

MAIL TO:
 Registry of Charitable Trusts
 P.O. Box 903447
 Sacramento, CA 94203-4470
 Telephone (916) 445-2021

PERIODIC REPORT

TO ATTORNEY GENERAL OF CALIFORNIA
 Section 12586, California Government Code

Failure to file this report by the 15th day of the fifth month after the close of your accounting period may result in the loss of your tax exemption and the assessment of a minimum tax of \$800 plus interest.

ACCOUNTING PERIOD — For the Year Beginning January 1, 19 98 and Ending December 31, 19 98

If address changed check here and show changes below
 USE THIS PEEL-OFF LABEL ON CT-2 FORMS SUBMITTED.

• **USUAL YEAR ENDED 12/31/1998**
 - **PEOPLE'S MEDICAL SOCIETY INC**
 - **C/O KAREN KEMMERER**
 - **462 WALNUT ST.**
 - **ALLENTOWN PA 18102**

State Charity registration number (If unknown, leave blank) CT 0579119

Corporate or Organization No. _____

- A. Is the organization exempt from federal income tax?

Yes	No
X	
- B. If "no", is this entity a split-interest trust? If "no", affix Exhibit A to explain your federal tax status.

Yes	No

PART I FILING REQUIREMENTS: CHECK ONE BOX AND ATTACH THE REQUIRED IRS FORMS

- This entity is **not** a private foundation. We have attached a completed copy of IRS Form 990 or 990EZ, and Schedule A (Form 990) and related attachments (even though we may not be required to file these uniform forms with the IRS). Omit Part III below.
- This entity is a private foundation. We have attached a completed copy of IRS Form 990-PF and related attachments. Complete all Parts below.

PART IA ACTIVITIES: ENTER AMOUNTS AND CHECK BOX See attached 990 Form		Yes	No
Gross receipts \$ _____	Total assets \$ _____		
Are the program activities of this entity limited solely to grantmaking?			X

PART II STATEMENTS REGARDING THIS ORGANIZATION DURING THE PERIOD OF THIS REPORT		Yes	No
1 Was 50% or more of your total revenue from government agencies? (See line 1 instructions) 1	If "yes", check below the government agencies and the total grant amounts received from each. 1(a) Federal <input type="checkbox"/> _____, 1(b) State <input type="checkbox"/> _____, 1(c) City <input type="checkbox"/> _____, 1(d) County <input type="checkbox"/> _____		X
2 Were you audited by any government agency which resulted in audit exceptions in excess of \$50,000 being taken? 2	If "yes", attach a copy of the audit report. Enter here the total exceptions. 2a \$ _____		X
3 Did an auditor or accountant issue a report on your financial statements? 3	If "yes", enter: Accountant's or Auditor's Name <u>Buchno Lisicky & Co.</u> Telephone <u>610) 821-8580</u>	X	
4 Were there any contracts, loans, leases or other financial transactions between the organization and any officer, director or trustee thereof either directly or with an entity in which any such officer, director or trustee had any financial interest? (Exclude the payment of life insurance on an officer or director; financing the principal residence of officer; compensation for services disclosed on the List of Officers, Directors and Trustees on Form 990, Part V; Form 990EZ, Part IV; or Form 990PF, Part VII.) 4	If "yes", attach a full explanation. Enter here the amount involved. 4a \$ _____		X
5 Did you transfer or donate anything to an organization that is not tax-exempt under Section 501 (c) (3) or 501 (c) (4) of the IRC? 5	If "yes", attach a justification of why noncharitable entities receive your charitable property. Enter here the fair market value of the donations. 5a \$ _____		X
6 Did this organization regularly solicit salvage, sell salvage in a thrift store, or was it a party to a contract involving the solicitation or sale of salvage? If "yes", include amounts on Form 990, line 10. 6			X
7(a) Was there any theft, embezzlement, diversion or misuse of your charitable property or funds? If "yes", attach a schedule giving a full and complete explanation. 7(a)			X
7(b) Were any of your officers, directors or trustees named in any court action in which it was alleged that any trust or fiduciary duty was breached? If "yes", attach a statement giving a full and complete explanation. 7(b)			X
7(c) Were there any allegations of theft, embezzlement, diversion, or misuse of funds or property by officers, directors, trustees or employees which were investigated by your organization? If "yes", attach a statement giving a full and complete explanation. 7(c)			X
8 Were any organization funds used to pay any penalty, fine or judgment? 8	If "yes", attach a full explanation. Enter here the total amount involved. 8a \$ _____		X

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Signature

Filed this report, including accompanying documents, schedules and statements, and to the best of my knowledge and belief.

