,300
Total Program Services	14,458,208	1,348,837	1,568,523	(3,889,390)	13,486,178
Supporting Services					
Operational expenses	1,352,857	286,412	120,720	(204,231)	1,555,758
Development expenses	1,919,924	-	-	(11,931)	1,907,993
Total Supporting Services	3,272,781	286,412	120,720	(216,162)	3,463,751
Total Expenses	17,730,989	1,635,249	1,689,243	(4,105,552)	16,949,929
Change in Net Assets Without Donor Restrictions	3,813,163	4,171,934	105,515	-	8,090,611

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, 2021
(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	1,954,224	44,707	-	-	1,998,931
Legacies and bequests	398,221	-	-	-	398,221
Grant income	-	-	-	-	-
Investment income	-	429,503	-	-	429,503
Net assets released from restrictions:					
Expiration of time restrictions	(1,343,793)	-	-	-	(1,343,793)
Satisfaction of program restrictions.	(1,756,260)	(1,205,708)	-	-	(2,961,968)
Change in Net Assets With Donor Restrictions	(747,608)	(731,498)	-	-	(1,479,106)
Total Change in Net Assets	<u>\$ 3,065,555</u>	<u>\$ 3,440,436</u>	<u>\$ 105,515</u>	<u>\$ -</u>	<u>\$ 6,611,505</u>

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