

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Financial Statements
for the year ended
December 31, 2016**

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 statements of financial position as of December 31, 2016 and December 31, 2015 and the related statements of activities, functional expenses and cash flows 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 audit opinion.

Opinion

In our opinion, 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, 2016 and December 31, 2015, and the results of its activities, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty + Donnelly LLP

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Financial Position

Assets

	December 31	
	2016	2015
Assets		
Cash and cash equivalents	\$1,230,607	\$2,091,835
Investments, at fair value	74,149	58,677
Receivables and pledges	1,063,773	199,908
Deferred compensation plan assets	283,656	226,244
Prepaid expenses	106,322	159,707
Furniture and equipment, at cost – net	<u>46,095</u>	<u>57,446</u>
Total assets	<u>\$2,804,602</u>	<u>\$2,793,817</u>
Liabilities and Net Assets (Deficit)		
Liabilities		
Accounts payable and accrued expenses	\$ 449,904	\$ 233,468
Deferred compensation plan liability	<u>283,656</u>	<u>226,244</u>
Total liabilities	<u>733,560</u>	<u>459,712</u>
Net assets (deficit)		
Unrestricted	(182,494)	(209,621)
Temporarily restricted	2,179,719	2,443,162
Permanently restricted	<u>73,817</u>	<u>100,564</u>
Total net assets (deficit)	<u>2,071,042</u>	<u>2,334,105</u>
Total liabilities and net assets	<u>\$2,804,602</u>	<u>\$2,793,817</u>

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Activities

	Year Ended December 31							
	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue								
Contributions and grants	\$ 553,312	\$ 2,150,250	\$ -	\$ 2,703,562	\$ 225,595	\$ 2,086,480	\$ -	\$ 2,312,075
Galas (net of direct benefit costs of \$178,080 in 2016 and \$176,848 in 2015)	665,675	-	-	665,675	589,802	-	-	589,802
Other	1,620	-	-	1,620	4,509	-	-	4,509
Net assets released from restrictions	2,413,693	(2,413,693)	-	-	3,509,807	(3,509,807)	-	-
Total revenue	<u>3,634,300</u>	<u>(263,443)</u>	<u>-</u>	<u>3,370,857</u>	<u>4,329,713</u>	<u>(1,423,327)</u>	<u>-</u>	<u>2,906,386</u>
Expenses								
Program services								
Scholarships and awards	620,947	-	-	620,947	590,432	-	-	590,432
Service Learning Programs	2,011,192	-	-	2,011,192	2,787,820	-	-	2,787,820
Public information and alumni relations	658,153	-	-	658,153	554,823	-	-	554,823
Total program services	<u>3,290,292</u>	<u>-</u>	<u>-</u>	<u>3,290,292</u>	<u>3,933,075</u>	<u>-</u>	<u>-</u>	<u>3,933,075</u>
Supporting services								
Fundraising	181,754	-	-	181,754	196,115	-	-	196,115
Management and general	161,952	-	-	161,952	106,977	-	-	106,977
Total supporting services	<u>343,706</u>	<u>-</u>	<u>-</u>	<u>343,706</u>	<u>303,092</u>	<u>-</u>	<u>-</u>	<u>303,092</u>
Total expenses	<u>3,633,998</u>	<u>-</u>	<u>-</u>	<u>3,633,998</u>	<u>4,236,167</u>	<u>-</u>	<u>-</u>	<u>4,236,167</u>
Increase (decrease) in net assets before net realized and unrealized gain (loss) on investments and reclassification	302	(263,443)	-	(263,141)	93,546	(1,423,327)	-	(1,329,781)
Net realized and unrealized gain (loss) on investments	78	-	-	78	(723)	-	-	(723)
Reclassification of permanently restricted net assets	26,747	-	(26,747)	-	-	-	-	-
Increase (decrease) in net assets	27,127	(263,443)	(26,747)	(263,063)	92,823	(1,423,327)	-	(1,330,504)
Net assets (deficit), beginning of year	<u>(209,621)</u>	<u>2,443,162</u>	<u>100,564</u>	<u>2,334,105</u>	<u>(302,444)</u>	<u>3,866,489</u>	<u>100,564</u>	<u>3,664,609</u>
Net assets (deficit), end of year	<u>\$ (182,494)</u>	<u>\$ 2,179,719</u>	<u>\$ 73,817</u>	<u>\$ 2,071,042</u>	<u>\$ (209,621)</u>	<u>\$ 2,443,162</u>	<u>\$ 100,564</u>	<u>\$ 2,334,105</u>

