

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Physicians for Social Responsibility, Inc.
Washington, DC

We have audited the accompanying financial statements of Physicians for Social Responsibility, Inc., which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Physicians for Social Responsibility, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was

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derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Wegner CPAs LLP

Wegner CPAs, LLP
Alexandria, Virginia
April 3, 2018

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 328,844
Pledges receivable	182,007
Prepaid expenses	28,772
	28,772

Total current assets	539,623
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Furniture and equipment - net	13,558
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OTHER ASSETS

Cash restricted for endowment	5,500
Pledges receivable - long-term	10,000
Investments	3,474
Beneficial interest in assets held by The Philadelphia Foundation	29,496
Security deposit	8,746
	8,746

Total other assets	57,216
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Total assets	\$ 610,397
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 22,897
Accrued expenses	3,545
Due to chapters	18,029
Accrued vacation	18,863
Current portion of capital leases payable	6,878
	6,878

Total current liabilities	70,212
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LONG-TERM LIABILITIES

Note payable	100,000
Deferred rent obligation	38,978
Capital leases payable less current portion	7,747
	7,747

Total long-term liabilities	146,725
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Total liabilities	216,937
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NET ASSETS

Unrestricted	119,819
Temporarily restricted	243,141
Permanently restricted	30,500
	30,500

Total net assets	393,460
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Total liabilities and net assets	\$ 610,397
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See accompanying notes.

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	%
SUPPORT AND REVENUE					
Contributions and grants	\$ 833,046	\$ 184,139	\$ 5,500	\$ 1,022,685	77.2%
Membership dues	293,058	-	-	293,058	22.1%
Agency endowment return	-	3,527	-	3,527	0.3%
Interest and dividends	492	969	-	1,461	0.1%
In-kind contributions	1,670	-	-	1,670	0.1%
Other income	1,948	-	-	1,948	0.1%
	<u>1,130,214</u>	<u>188,635</u>	<u>5,500</u>	<u>1,324,349</u>	<u>100%</u>
EXPENSES					
Program services					
Environment and health	291,301	-	-	291,301	20.8%
Security	233,165	-	-	233,165	16.7%
Student	7,999	-	-	7,999	0.6%
Chapter support	185,361	-	-	185,361	13.3%
Joint programs	457,489	-	-	457,489	32.7%
	<u>1,175,315</u>	<u>-</u>	<u>-</u>	<u>1,175,315</u>	<u>84.1%</u>
Supporting activities					
Management and general	106,151	-	-	106,151	7.6%
Fundraising	116,115	-	-	116,115	8.3%
	<u>222,266</u>	<u>-</u>	<u>-</u>	<u>222,266</u>	<u>15.9%</u>
Total expenses	1,397,581	-	-	1,397,581	100%
Net assets released from restrictions	127,280	(127,280)	-	-	
Change in net assets	(140,087)	61,355	5,500	(73,232)	
Net assets - beginning of year	259,906	181,786	25,000	466,692	
Net assets - end of year	<u>\$ 119,819</u>	<u>\$ 243,141</u>	<u>\$ 30,500</u>	<u>\$ 393,460</u>	

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
STATEMENT OF CASH FLOWS
Year ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (73,232)
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Contributions restricted for investment in endowment	(5,500)
Depreciation	7,176
Investment return retained in agency endowment	(3,527)
Decrease in assets	
Pledges receivable	3,630
Prepaid expenses	6,226
Increase (decrease) in liabilities	
Accounts payable	(4,403)
Accrued expenses	(8,993)
Deferred revenue	(942)
Due to chapters	17,229
Accrued vacation	4,967
Deferred rent obligation	19,571

Net cash flows from operating activities (37,798)

CASH FLOWS FROM INVESTING ACTIVITIES

Net change in cash restricted for endowment (5,500)

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on capital leases payable	(6,558)
Proceeds from contributions restricted for investment in endowment	5,500

Net cash flows from financing activities (1,058)

Change in cash (44,356)

Cash - beginning of year	373,200
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Cash - end of year	\$ 328,844
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SUPPLEMENTAL DISCLOSURE

Cash paid for interest	\$ 3,271
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See accompanying notes.