Organization's area code and telephone number (610) 770 - 1670
Charles B. Inlander President **July 29, 1999**
 Printed Name Title Date

- 9 Did a fundraising consultant or commercial fundraiser receive any payment from you, or retain any money from fundraising on your behalf? 9
 If "yes", complete Part IV (Form CT-2).
- 10 Did your invested assets total \$50,000 or more? If "yes", complete Part V (Form CT-2) (See line 12 instructions) 10
- 11 Did you receive any income from any bingo game? 11
 If "yes", enter here and on Form 990, line 9a, the gross receipts provided by all bingo players before deductions for any costs or prizes, whether or not all gross receipts were received by your organization.. 11a \$ _____
- 12 Employee compensation of the five highest paid employees: See 990 IRS Schedule A
- (a) Did any individual employee receive salary plus employer contribution to employee benefit plans, expense account or other allowance in excess of \$100,000? President, Charles Inlander 12a
- (b) Other than salary, was compensation, bonuses or other benefits not listed in (a) above of \$10,000 or more, paid any employee? 12b
- (c) Did any employee receive the benefit of a residence for personal use which was owned or leased by the organization? 12c
- (d) Did the organization lease, rent or purchase any equipment, property, or facility to or from an employee or any business entity in which the employee had any financial interest? 12d
 If "yes", enter here the total amount involved. 12d \$ _____
- (e) Did the organization make any loans in excess of \$5,000 to any employee? 12e
 If any of questions 12(a),(b),(c),(d) or (e) are answered "yes", attach specific details to fully explain any "yes" response and fully complete Part I, Schedule A (Form 990).
- 13 Did you make payments totalling over \$50,000 to any independent consultants or contractors other than for (a) fundraising, (b) accounting, (c) legal fees, (d) investment fees? 13
 If "yes", either complete Part II of Schedule A (Form 990) for the five highest paid regardless of the amounts; or, attach a similar schedule of names, addresses, type of service and amounts. Enter here the total of all payments to all independent contractors. 13a \$ _____
- 14 If you incurred or paid any of the following taxes and/or related penalties, enter the amounts in blanks provided.

Tax	Penalty
a. Payroll 14a	See 990 Form
b. Sales (on items you sold) 14b	-0-
c. Personal Property 14c	-0-
d. Real Estate 14d	-0-
e. Unrelated Business Income 14e	-0-

Yes	No
	X
	X
	X
X	
	X
	X
	X
	X
	X
	X
	X
	X
	X
	X

- 15 Were you named as a beneficiary to receive a portion of commercial transactions (commercial co-ventures, joint venture marketing, or cause-related marketing)? 15
 If "yes", enter here the gross amount received. 15a \$ _____

PART III ADDITIONAL INFORMATION FROM PRIVATE FOUNDATIONS ONLY

16 Did you file a Form 4720 with the Internal Revenue Service? 16
 If "yes", attach a copy of Form 4720 and enter here the amount of total taxes paid with that return. 16a

Yes	No
	X

PART IV FUNDRAISING CONSULTANT OR COMMERCIAL FUNDRAISER (FC-CFR) (SEE QUESTION 9)

	ACTIVITY #1	ACTIVITY #2	ACTIVITY #3**	TOTAL
17 Brief Description of Campaign, Drive, Event, or Services	N/A Only Direct Mail to members.			
18 Date or Period Covered				
19 Name of FC-CFR				
20 Address of FC-CFR				
21 Gross Receipts from Donors*			21	
22 Total Retained by or Paid to FC-CFR			22	—
23 All Other Fund-Raising Expenses			23	—
24 Net Proceeds (Line 21 Less 22 and 23)			24	

* On line 21, do not deduct any costs from gross donations.

** NOTE: If more than three activities, attach a schedule using the same format and include amounts in Part IV totals.

PART V SUMMARY OF INVESTMENTS TOTALING \$50,000 OR MORE (SEE QUESTION 10)

25 Securities, beginning of year at cost	25	N/A
26 Securities acquired, at cost or original basis	26	N/A
27 Securities sold, at cost or original basis (may include sales expenses)	27	— N/A
28 Securities, end of year at cost	28	N/A
29 Securities, end of year at market value	29	N/A
30 Sum of all gains on sales during the year	30	N/A
31 Sum of all losses on sales during the year	31	— N/A
32 Dividends and interest from securities (990, line 5 or 990-PF, Part I, line 4, column (a))	32	N/A
33 Total return realized (line 65 less line 66, plus line 67)	33	N/A
34 Less all fees, salaries, and other costs incurred to earn investment income	34	— N/A
35 Net return realized from investments in securities (line 68 less line 69)	35	N/A