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statement of Cash Flows

	Year Ended	
	December 31	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
(Decrease) in net assets	\$ (263,063)	\$ (1,330,504)
Adjustments to reconcile (decrease) in net assets to net cash (used in) operating activities		
Depreciation and amortization	18,586	17,510
Donated stock	(14,712)	(15,096)
Proceeds from sale of donated stock	14,096	14,786
Unrealized (gain) loss on investments	(695)	429
Realized loss on sale of investments	617	294
(Increase) decrease in assets		
Receivables and pledges	(863,865)	18,432
Prepaid expenses	53,385	(60,620)
Increase in liabilities		
Accounts payable and accrued expenses	<u>216,436</u>	<u>761</u>
Net cash (used in) operating activities	<u>(839,215)</u>	<u>(1,354,008)</u>
Cash flows from investing activities		
Purchases of furniture and equipment	(7,235)	(10,858)
Purchases of investments	(611)	(553)
Increase in money market investment	<u>(14,167)</u>	<u>(14,814)</u>
Net cash (used in) investing activities	<u>(22,013)</u>	<u>(26,225)</u>
Net (decrease) in cash and cash equivalents	(861,228)	(1,380,233)
Cash and cash equivalents, beginning of year	<u>2,091,835</u>	<u>3,472,068</u>
Cash and cash equivalents, end of year	<u>\$ 1,230,607</u>	<u>\$ 2,091,835</u>

See notes to financial statements

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Functional Expenses
 Year Ended December 31, 2016
 (with Summarized Comparative Information for the Year Ended December 31, 2015)

	Program Services			Supporting Services			Total 2015 Expenses
	Scholarships And Awards	Service Learning Programs	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Direct program costs	\$ 275,691	\$1,043,066	\$1,450,406	\$ -	\$ -	\$ -	\$2,061,853
Salaries	184,471	518,824	933,884	115,294	103,765	219,059	1,078,257
Payroll taxes and employee benefits	29,393	82,671	148,807	18,371	16,535	34,906	194,130
Travel, promotion and seminars	9,591	89,593	140,099	2,881	2,592	5,473	138,791
Professional fees	7,208	20,271	41,338	4,505	4,054	8,559	39,966
Outside services	62,647	53,288	237,882	8,514	7,663	16,177	351,586
Telephone and internet	5,855	25,660	38,856	3,659	3,294	6,953	39,690
Website development	1,264	3,555	6,599	790	711	1,501	7,130
Postage and delivery	1,351	4,778	7,821	839	754	1,593	11,640
Repairs and maintenance	4,920	13,836	24,905	3,075	2,767	5,842	28,304
Office, supplies and printing	5,592	20,389	39,105	3,058	2,753	5,811	51,657
Equipment and leases	793	6,271	8,054	495	445	940	13,017
Occupancy	15,216	65,597	99,834	9,510	8,560	18,070	113,673
Insurance	1,949	10,660	15,046	1,218	1,097	2,315	20,883
Subscriptions, licenses and warranties	4,940	19,986	41,595	2,314	2,082	4,396	43,133
Bank, administration and merchant fees	4,223	11,879	21,420	2,640	2,376	5,016	24,947
Miscellaneous	3,241	11,575	19,215	2,547	1,388	3,935	-
Depreciation and amortization	2,602	9,293	15,426	2,044	1,116	3,160	17,510
Total	\$ 620,947	\$2,011,192	\$3,290,292	\$ 181,754	\$ 161,952	\$ 343,706	\$4,236,167

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Functional Expenses
Year Ended December 31, 2015

