

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Financial Statements
for the year ended
December 31, 2013**

Independent Auditor's Report

Board of Governors
National Medical Fellowships, Inc.

We have audited the accompanying financial statements of National Medical Fellowships, Inc. ("NMF") which comprise the statement of financial position as of December 31, 2013 and December 31, 2012 and the related statements of activities, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 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 qualified opinion.

Basis for Qualified Opinion

The permanently restricted net assets did not have adequate support and/or documentation. Management is currently working with legal counsel on researching legal restrictions on the use of these funds.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph on page 1 present fairly, in all material respects, the financial position of National Medical Fellowships, Inc. as of December 31, 2013 and December 31, 2012 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cordon O'Meara Melitz & Donnelly LLP

October 22, 2014

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statement of Financial Position

Assets

	December 31	
	2013	2012
Current assets		
Cash and cash equivalents	\$4,559,674	\$3,884,327
Investments at fair value	28,613	13,240
Receivables and pledges	843,027	3,792,296
Deferred compensation plan assets	207,223	127,766
Prepaid expenses	28,252	17,983
Furniture and equipment, at cost – net	68,184	347
Deferred charges	-	63
Total assets	<u>\$5,734,973</u>	<u>\$7,836,022</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 227,512	\$ 355,225
Deferred compensation plan liability	207,223	127,766
Loan payable	-	4,709
Total liabilities	<u>434,735</u>	<u>487,700</u>
Net assets (deficit)		
Unrestricted	(608,629)	(474,464)
Temporarily restricted	5,754,810	7,668,729
Permanently restricted	154,057	154,057
Total net assets	<u>5,300,238</u>	<u>7,348,322</u>
Total liabilities and net assets	<u>\$5,734,973</u>	<u>\$7,836,022</u>

See notes to financial statements

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statement of Activities

	Year Ended December 31							
	2013			2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue								
Contributions	\$ 256,002	\$ 625,500	\$ -	\$ 881,502	\$ 227,014	\$ 2,618,277	\$ -	\$ 2,845,291
Gala (net of direct benefit costs of \$90,446 and \$144,012 for 2013 and 2012)	311,529	-	-	311,529	379,259	60,350	-	439,609
GE PCLP Program	-	-	-	-	-	3,980,000	-	3,980,000
Other	6,861	-	-	6,861	5,117	-	-	5,117
Net assets released from restrictions	2,539,419	(2,539,419)	-	-	2,040,824	(2,040,824)	-	-
Total revenue	3,113,811	(1,913,919)	-	1,199,892	2,652,214	4,617,803	-	7,270,017
Expenses								
Program services								
Scholarships and awards	544,404	-	-	544,404	365,831	-	-	365,831
Service Learning Programs	1,856,941	-	-	1,856,941	1,564,529	-	-	1,564,529
Public information and alumni relations	587,649	-	-	587,649	312,259	-	-	312,259
Total program services	2,988,994	-	-	2,988,994	2,242,619	-	-	2,242,619
Supporting services								
Fundraising	167,571	-	-	167,571	131,125	-	-	131,125
Management and general	91,402	-	-	91,402	59,600	-	-	59,600
Total supporting services	258,973	-	-	258,973	190,725	-	-	190,725
Total expenses	3,247,967	-	-	3,247,967	2,433,344	-	-	2,433,344
Increase (decrease) in net assets before unrealized gain (loss)	(134,156)	(1,913,919)	-	(2,048,075)	218,870	4,617,803	-	4,836,673
Realized and unrealized gain (loss) in investments	(9)	-	-	(9)	574	-	-	574
Increase (decrease) in net assets	(134,165)	(1,913,919)	-	(2,048,084)	219,444	4,617,803	-	4,837,247
Net assets (deficit), beginning of year	(474,464)	7,668,729	154,057	7,348,322	(693,908)	3,050,926	154,057	2,511,075
Net assets (deficit), end of year	\$ (608,629)	\$ 5,754,810	\$ 154,057	\$ 5,300,238	\$ (474,464)	\$ 7,668,729	\$ 154,057	\$ 7,348,322