Has this organization engaged in, purchased, sold or held during the year:

	Yes	No
36 Investments (any type) which produce no current income?		X
37 Investments (any type) worth one half or less of original basis?		X
38 Securities on margin?		X
39 Warrants, puts, calls, options, commodity futures, or short sales?		X
40 Stocks rated "Speculative Grade" by Moody's, or ranked "B-" or lower by Standard & Poor's?		X
41 Securities not publicly traded?		X
42 Municipal bonds or similar tax-exempt securities which yield less than taxable securities?		X
43 Stock in which an officer, director or trustee owns 10% or more of the outstanding shares?		X

If "yes" on any line from 36-43, attach a full explanation including original basis and current value.

Buckno Lisicky & Company

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
People's Medical Society
Allentown, Pennsylvania

We have audited the accompanying statement of financial position of People's Medical Society (the "Society") as of December 31, 1998 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Society for the year ended December 31, 1997, were audited by other auditors whose report dated March 3, 1998, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of People's Medical Society as of December 31, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Allentown, Pennsylvania
May 10, 1999

Buckno Lisicky + Company

PEOPLE'S MEDICAL SOCIETY

STATEMENTS OF FINANCIAL POSITION
December 31, 1998 and 1997

ASSETS	<u>1998</u>	<u>1997</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,282	\$ 45,619
Accounts receivable	135,507	361,620
Books and printed materials	255,040	318,737
Prepaid expenses	<u>795</u>	<u>2,704</u>
 Total current assets	 <u>392,624</u>	 <u>728,680</u>
PROPERTY AND EQUIPMENT		
Equipment	75,122	80,586
Leasehold improvements	<u>14,613</u>	<u>14,613</u>
	89,735	95,199
Less: accumulated depreciation	<u>66,275</u>	<u>66,135</u>
 Total property and equipment	 <u>23,460</u>	 <u>29,064</u>
 Total assets	 <u>\$ 416,084</u>	 <u>\$ 757,744</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Short-term borrowings	\$ 245,000	\$ 250,000
Accounts payable	351,289	244,217
Accrued payroll and related liabilities	11,758	27,994
Deferred income	<u>28,302</u>	<u>3,123</u>
 Total current liabilities	 <u>636,349</u>	 <u>525,334</u>
 DEFERRED COMPENSATION	 <u>110,132</u>	 <u>93,607</u>
 Total liabilities	 <u>746,481</u>	 <u>618,941</u>
 UNRESTRICTED NET ASSETS (DEFICIT)	 <u>(330,397)</u>	 <u>138,803</u>
 Total liabilities and net assets	 <u>\$ 416,084</u>	 <u>\$ 757,744</u>

See Notes to Financial Statements

PEOPLE'S MEDICAL SOCIETY

STATEMENTS OF ACTIVITIES
Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
REVENUES		
Membership fees	\$ 152,523	\$ 148,664
Contributions	81,055	84,085
Books	781,431	1,426,922
Minor publications	8,347	30,329
Other	<u>7,386</u>	<u>8,498</u>
Total revenue and support	<u>1,030,742</u>	<u>1,698,498</u>
EXPENSES		
Program services:		
Public education	100,620	62,560
Books	1,047,870	1,240,033
Publications	113	1,166
Member services	121,549	131,027
Supporting services:		
General administration	204,169	199,726
Fund raising	<u>25,621</u>	<u>15,237</u>
Total expenses	<u>1,499,942</u>	<u>1,649,749</u>
CHANGE IN UNRESTRICTED NET ASSETS	(469,200)	48,749
UNRESTRICTED NET ASSETS, beginning of year	<u>138,803</u>	<u>90,054</u>
UNRESTRICTED NET ASSETS, end of year	<u>\$ (330,397)</u>	<u>\$ 138,803</u>

See Notes to Financial Statements

PEOPLE'S MEDICAL SOCIETY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (469,200)	\$ 48,749
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,657	11,442
(Increase) decrease in assets:		-
Accounts receivable	226,113	(253,951)
Contributions receivable	-	70,000
Books and printed materials	63,697	(167,669)
Prepaid expenses	1,909	59,783
Increase (decrease) in liabilities:		
Accounts payable	107,072	129,916
Accrued payroll and related expenses	(16,236)	(2,968)
Deferred income	25,179	(130,423)
Deferred compensation	<u>16,525</u>	<u>14,516</u>
Net cash used in operating activities	<u>(35,284)</u>	<u>(220,605)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	<u>(4,053)</u>	<u>(11,123)</u>
Net cash used in investing activities	<u>(4,053)</u>	<u>(11,123)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments on) short-term borrowings	<u>(5,000)</u>	<u>175,000</u>
Net cash provided by (used in) financing activities	<u>(5,000)</u>	<u>175,000</u>
Decrease in cash and cash equivalents	(44,337)	(56,728)
Cash and cash equivalents:		
Beginning	<u>45,619</u>	<u>102,347</u>
Ending	<u>\$ 1,282</u>	<u>\$ 45,619</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 21,603</u>	<u>\$ 16,744</u>

