

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Financial Statements
for the year ended
December 31, 2014**

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, 2014 and December 31, 2013 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 audit 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, 2014 and December 31, 2013 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.

Condon O'Meara McGearty & Donnelly LLP

April 1, 2015

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Financial Position

Assets

	December 31	
	2014	2013
Current assets		
Cash and cash equivalents	\$3,472,068	\$4,559,674
Investments, at fair value	43,723	28,613
Receivables and pledges	218,340	843,027
Deferred compensation plan assets	203,382	207,223
Prepaid expenses	99,087	28,252
Furniture and equipment, at cost – net	64,098	68,184
Total assets	\$4,100,698	\$5,734,973

Liabilities and Net Assets (Deficit)

Liabilities		
Accounts payable and accrued expenses	\$ 232,707	\$ 227,512
Deferred compensation plan liability	203,382	207,223
Total liabilities	436,089	434,735
Net assets (deficit)		
Unrestricted	(302,444)	(608,629)
Temporarily restricted	3,866,489	5,754,810
Permanently restricted	100,564	154,057
Total net assets (deficit)	3,664,609	5,300,238
Total liabilities and net assets	\$4,100,698	\$5,734,973

See notes to financial statements

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Activities

	Year Ended December 31							
	2014			2013				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue								
Contributions	\$ 234,825	\$ 1,263,000	\$ -	\$ 1,497,825	\$ 256,002	\$ 625,500	\$ -	\$ 881,502
Gala (net of direct benefit costs of \$163,087 in 2014 and \$90,446 in 2013)		114,950	-	610,641	311,529	-	-	311,529
Other	56,402	-	-	56,402	6,861	-	-	6,861
Net assets released from restrictions	3,319,764	(3,319,764)	-	-	2,539,419	(2,539,419)	-	-
Total revenue	4,106,682	(1,941,814)	-	2,164,868	3,113,811	(1,913,919)	-	1,199,892
Expenses								
Program services								
Scholarships and awards	516,697	-	-	516,697	544,404	-	-	544,404
Service Learning Programs	2,392,102	-	-	2,392,102	1,856,941	-	-	1,856,941
Public information and alumni relations	613,019	-	-	613,019	587,649	-	-	587,649
Total program services	3,521,818	-	-	3,521,818	2,988,994	-	-	2,988,994
Supporting services								
Fundraising	179,888	-	-	179,888	167,571	-	-	167,571
Management and general	98,122	-	-	98,122	91,402	-	-	91,402
Total supporting services	278,010	-	-	278,010	258,973	-	-	258,973
Total expenses	3,799,828	-	-	3,799,828	3,247,967	-	-	3,247,967
Increase (decrease) in net assets before net realized and unrealized (loss) on investments and reclassification	306,854	(1,941,814)	-	(1,634,960)	(134,156)	(1,913,919)	-	(2,048,075)
Net realized and unrealized (loss) on investments	(669)	-	-	(669)	(9)	-	-	(9)
Reclassification of permanently restricted net assets	-	53,493	(53,493)	-	-	-	-	-
Increase (decrease) in net assets	306,185	(1,888,321)	(53,493)	(1,635,629)	(134,165)	(1,913,919)	-	(2,048,084)
Net assets (deficit), beginning of year	(608,629)	5,754,810	154,057	5,300,238	(474,464)	7,668,729	154,057	7,348,322
Net assets (deficit), end of year	\$ (302,444)	\$ 3,866,489	\$ 100,564	\$ 3,664,609	\$ (608,629)	\$ 5,754,810	\$ 154,057	\$ 5,300,238

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statement of Cash Flows

	Year Ended	
	December 31	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
(Decrease) in net assets	\$ (1,635,629)	\$ (2,048,084)
Adjustments to reconcile (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	15,510	13,288
Donated stock	(15,229)	(14,919)
Proceeds from sale of donated stock	14,912	14,919
Unrealized loss (gain) on investments	352	(562)
Realized loss on sale of investments	317	571
(Increase) decrease in assets		
Receivables and pledges	624,687	2,949,269
Prepaid expenses	(70,835)	(10,269)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	<u>5,195</u>	<u>(127,713)</u>
Net cash provided by (used in) operating activities	<u>(1,060,720)</u>	<u>776,500</u>
Cash flows from investing activities		
Purchase of furniture and equipment	(11,424)	(81,062)
Purchases of investments	(525)	(15,579)
Proceeds from sale of investments	-	14,345
Increase in money market investment	<u>(14,937)</u>	<u>(14,148)</u>
Net cash (used in) investing activities	<u>(26,886)</u>	<u>(96,444)</u>
Cash flows (used in) financing activities		
Repayments of loan payable	<u>-</u>	<u>(4,709)</u>
Net increase (decrease) in cash and cash equivalents	(1,087,606)	675,347
Cash and cash equivalents, beginning of year	<u>4,559,674</u>	<u>3,884,327</u>
Cash and cash equivalents, end of year	<u>\$ 3,472,068</u>	<u>\$ 4,559,674</u>