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statement of Cash Flows

	Year Ended	
	December 31	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase in net assets	\$(2,048,084)	\$4,837,247
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	13,288	1,409
Donated stock	(14,919)	-
Proceeds from sale of donated stock	14,919	-
Unrealized (gain) on investments	(562)	(574)
Realized loss on investments	571	-
(Increase) decrease in assets		
Receivables and pledges	2,949,269	(2,403,270)
Prepaid expenses	(10,269)	4,485
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(127,713)	(102,422)
Net cash provided by operating activities	<u>776,500</u>	<u>2,336,875</u>
Cash flows from investing activities		
Purchases of investments	(15,579)	(596)
Proceeds from sale of investments	14,345	(17)
Increase in money market investment	(14,148)	-
Net cash (used in) investing activities	<u>(15,382)</u>	<u>(613)</u>
Cash flows (used in) financing activities		
Purchase of fixed assets	(81,062)	-
Repayments of loan payable	(4,709)	(44,651)
Net cash (used in) financing activities	<u>(85,771)</u>	<u>(44,651)</u>
Net increase in cash and cash equivalents	675,347	2,291,611
Cash and cash equivalents, beginning of year	<u>3,884,327</u>	<u>1,592,716</u>
Cash and cash equivalents, end of year	<u>\$4,559,674</u>	<u>\$3,884,327</u>

See notes to financial statements

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Functional Expenses
 Year Ended December 31, 2013
 (with Summarized Comparative Information for the Year Ended December 31, 2012)

	Program Services			Supporting Services			Total 2012 Expenses
	Scholarships And Awards	Service Learning Programs	Public Information and Alumni Relations	Fundraising	Management and General	Total Supporting Services	
Direct program costs	\$ 293,200	\$ 917,681	\$ 104,107	\$ -	\$ -	\$ -	\$ 892,893
Salaries	137,868	492,386	187,107	108,325	59,087	167,412	708,368
Payroll taxes and employee benefits	24,904	88,942	33,798	19,567	10,673	30,240	195,096
Travel, promotion and seminars	13,081	73,666	63,014	3,052	1,664	4,716	112,163
Professional fees	9,220	32,931	12,514	7,245	3,951	11,196	32,127
Outside services	28,978	30,112	72,087	3,726	2,032	5,758	153,272
Telephone and internet	3,913	27,520	6,222	3,074	1,678	4,752	27,862
Website development	-	14,098	13,960	-	-	-	43,928
Postage and delivery	2,102	9,225	17,346	1,158	631	1,789	13,821
Repairs and maintenance	3,420	12,717	4,642	2,688	1,467	4,155	16,167
Office, supplies and printing	8,870	33,958	38,877	3,928	2,143	6,071	54,323
Equipment and leases	1,500	14,263	2,035	1,178	643	1,821	20,021
Occupancy	10,213	52,075	13,861	8,025	4,376	12,401	55,621
Insurance	1,598	15,251	2,168	1,255	685	1,940	15,594
Subscriptions, licenses and warranties	885	25,208	9,599	695	379	1,074	31,238
Bank, administration and merchant fees	2,785	10,240	3,779	2,188	1,193	3,381	7,095
Interest expense	6	24	9	5	3	8	1,747
Miscellaneous	-	-	-	-	-	-	50,599
Depreciation and amortization	1,860	6,644	2,525	1,462	797	2,259	1,409
Total	\$ 544,403	\$1,856,941	\$ 587,650	\$ 167,571	\$ 91,402	\$ 258,973	\$2,433,344

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Functional Expenses
Year Ended December 31, 2012