See Notes to Financial Statements

PEOPLE'S MEDICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

People's Medical Society (the "Society"), located in Allentown, Pennsylvania, is the nation's largest consumer health advocacy organization and is also a publisher of health care related books and newsletters. The Society was founded in 1982 as a nonprofit corporation. The purpose of the Society is to promote self-help health care and provide educational materials to the general public.

Note 2. Summary of Significant Accounting Policies

Use of estimates:

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

Income taxes:

People's Medical Society is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and cash equivalents:

For the purpose of the statements of cash flows, the Society considers all investments with a maturity of three months or less to be cash equivalents.

Book inventory

Book inventory is stated at cost, which is not in excess of market.

Equipment and leasehold improvements:

All acquisitions of equipment are recorded at cost and depreciated using the straight line method over the equipment's useful lives, which is 5-10 years. Leasehold improvements are recorded at cost and depreciated over the term of the lease.

Deferred income

The Society records subscription receipts as deferred revenue and amortizes amounts into income over the term of the subscriptions.

The Society records book writing advances as deferred revenue when received. The deferred advances are recognized as income on a case by case basis as dictated by underlying contracts.

Membership fees

Membership fees are included in revenue when received since they are substantially the same as contributions.

PEOPLE'S MEDICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

Functional allocation of expenses:

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 programs and supporting services benefited.

Note 3. Short-Term Borrowings

Short-term borrowings consisted of the following as of December 31, 1998 and 1997:

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
Line of credit, \$100,000 limit, expires June, 1999	\$ 100,000	\$ 100,000
Line of credit, \$175,000 limit, expires June, 1999	<u>145,000</u>	<u>150,000</u>
	<u>\$ 245,000</u>	<u>\$ 250,000</u>

These lines of credit carry interest rates of prime plus ½ % (8.75% and 9.0% at December 31, 1998 and 1997, respectively) and are secured by a first lien security interest in all of the Society's accounts receivable and inventory. Total interest expense related to the Society's borrowings for the years ended December 31, 1998 and 1997, amounted to \$24,682 and \$18,572, respectively.

Note 4. Pension Plan

People's Medical Society has a defined contribution pension plan that covers substantially all employees. Contributions to the plan are generally made at the discretion of the Board. Employees may make voluntary contributions to the plan up to 10% of their compensation. The Society's pension expense for the years ended December 31, 1998 and 1997 was \$0 and \$20,000.

Note 5. Operating Lease

The Society leases office space under an operating lease agreement which expires on December 31, 2000. Future minimum annual lease payments under this agreement are \$40,225 for the years ending December 31, 1999 and 2000. Rental expense for the years ended December 31, 1998 and 1997 was \$40,225 and \$36,900, respectively.

Note 6. Related Party Transactions

A member of the Society's Board of Directors is a partner in a law firm, which is engaged by the Society primarily as a business agent. Expenses incurred in relation to services provided by this firm were approximately \$847 and \$600 for the years ended December 31, 1998 and 1997, respectively.

The law firm acted as an agent in a publishing agreement entered into by the Society. The law firm received \$14,400 as an agent fee for its services related to the agreement.

PEOPLE'S MEDICAL SOCIETY

NOTES TO FINANCIAL STATEMENTS

Note 7. Major Customers

The Society had book sales to three customers in excess of 10% of total revenue and support for the year ended December 31, 1998. The sales to these three customers represented 16%, 15% and 12%, respectively, of total revenue and support. Accounts receivable from these three customers as of December 31, 1998 was \$0, \$35,063 and \$15,000, respectively.

Note 8. Subsequent Event

On April 29, 1999, the Society signed a letter of intent with Franklin Health, Inc.(FHI) to provide the content of certain books published by the Society on internet sites operated by FHI. The agreement provides for the Society to provide content licensing, editorial and consulting services related to the material to be published on the internet. Society management believes that the agreement will provide the Society with approximately \$400,000 of additional revenue for the year ending December 31, 1999.