See notes to financial statements

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Functional Expenses
 Year Ended December 31, 2014
 (with Summarized Comparative Information for the Year Ended December 31, 2013)

	Program Services				Supporting Services				Total 2013 Expenses
	Scholarships And Awards	Service Learning Programs	Public Information and Alumni Relations	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total 2014 Expenses	
Direct program costs	\$ 275,200	\$1,351,988	\$ 90,952	\$1,718,140	\$ -	\$ -	\$ -	\$1,718,140	\$1,314,988
Salaries	143,975	514,198	195,395	853,568	113,124	61,704	174,828	1,028,396	984,773
Payroll taxes and employee benefits	26,970	96,322	36,602	159,894	21,191	11,559	32,750	192,644	177,884
Travel, promotion and seminars	6,456	111,152	51,742	169,350	3,977	2,169	6,146	175,496	154,477
Professional fees	6,242	22,291	8,768	37,301	4,904	2,675	7,579	44,880	65,861
Outside services	22,234	72,406	148,691	243,331	9,392	5,123	14,515	257,846	136,935
Telephone and internet	3,838	22,191	5,897	31,926	3,016	1,645	4,661	36,587	42,407
Website development	170	14,608	11,345	26,123	134	73	207	26,330	28,058
Postage and delivery	2,405	10,345	8,402	21,152	1,877	1,024	2,901	24,053	30,462
Repairs and maintenance	3,838	13,707	5,209	22,754	3,016	1,645	4,661	27,415	24,934
Office, supplies and printing	2,851	27,706	13,440	43,997	2,240	1,222	3,462	47,459	87,776
Equipment and leases	1,200	9,313	1,629	12,142	943	514	1,457	13,599	19,619
Occupancy	11,128	62,542	15,102	88,772	8,743	4,769	13,512	102,284	88,550
Insurance	1,853	16,145	2,514	20,512	1,456	794	2,250	22,762	20,957
Subscriptions, licenses and warranties	2,831	27,522	9,857	40,210	1,550	846	2,396	42,606	36,766
Bank, administration and merchant fees	3,245	11,588	4,404	19,237	2,549	1,391	3,940	23,177	20,185
Interest expense	-	-	-	-	-	-	-	-	47
Miscellaneous	90	323	123	536	70	38	108	644	-
Depreciation and amortization	2,171	7,755	2,947	12,873	1,706	931	2,637	15,510	13,288
Total	\$ 516,697	\$2,392,102	\$ 613,019	\$3,521,818	\$ 179,888	\$ 98,122	\$ 278,010	\$3,799,828	\$3,247,967

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Statements of Functional Expenses
Year Ended December 31, 2013

	Program Services			Supporting Services			Total 2013 Expenses
	Scholarships And Awards	Service Learning Programs	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Direct program costs	\$ 293,200	\$ 917,681	\$ 1,314,988	\$ -	\$ -	\$ -	\$1,314,988
Salaries	137,868	492,386	817,361	108,325	59,087	167,412	984,773
Payroll taxes and employee benefits	24,904	88,942	147,644	19,567	10,673	30,240	177,884
Travel, promotion and seminars	13,081	73,666	149,761	3,052	1,664	4,716	154,477
Professional fees	9,220	32,931	54,665	7,245	3,951	11,196	65,861
Outside services	28,978	30,112	131,177	3,726	2,032	5,758	136,935
Telephone and internet	3,913	27,520	37,655	3,074	1,678	4,752	42,407
Website development	-	14,098	28,058	-	-	-	28,058
Postage and delivery	2,102	9,225	28,673	1,158	631	1,789	30,462
Repairs and maintenance	3,420	12,717	20,779	2,688	1,467	4,155	24,934
Office, supplies and printing	8,870	33,958	81,705	3,928	2,143	6,071	87,776
Equipment and leases	1,500	14,263	17,798	1,178	643	1,821	19,619
Occupancy	10,213	52,075	76,149	8,025	4,376	12,401	88,550
Insurance	1,598	15,251	19,017	1,255	685	1,940	20,957
Subscriptions, licenses and warranties	885	25,208	35,692	695	379	1,074	36,766
Bank, administration and merchant fees	2,785	10,240	16,804	2,188	1,193	3,381	20,185
Interest expense	6	24	39	5	3	8	47
Depreciation and amortization	1,860	6,644	11,029	1,462	797	2,259	13,288
Total	\$ 544,403	\$1,856,941	\$2,988,994	\$ 167,571	\$ 91,402	\$ 258,973	\$3,247,967

See notes to financial statements.