	Program Services			Supporting Services			Total 2012 Expenses
	Scholarships And Awards	GE Foundation Medical Scholars	Public Information and Community Services	Fundraising	Management and General	Total Supporting Services	
Direct program costs	\$ 190,096	\$ 650,261	\$ 52,536	\$ -	\$ -	\$ -	\$ 892,893
Salaries	92,088	403,770	99,171	77,921	35,418	113,339	708,368
Payroll taxes and employee benefits	25,363	111,205	27,312	21,461	9,755	31,216	195,096
Travel, promotion and seminars	8,245	70,602	29,978	2,295	1,043	3,338	112,163
Professional fees	4,177	18,312	4,498	3,534	1,606	5,140	32,127
Outside services	19,781	63,336	63,061	4,877	2,217	7,094	153,272
Telephone and internet	2,507	19,510	2,759	2,122	964	3,086	27,862
Website development	16	40,370	3,522	14	6	20	43,928
Postage and delivery	1,400	7,589	3,190	1,129	513	1,642	13,821
Repairs and maintenance	1,897	9,892	2,043	1,605	730	2,335	16,167
Office, supplies and printing	3,537	42,801	4,965	2,076	944	3,020	54,323
Equipment and leases	1,621	14,660	1,746	1,371	623	1,994	20,021
Occupancy	5,125	38,670	5,519	4,336	1,971	6,307	55,621
Insurance	1,372	11,057	1,476	1,161	528	1,689	15,594
Subscriptions, licenses and warranties	720	27,727	1,991	550	250	800	31,238
Bank, administration and merchant fees	898	4,126	966	760	345	1,105	7,095
Interest expense	227	996	245	192	87	279	1,747
Miscellaneous	6,578	28,842	7,084	5,566	2,529	8,095	50,599
Depreciation and amortization	183	803	197	155	71	226	1,409
Total	\$ 365,831	\$1,564,529	\$ 312,259	\$ 131,125	\$ 59,600	\$ 190,725	\$2,433,344

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.**Notes to Financial Statements
December 31, 2013 and December 31, 2012****Note 1 – Nature of organization**

National Medical Fellowships, Inc. (“NMF”) was incorporated in 1946 to improve the health of low-income and minority communities by increasing the representation of minority physicians, educators, researchers, policymakers and healthcare administrators in the United States, training minority medical students to address the special needs of their communities and educating the public and policymakers to health problems and needs of underserved populations.

Note 2 – Summary of significant accounting policies**Financial reporting**

NMF is required to report information regarding its financial position and activities in three classes as follows:

Unrestricted net assets

Net assets that are not subject to any donor-imposed stipulations.

Temporarily Restricted net assets

Net assets subject to donor-imposed restrictions on their use that may be met either by actions of NMF or the passage of time.

Primary Care Leadership Program (“PCLP”)

In partnership with GE Foundation, provides future healthcare professionals with an opportunity to experience the challenges and rewards of primary care practice in community health centers across the U.S. This program is open to medical students, nursing, and physician assistance students who are poised to become leader in primary care. PCLP Scholars actively engage in leadership training, independent project activities, and healthcare services relevant to both host sites and academic programs. PCLP Scholars each receive scholarship stipend that is expected to cover travel, living, and lodging expenses during the externship period. PCLP Scholars complete their program requirements during a six week period between the months of June and August.

Permanently Restricted net assets

Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by NMF. Generally, the donors permit NMF to use all or part of the income earned for either general or donor-specified purposes.

NATIONAL MEDICAL FELLOWSHIPS, INC.**Notes to Financial Statements (continued)
December 31, 2013 and December 31, 2012****Note 2 – Summary of significant accounting policies (continued)**Cash equivalents

NMF considers highly liquid assets with a maturity of ninety days or less to be cash equivalents.

Investments and fair value measurements

Investments are recorded at fair value based on publicly quoted market prices. Gains or losses on sale of investments are determined on the average cost basis method.

Fair value measurement establishes a hierarchy that prioritizes the inputs used to measure fair value into three broad levels. All of NMF's investments are measured using Level 1 inputs, which are defined as quotes prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Furniture and equipment

Furniture and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated lives of the assets ranging from three to five years.

Concentrations of credit risk

NMF's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, pledge receivables and investments. At times during the year, cash balances may be in excess of the FDIC insurance limits; however NMF has not experienced any losses on these accounts. NMF places its cash with what it believes to be quality financial institutions. Pledge receivables consist primarily of amounts due from contributors. NMF believes no significant concentrations of credit risk exist with respect to its cash, pledge receivable and investments.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates.