	Program Services			Supporting Services			Total 2015 Expenses
	Scholarships And Awards	Service Learning Programs	Public Information and Alumni Relations	Total Program Services	Fundraising and General	Supporting Services	
Direct program costs	\$ 273,261	\$1,723,750	\$ 64,842	\$2,061,853	\$ -	\$ -	\$2,061,853
Salaries	150,956	539,128	204,869	894,953	118,608	64,696	1,078,257
Payroll taxes and employee benefits	27,178	97,065	36,885	161,128	21,354	11,648	194,130
Travel, promotion and seminars	8,755	90,263	32,833	131,851	4,490	2,450	138,791
Professional fees	5,595	19,983	7,594	33,172	4,396	2,398	39,966
Outside services	82,443	100,322	145,145	327,910	15,319	8,357	351,586
Telephone and internet	4,535	24,575	5,588	34,698	3,230	1,762	39,690
Website development	998	3,565	1,355	5,918	784	428	7,130
Postage and delivery	1,568	5,856	2,313	9,737	1,232	671	11,640
Repairs and maintenance	3,963	14,152	5,378	23,493	3,113	1,698	28,304
Office, supplies and printing	5,789	31,042	8,593	45,424	4,033	2,200	51,657
Equipment and leases	1,177	8,813	1,597	11,587	925	505	13,017
Occupancy	12,722	68,236	17,266	98,224	9,996	5,453	113,673
Insurance	1,655	14,973	2,246	18,874	1,300	709	20,883
Subscriptions, licenses and warranties	3,892	24,869	10,253	39,014	2,665	1,454	43,133
Bank, administration and merchant fees	3,493	12,473	4,740	20,706	2,744	1,497	24,947
Miscellaneous	-	-	-	-	-	-	-
Depreciation and amortization	2,452	8,755	3,326	14,533	1,926	1,051	17,510
Total	\$ 590,432	\$2,787,820	\$ 554,823	\$3,933,075	\$ 196,115	\$ 106,977	\$4,236,167

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.**Notes to Financial Statements
December 31, 2016 and December 31, 2015****Note 1 – Nature of organization**

The mission of National Medical Fellowships, Inc. (“NMF”) is to provide scholarships and support for underrepresented minority students in medicine and the health professions.

For more than 70 years, as one of America’s first diversity organizations, NMF is the only national organization solely dedicated to providing scholarships and support to medical and health professions students across all minority groups underrepresented in healthcare.* NMF is supported by a network of more than 16,500 Alumni who have serviced tens of millions of patients annually. NMF seeks to identify and nurture tomorrow’s diverse healthcare leaders today, who have the knowledge, skills, cultural competency and commitment to achieve excellence in healthcare for all. Today our mission is more important than ever.

* African Americans, Hawaiian and Alaskan Natives, Hispanics/Latinos, Native Americans, Pacific Islanders, Vietnamese and Cambodians. In 2016, NMF extended eligibility to students with DACA status.

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

NMF reports information regarding its financial position and activities according to three classes of net assets 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.

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.

Cash equivalents

NMF considers highly liquid instruments with an original maturity of ninety days or less to be cash equivalents.

NATIONAL MEDICAL FELLOWSHIPS, INC.**Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015****Note 2 – Summary of significant accounting policies (continued)****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

The NMF capitalizes as furniture and equipment expenditures for assets above a nominal amount with an estimated useful life greater than one year. 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, cash equivalents, pledges receivable and investments. NMF places its cash and cash equivalents with what it believes to be quality financial institutions. 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. Pledges receivable consist primarily of amounts due from contributors. NMF's investments, which consist of money market funds, domestic stock and mutual funds are exposed to various risks such as interest rate, market volatility, liquidity and credit. Due to uncertainty related to the foregoing risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statements of financial position at December 31, 2016. NMF believes no significant concentrations of credit risk exist with respect to its cash, cash equivalents, pledges 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 2016 and 2015 fiscal years, the total number of hours donated by volunteers amounted to approximately 3,437 and 3,265, respectively. No amounts have been reflected in the financial statements for donated services, 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, 2016 and December 31, 2015**