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Physicians for Social Responsibility, Inc. is a non-profit organization located in Washington, D.C. The Organization is dedicated to bringing a medical and public health perspective in its efforts to prevent nuclear war, reverse global warming, and promote clean and renewable energy.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

Temporarily restricted net assets—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets—Net assets that have been restricted by donors to be maintained by the Organization in perpetuity.

Pledges Receivable

Unconditional pledges receivable are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the pledges become unconditional.

Furniture and Equipment

The Organization capitalizes all expenditures for furniture and equipment in excess of \$1,000. Purchased furniture and equipment are carried at cost. Depreciation is computed using the straight-line method.

Investments

Investments in limited partnership interests are carried at cost. Investments consist of a 1% interest in 6th & Pacific Company.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through April 3, 2018, the date which the financial statements were available to be issued.

NOTE 2—FURNITURE AND EQUIPMENT

Furniture and equipment at December 31, 2017 consist of the following:

Furniture	\$ 25,914
Equipment	<u>64,353</u>
Furniture and equipment	90,267
Less accumulated depreciation	<u>(76,709)</u>
Furniture and equipment - net	<u>\$ 13,558</u>

NOTE 3—PLEDGES RECEIVABLE

Pledges receivable at December 31, 2017 are as follows:

Receivable in less than one year	\$ 182,007
Receivable in one to five years	<u>10,000</u>
Pledges receivable	<u>\$ 192,007</u>

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4—FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	Fair Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in assets held by The Philadelphia Foundation	\$ 29,496	\$ -	\$ -	\$ 29,496

The Organization's beneficial interest in assets held by The Philadelphia Foundation represents an agreement between the Organization and The Philadelphia Foundation in which the Organization transfers assets to The Philadelphia Foundation in exchange for future distributions. The beneficial interest is not actively traded and significant other observable inputs are not available. Thus, the fair value of the beneficial interest is measured at the proportional share of the underlying assets as reported to the Organization by The Philadelphia Foundation. Little information about those assets is released publicly. The estimated value does not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

The following table presents additional information about assets measured at fair value on a recurring basis using significant unobservable inputs:

Balance - beginning of year	\$ 25,969
Contributions	-
Change in value of beneficial interest included in change in net assets	3,527
Appropriations	-
Balance - end of year	\$ 29,496

NOTE 5—NOTE PAYABLE

In 2002, the Organization received a loan in the amount of \$100,000 from an unrelated third party. The note is non-interest bearing and is payable on demand with 90 days' notice. The obligation of the Organization to pay the note holder shall terminate with, and be cancelled at, the death of the survivor of the note holder.

NOTE 6—DEFINED CONTRIBUTION PLAN

The Organization established a 403(b) retirement savings plan covering substantially all employees. Participants in the plan may contribute up to the maximum amount permitted by the IRS. At its own discretion, the Organization may elect to contribute an amount which is allocated to participants based on their annual compensation as a percentage of all participants' compensation who are eligible to share. In 2017, there were no contributions made to the plan.

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 7—ENDOWMENT

The Organization's endowment consists of one fund held at The Philadelphia Foundation and other funds held in cash. The Philadelphia Foundation has governance over the investment of funds and distribution of fund assets. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted Massachusetts's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts 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 fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies. The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the original investment of the endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to preserve the earning power of the principal and to grow the principal to at least meet inflation.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both realized and unrealized gains/loss and interest and dividends. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Organization, as far as possible, invests in funds that are fossil fuel free and free from investment in corporations that build nuclear weapons.

Spending Policy. Annually, the Organization's Finance Committee recommends to the Board of Directors the amount of the earnings to be recommended to be disbursed to the Organization from The Philadelphia Foundation. Any undistributed income in excess of amounts required to satisfy the spending rule shall be accumulated and added to the principal.