Donated services

NMF receives donated services from volunteers who support NMF's programs and activities. During the 2013 fiscal year, the total number of hours donated by volunteers amounted to approximately 2,600. No amounts have been reflected in the financial statements for donated services in as they do not meet the criteria for recognition under the accounting standards, although they constitute a significant factor in the operation of NMF.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Notes to Financial Statements (continued)
December 31, 2013 and December 31, 2012

Note 2 – Summary of significant accounting policies (continued)

Contributions and net assets released from restrictions

NMF reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional expenses

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

Allowance for doubtful accounts

As of December 31, 2013, NMF deems all accounts receivable to be collectible and, accordingly, does not have an allowance for doubtful accounts for any potentially uncollectible receivables. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and current economic conditions.

Subsequent events

NMF has evaluated events and transactions for potential recognition or disclosure through October 22, 2014, which is the date the financial statements were available to be issued.

Note 3 – Investments

The following is a summary of investments at December 31, 2013 and December 31, 2012 is summarized as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 14,148	\$ 14,148	\$ -	\$ -
Domestic stock	519	748	519	534
Mutual funds				
Henderson Global				
Equity Income	1,924	1,981	1,813	1,641
Lord Abbett Floating Rate	<u>11,662</u>	<u>11,736</u>	<u>11,110</u>	<u>11,065</u>
Total	<u>\$ 28,253</u>	<u>\$ 28,613</u>	<u>\$ 13,442</u>	<u>\$ 13,240</u>

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2013 and December 31, 2012**

Note 4 – Furniture and equipment

Furniture and equipment consists of the following as of December 31, 2013 and December 31, 2012:

	2013	2012
Furniture and equipment	\$ 99,811	\$ 18,749
Less: accumulated depreciation	31,627	18,402
Net property and equipment	\$ 68,184	\$ 347

Note 5 – Lease agreement

During May 2013, NMF expanded its office premises and entered into a new lease which will expire April 2018. The lease requires monthly rent of \$7,000 which will escalate each year up to \$7,878 by the end of the lease. In connection with the lease, NMF made an additional \$7,657 security deposit with the landlord.

In December 2009, NMF entered into a lease agreement for office space, commencing January 2012 for a term of three years through January 2013. The lease required monthly lease payments commencing in February 2010 of \$2,700 plus utilities as defined in the lease agreement.

In January 2012, NMF entered into a lease agreement for office space in Louisiana, commencing January 2013 for a term of two years through December 2013. The lease automatically renews after the termination date for additional terms of one-year periods. The lease requires monthly lease payments of \$1,200. In connection with the lease, NMF delivered to the landlord a security deposit in the amount of \$2,400. During January 2014, NMF added additional space to the existing lease. This will increase the rent by \$500 per month, in addition there is a \$100 utility surcharge per month.

The future minimum lease payments would be as follows:

Fiscal Year	Amount
2014	\$ 107,280
2015	88,250
2016	90,898
2017	93,625
2018	31,514
Total	\$ 411,567

Note 6 – Loan payable

In January 2008, NMF entered into a promissory note for \$200,000 with an interest rate of 6%. This note requires monthly payments of \$3,867, including principal and interest. This promissory note was paid in full January 2013.

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2013 and December 31, 2012**

Note 7 –Temporarily and permanently restricted net assets

NMF reports its restricted net assets in accordance with accounting standards topic 958 – Endowments (formerly FSP 117-1). On September 17, 2010, New York adopted a version of the Uniform Prudent Management of Institutional Funds Act (“NYPMIFA”) to govern how not-for-profit organizations administer and manage endowment assets. NYPMIFA may have an effect on the treatment and classification of endowment earnings, the classification of current endowment net assets and financial statement disclosure. Management is currently reviewing the effects, if any, NYPMIFA will have on NMF as well as waiting for further guidance from the Attorney General’s Office to interpret the law.