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 statements 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, 2016, NMF deems all receivables 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 June 20, 2017, 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, 2016 and December 31, 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 58,066	\$ 58,066	\$ 43,899	\$ 43,899
Domestic stock	519	1,243	519	1,110
Mutual funds	<u>15,276</u>	<u>14,840</u>	<u>14,680</u>	<u>13,668</u>
Total	<u>\$ 73,861</u>	<u>\$ 74,149</u>	<u>\$ 59,098</u>	<u>\$ 58,677</u>

Note 4 – Furniture and equipment

Furniture and equipment consists of the following as of December 31, 2016 and December 31, 2015:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 129,328	\$ 122,093
Less: accumulated depreciation	<u>83,233</u>	<u>64,647</u>
Net property and equipment	<u>\$ 46,095</u>	<u>\$ 57,446</u>

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015**

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 January 2012, NMF entered into a lease agreement for office space in Louisiana, commencing January 2012 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 2015, NMF added additional space to the existing lease. This increased 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:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 93,625
2018	<u>31,514</u>
Total	<u>\$ 125,139</u>

Note 6 – Permanently and temporarily restricted net assets

NMF reports its restricted net assets in accordance with accounting standards Topic 958 – Endowments. 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 statements disclosure.

Permanently restricted net assets

There were no fund deficiencies for the year ended December 31, 2016.

The following is a summary of the permanently restricted net assets as of December 31, 2016:

Aura E. Severinghaus	\$ 35,288
Halladay	25,803
Lawrence Brown	<u>12,726</u>
Total permanently restricted net assets	<u>\$ 73,817</u>

During 2016, NMF received permission from the Irving B. Graef Fund to release the permanently restricted contribution. As a result, during 2016, \$26,747 was reclassified from permanently restricted to unrestricted general public support, which resulted in a decrease in the balance of permanently restricted net assets from \$100,564 to \$73,817.

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015**

Note 6 – Permanently and temporarily restricted net assets (continued)

Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes for the year ended December 31, 2016:

	<u>Balance at 12/31/2015</u>	<u>Additions</u>	<u>Released from Restrictions</u>	<u>Balance at 12/31/2016</u>
GE Foundation - PCLP	\$1,200,000	\$ 900,000	\$1,200,000	\$ 900,000
Hugh J. Andersen Memorial Scholarship Program	78,435	-	12,500	65,935
Gala Scholarships	109,254	-	82,130	27,124
New York Community Trust	-	18,000	18,000	-
Chicago Community Trust	-	185,000	185,000	-
United Health Foundation	700,000	-	350,000	350,000
The California Wellness Foundation	225,000	-	75,000	150,000
Gerber Scholarships in Pediatrics Program	29,493	-	12,000	17,493
Neal Ball (Mary Ball Carrera Scholarship)	-	2,500	-	2,500
Empire BlueCross BlueShield Foundation	100,980	-	100,980	-
Josiah Macy Jr. Foundation	-	22,000	22,000	-
Wayne Anthony Butts Scholarship	-	2,500	2,500	-
Victor Grifols Roura Scholarships	-	10,000	10,000	-
Empire State Medical Association	-	2,500	2,500	-
Kaiser Permanente	-	1,000,000	333,333	666,667
NYS School of Medicine	-	5,750	5,750	-
Manhattan Central Medical Society Scholarship	-	2,000	2,000	-
Total	<u>\$2,443,162</u>	<u>\$2,150,250</u>	<u>\$2,413,693</u>	<u>\$2,179,719</u>

PCLP (GE-NMF Primary Care Leadership Program) is a summer service – learning program for medical, nursing and physician assistant students, who complete a six week rotation in partner community health centers.

NATIONAL MEDICAL FELLOWSHIPS, INC.**Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015****Note 7 – Retirement plans****401(k) plan**

NMF has a defined contribution 401(k) Plan (the “Plan”) for all eligible employees. Pursuant to the Plan document, participants may elect to defer the maximum amount, as defined by the Internal Revenue Code. 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, 2016 and December 31, 2015 amounted to \$44,451 and \$41,811, respectively

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 both 2016 and 2015. 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 value of the Rabbi Trust and 457(b) Plan has been reflected as a deferred compensation asset and liability.

Note 8 – 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 9 – 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.