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 7—ENDOWMENT (continued)

Change in endowment net assets for 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ -	\$ 969	\$ 25,000	\$ 25,969
Contributions	-	-	5,500	5,500
Net appreciation	-	3,787	-	3,787
Administrative fees	-	(260)	-	(260)
Endowment net assets - end of year	<u>\$ -</u>	<u>\$ 4,496</u>	<u>\$ 30,500</u>	<u>\$ 34,996</u>

NOTE 8—LEASES

Office Space

Effective May 2016, the Organization amended its prior office lease agreement and extended the lease 10 years, expiring in April 2026. The lease agreement calls for annual base rent which is scheduled to increase 2.5% each year and also calls for annual additional rent that includes the Organization's pro rata share of real estate taxes and other building operating expenses. The terms of the lease include provisions for a construction allowance up to the amount of \$122,670 and rent abatement, also known as "free rent allowance" for the first two consecutive full months of each of the first four lease years of base rent and additional rent payments.

As of December 31, 2017, the Organization has not used any of the construction allowance. Rent expense for 2017 was \$104,532.

Future minimum payments on the Organization's office lease are as follows:

2018	\$ 87,103
2019	89,063
2020	109,442
2021	111,904
Thereafter	<u>514,443</u>
	<u>\$ 911,955</u>

Capital Leases

The Organization leases equipment under capital leases that expire at various dates through April 2020. The capital leases require monthly payments of principal and interest of \$674. Interest expense for 2017 was \$1,530.

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8—LEASES (continued)

Future minimum payments on the Organization's capital leases are as follows:

2018	\$	7,560
2019		5,976
2020		<u>1,992</u>
Total minimum capital leases payments		15,528
Less the amount representing interest		<u>903</u>
Present value of net minimum capital lease payments		<u><u>\$ 14,625</u></u>

The leased equipment has a cost of \$49,195 and accumulated depreciation of \$35,637 at December 31, 2017.

NOTE 9—NET ASSETS

Temporarily restricted net assets at December 31, 2017 are available for the following purposes or periods:

Communications	\$	25,481
Energy and health		35,422
Security program		40,000
Subsequent years' operations		137,742
Endowment earnings		<u>4,496</u>
Temporarily restricted net assets	<u>\$</u>	<u><u>243,141</u></u>

Permanently restricted net assets at December 31, 2017 consist of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Organization's mission and programming.

NOTE 10—JOINT COSTS

The Organization achieves some of its programmatic goals in direct mail campaigns that include requests for contributions. The costs of conducting those campaigns included a total of \$135,538 of joint costs that are not directly attributable to either the program components or the fundraising component of the activities. Those joint costs in were allocated as follows:

Joint programs	\$	108,430
Fundraising		<u>27,108</u>
Joint costs	<u>\$</u>	<u><u>135,538</u></u>

PHYSICIANS FOR SOCIAL RESPONSIBILITY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
Year ended December 31, 2017

	Program Services					Supporting Activities		Total
	Environment and Health	Security	Student	Chapter Support	Joint Programs	Management and General	Fundraising	
Personnel	\$ 185,546	\$ 166,650	\$ 3,828	\$ 64,173	\$ 231,637	\$ 85,611	\$ 42,675	\$ 780,120
Professional fees	37,763	262	-	-	18,761	95,472	14,625	166,883
Grants and assistance	-	-	-	101,030	-	-	-	101,030
Office expenses	4,669	12,087	-	-	55,525	17,728	19,765	109,774
Conferences and meetings	2,072	1,027	-	35	215	-	-	3,349
Insurance	-	5,974	-	-	-	6,372	-	12,346
Occupancy	-	-	-	-	-	104,532	-	104,532
Advertising	25	75	-	-	25	168	-	293
Information technology	498	887	-	-	45,928	12,720	6,673	66,706
Travel	4,465	1,919	2,370	73	15,458	6,540	10,405	41,230
Interest	-	-	-	-	-	3,271	-	3,271
Depreciation	-	-	-	-	-	7,176	-	7,176
Miscellaneous	-	-	-	-	-	871	-	871
Administrative allocation	56,263	44,284	1,801	20,050	89,940	(234,310)	21,972	-
Total expenses	\$ 291,301	\$ 233,165	\$ 7,999	\$ 185,361	\$ 457,489	\$ 106,151	\$ 116,115	\$ 1,397,581

See accompanying notes.