Funds with deficiencies

There were no fund deficiencies for the year ended December 31, 2013

The following is a summary of the permanently restricted net assets as of December 31, 2013:

Gerber Foundation	\$ 53,493
Aura E. Severinghaus	35,288
Irving R. Graef	26,747
Halladay	25,803
Lawrence Brown	<u>12,726</u>
Total permanently restricted net assets	<u>\$ 154,057</u>

During 2014, NMF received notification from the Gerber Foundation that the permanent restriction could be treated as temporarily restricted. As a result, in 2014 \$53,493 will be reclassified as temporarily restricted and be called the “Gerber Scholarship in Pediatrics Program.”

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2013 and December 31, 2012**

Note 7 – Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes for the year ended December 31, 2013:

	Balance at <u>12/31/2012</u>	<u>Additions</u>	Released from <u>Restrictions</u>	Balance at <u>12/31/2013</u>
GE Foundation - PCLP	\$5,254,817	\$ -	\$1,274,817	\$3,980,000
GE Foundation – Int'l Program	1,233,733	-	414,512	819,221
Hugh J. Andersen Memorial Scholarship Program	115,935	-	12,500	103,435
WK Kellogg	51,821	-	51,821	-
Aetna Foundation	-	50,000	50,000	-
Gala Scholarships	131,604	-	59,950	71,654
A Narca Betsy and Luca Scholarship	-	5,500	-	5,500
New York Community Trust	-	10,000	10,000	-
Chicago Community Trust	-	185,000	185,000	-
United Health Foundation	-	250,000	-	250,000
GE Foundation – Int'l Equipment Assessment	74,819	-	74,819	-
Kaiser Permanente (East Bay) Community Foundation	800,000	-	400,000	400,000
Victor Grifols Roura Scholarship	6,000	-	6,000	-
The California Wellness Foundation	-	125,000	-	125,000
Total	<u>\$7,668,729</u>	<u>\$ 625,500</u>	<u>\$2,539,419</u>	<u>\$5,754,810</u>

Note 8 – Retirement plans

401(k) plan

NMF has a defined contribution 401(k) Plan (the "Plan") for its eligible employees. Pursuant to the Plan document, participants may elect to defer the maximum amount, as defined by the Internal Revenue Code. NMF contributed 6% of each participant's base compensation after two years of employment. Effective January 1, 2013, NMF adopted a Safe Harbour Plan to replace its existing plan. NMF contributes 3% of the employee's compensation for the year. In addition, it also matches the employee's contributions up to 3%. Plan expense for the year ended December 31, 2013 and December 31, 2012 amounted to \$36,920 and \$26,916, respectively.

NATIONAL MEDICAL FELLOWSHIPS, INC.**Notes to Financial Statements (continued)
December 31, 2013 and December 31, 2012****Note 8 – Retirement plans (continued)****Rabbi trust**

In 2009, the Organization established a Rabbi Trust for a key employee. The Organization makes yearly contributions into the Trust. The Organization contributed \$25,000 in 2013 and \$20,000 in 2012. The assets of the Trust vest with the employee based on the agreement.

During fiscal 2009, the Organization established a 457(b) Plan for a key employee. The Organization does not contribute to the Plan.

The value of the Rabbi Trust and 457(b) Plan has been reflected as a deferred compensation asset and liability.

Note 9 – Related party

A Board Member of NMF is a partial owner of a family company that owns a building in which NMF has leased space. The rent collected, which is nominal, is paid to the company that owns the building.

Note 10 – Tax status

NMF is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). In addition, NMF has been determined by the Internal Revenue Service to be a publicly supported organization, and not a private foundation, within the meaning of Section 170(b)(1)(A)(vi) and 509(a)(1) of the Code. Donors are eligible to receive the maximum charitable tax deduction available for public charities under the Code. As of December 31, 2013, no amounts have been recognized for uncertain income tax positions. NMF’s tax returns for the fiscal year 2011 and forward are subject to the usual review by the appropriate taxing authorities.