

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

***FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

JUNE 30, 2017

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors
American Leprosy Missions, Inc. and Subsidiary
Greenville, South Carolina**

We have audited the accompanying financial statements of American Leprosy Missions, Inc. and Subsidiary (“ALM”), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Leprosy Missions, Inc. and Subsidiary as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Board of Directors
American Leprosy Missions, Inc. and Subsidiary
Greenville, South Carolina**

Report on Summarized Comparative Information

We have previously audited American Leprosy Missions, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program service grants and other disbursements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
October 27, 2017**

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF FINANCIAL POSITION

June 30, 2017 With Summarized Information For 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
CURRENT ASSETS					
Cash and cash equivalents	\$ 417,292	\$ 25,853	\$ -	\$ 443,145	\$ 635,929
Accrued interest receivable	5,232	2,997	-	8,229	8,974
Accounts receivable and advances	50,327	-	-	50,327	1,595
Prepaid expenses and deposits	116,784	-	-	116,784	235,003
Due from (to) other net assets	135,890	(135,890)	-	-	-
Total current assets	<u>725,525</u>	<u>(107,040)</u>	<u>-</u>	<u>618,485</u>	<u>881,501</u>
OTHER ASSETS					
Building and equipment (<i>Note 2</i>)	122,025	-	-	122,025	153,447
Investments (<i>Note 3</i>)	3,185,052	1,507,176	245,914	4,938,142	5,760,660
Beneficial interest in perpetual trusts (<i>Note 5</i>)	-	-	5,729,788	5,729,788	5,230,784
Other	38,844	-	-	38,844	55,335
Total other assets	<u>3,345,921</u>	<u>1,507,176</u>	<u>5,975,702</u>	<u>10,828,799</u>	<u>11,200,226</u>
Total assets	<u>\$ 4,071,446</u>	<u>\$ 1,400,136</u>	<u>\$ 5,975,702</u>	<u>\$ 11,447,284</u>	<u>\$ 12,081,727</u>
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 538,506	\$ -	\$ -	\$ 538,506	\$ 234,426
Current portion of capital lease	-	-	-	-	1,385
Total current liabilities	<u>538,506</u>	<u>-</u>	<u>-</u>	<u>538,506</u>	<u>235,811</u>
OTHER LIABILITIES					
Refundable advance	-	86,965	-	86,965	79,939
Unitrust and annuity obligations	-	159,316	-	159,316	196,420
Total other liabilities	<u>-</u>	<u>246,281</u>	<u>-</u>	<u>246,281</u>	<u>276,359</u>
Total liabilities	<u>538,506</u>	<u>246,281</u>	<u>-</u>	<u>784,787</u>	<u>512,170</u>
NET ASSETS					
Unrestricted					
Operating	1,507,367	-	-	1,507,367	2,121,633
Reserve	2,025,573	-	-	2,025,573	2,906,243
Temporarily restricted (<i>Note 5</i>)					
Accumulated endowment income	-	185,111	-	185,111	161,000
Life Income Agreements	-	968,744	-	968,744	903,983
Permanently restricted (<i>Note 5</i>)	-	-	5,975,702	5,975,702	5,476,698
Total net assets	<u>3,532,940</u>	<u>1,153,855</u>	<u>5,975,702</u>	<u>10,662,497</u>	<u>11,569,557</u>
Total liabilities and net assets	<u>\$ 4,071,446</u>	<u>\$ 1,400,136</u>	<u>\$ 5,975,702</u>	<u>\$ 11,447,284</u>	<u>\$ 12,081,727</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2017 With Summarized Information For 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2017	2016
Public support and revenue					
Public support					
Contributions	\$ 6,493,062	\$ -	\$ -	\$ 6,493,062	\$ 5,414,933
Contributions (In-Kind)	5,107,256	-	-	5,107,256	5,137,027
Sales, net of cost of goods sold	124,814	-	-	124,814	-
Income from outside trusts	233,312	-	-	233,312	229,553
Legacies and bequests	481,541	-	-	481,541	1,221,557
Special events	<u>808,615</u>	<u>-</u>	<u>-</u>	<u>808,615</u>	<u>526,497</u>
Total public support	<u>13,248,600</u>	<u>-</u>	<u>-</u>	<u>13,248,600</u>	<u>12,529,567</u>
Revenue					
Investment income, net of expenses	60,396	21,596	-	81,992	111,576
Realized gain on investment transactions	193,517	16,013	-	209,530	288,072
Other	<u>2,331</u>	<u>-</u>	<u>-</u>	<u>2,331</u>	<u>2,187</u>
Total revenue	<u>256,244</u>	<u>37,609</u>	<u>-</u>	<u>293,853</u>	<u>401,835</u>
Total support and revenue	<u>13,504,844</u>	<u>37,609</u>	<u>-</u>	<u>13,542,453</u>	<u>12,931,402</u>
Expenses					
Program services					
Spiritual Wholeness	58,083	-	-	58,083	65,448
Early Detection and Treatment	2,825,728	-	-	2,825,728	2,708,380
Stopping Transmission	1,588,112	-	-	1,588,112	1,110,002
Healthy, Developing Communities	1,431,608	-	-	1,431,608	1,432,383
Disability Prevention and Management	4,358,657	-	-	4,358,657	4,547,001
Empowerment	<u>1,197,171</u>	<u>-</u>	<u>-</u>	<u>1,197,171</u>	<u>722,092</u>
Total program services	<u>11,459,359</u>	<u>-</u>	<u>-</u>	<u>11,459,359</u>	<u>10,585,306</u>
Supporting services					
Fund-raising	2,694,358	-	-	2,694,358	2,398,148
Management and general	415,799	-	-	415,799	387,027
Mission Thrift	<u>410,935</u>	<u>-</u>	<u>-</u>	<u>410,935</u>	<u>94,967</u>
Total supporting services	<u>3,521,092</u>	<u>-</u>	<u>-</u>	<u>3,521,092</u>	<u>2,880,142</u>
Total expenses	<u>14,980,451</u>	<u>-</u>	<u>-</u>	<u>14,980,451</u>	<u>13,465,448</u>
Change in net assets from operations	(1,475,607)	37,609	-	(1,437,998)	(534,046)
Other changes in net assets					
Actuarial gains/(loss) on annuity and unitrust obligations	-	36,538	-	36,538	(13,149)
Net unrealized loss on investments	(19,329)	(9,386)	-	(28,715)	(428,359)
Investment return in excess (deficit) of amount designated for current operations	-	24,111	-	24,111	(5,206)
Change in beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>499,004</u>	<u>499,004</u>	<u>(333,444)</u>
Total other changes	<u>(19,329)</u>	<u>51,263</u>	<u>499,004</u>	<u>530,938</u>	<u>(780,158)</u>
Changes in net assets	(1,494,936)	88,872	499,004	(907,060)	(1,314,204)
Net assets					
Beginning of year	<u>5,027,876</u>	<u>1,064,983</u>	<u>5,476,698</u>	<u>11,569,557</u>	<u>12,883,761</u>
End of year	<u>\$ 3,532,940</u>	<u>\$ 1,153,855</u>	<u>\$ 5,975,702</u>	<u>\$ 10,662,497</u>	<u>\$ 11,569,557</u>