NATIONAL MEDICAL FELLOWSHIPS, INC.

Notes to Financial Statements December 31, 2014 and December 31, 2013

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 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 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

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.

NATIONAL MEDICAL FELLOWSHIPS, INC.**Notes to Financial Statements (continued)
December 31, 2014 and December 31, 2013****Note 2 – Summary of significant accounting policies (continued)****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, 2014. 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 2014 and 2013 fiscal years, the total number of hours donated by volunteers amounted to approximately 3,800 and 2,600, 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.

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.

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2014 and December 31, 2013**

Note 2 – Summary of significant accounting policies (continued)

Allowance for doubtful accounts

As of December 31, 2014, 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 April 1, 2015, 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, 2014 and December 31:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 29,085	\$ 29,085	\$ 14,148	\$ 14,148
Domestic stock	519	929	519	748
Mutual funds				
Henderson Global				
Equity Income	2,005	1,944	1,924	1,981
Lord Abbett Floating Rate	<u>12,106</u>	<u>11,765</u>	<u>11,662</u>	<u>11,736</u>
Total	<u>\$ 43,715</u>	<u>\$ 43,723</u>	<u>\$ 28,253</u>	<u>\$ 28,613</u>

Note 4 – Furniture and equipment

Furniture and equipment consists of the following as of December 31, 2014 and December 31, 2013:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 111,235	\$ 99,811
Less: accumulated depreciation	<u>47,137</u>	<u>31,627</u>
Net property and equipment	<u>\$ 64,098</u>	<u>\$ 68,184</u>

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.

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2014 and December 31, 2013**

Note 5 – Lease agreement (continued)

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 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:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 88,250
2016	90,898
2017	93,625
2018	<u>31,514</u>
Total	<u>\$ 304,287</u>

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.

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 statements disclosure

Funds with deficiencies

There were no fund deficiencies for the year ended December 31, 2014.

The following is a summary of the permanently restricted net assets as of December 31, 2014:

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>\$ 100,564</u>

During 2014, NMF received permission from the Gerber Foundation to release the permanently restricted contribution. As a result, during 2014, \$53,493 was reclassified from permanently restricted to temporarily restricted and is called the “Gerber Scholarship in Pediatrics Program.

NATIONAL MEDICAL FELLOWSHIPS, INC.

**Notes to Financial Statements (continued)
December 31, 2014 and December 31, 2013**

Note 7 – Temporarily and permanently restricted net assets (continued)

Temporarily restricted net assets are available for the following purposes for the year ended December 31, 2014:

	Balance at <u>12/31/2013</u>	<u>Additions</u>	<u>Reclassification</u>	Released from <u>Restrictions</u>	Balance at <u>12/31/2014</u>
GE Foundation - PCLP	\$3,980,000	\$ -	\$ -	\$1,815,000	\$2,165,000
GE Foundation – International Program	819,221	-	-	401,064	418,157
Hugh J. Andersen Memorial Scholarship Program	103,435	-	-	12,500	90,935
Aetna Foundation – Healthcare Leadership Program	-	50,000	-	50,000	-
Aetna Foundation – Primary Care Fellows Program	-	200,000	-	-	200,000
The Hill Group – Caribbean Health Initiative	-	200,000	-	-	200,000
Gala Scholarships	71,654	114,950	-	45,700	140,904
Anarca, Betsey and Lucy Scholarship	5,500	5,500	-	11,000	-
New York Community Trust	-	10,000	-	10,000	-
Chicago Community Trust	-	185,000	-	185,000	-
United Health Foundation	250,000	600,000	-	250,000	600,000
Kaiser Permanente (East Bay Community Foundation)	400,000	-	-	400,000	-
The California Wellness Foundation	125,000	-	-	125,000	-
Gerber Scholarships in Pediatrics Program	-	-	53,493	12,000	41,493
Borroughs Welcome Fund	-	10,000	-	-	10,000
Neal Ball (Mary Ball Carrera Scholarship)	-	2,500	-	2,500	-
Total	<u>\$5,754,810</u>	<u>\$1,377,950</u>	<u>\$ 53,493</u>	<u>\$3,319,764</u>	<u>\$3,866,489</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, 2014 and December 31, 2013****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. 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, 2014 and December 31, 2013 amounted to \$41,999 and \$36,920, 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 2014 and 2013. 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, 2014, 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.