See notes to financial statements.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017 With Summarized Information For June 30, 2016

	Program Services			
	<u>Spiritual Wholeness</u>	<u>Early Detection And Treatment</u>	<u>Stopping Transmission</u>	<u>Healthy, Developing Communities</u>
Salaries	\$ 6,913	\$ 336,309	\$ 189,012	\$ 170,385
Payroll taxes	273	13,272	7,459	6,724
Employee health, retirement, and other benefits	<u>1,071</u>	<u>52,089</u>	<u>29,275</u>	<u>26,390</u>
Total salaries and related expenses	8,257	401,670	225,746	203,499
Occupancy	213	10,354	5,819	5,246
Office supplies, equipment, and program materials	12	595	334	301
Professional fees and contract service payments	28	1,359	764	689
Travel, conferences, conventions and meetings	856	41,637	23,401	21,095
Printing, postage and publications	588	28,612	16,081	14,496
Awards, grants and other program disbursements	45,674	2,222,106	1,248,865	1,125,792
Media	-	-	-	-
New donor costs	67	3,249	1,826	1,646
Special events	1,918	93,316	52,445	47,277
Depreciation	84	4,075	2,290	2,065
Miscellaneous	<u>386</u>	<u>18,755</u>	<u>10,541</u>	<u>9,502</u>
Total expenses – 2017	<u>\$ 58,083</u>	<u>\$2,825,728</u>	<u>\$1,588,112</u>	<u>\$1,431,608</u>
Total expenses – 2016	<u>\$ 65,448</u>	<u>\$2,708,380</u>	<u>\$1,110,002</u>	<u>\$1,432,383</u>

Disability Prevention And Management			Supporting Services				Total Expenses	
Empowerment	Total 2017	Fund Raising	Management And General	Mission Thrift	Total 2017	June 30, 2017	June 30, 2016	
\$ 518,754	\$ 142,484	\$ 1,363,857	\$ 409,711	\$151,017	\$146,722	\$ 707,450	\$ 2,071,307	\$ 1,562,403
20,472	5,623	53,823	25,670	10,318	9,317	45,305	99,128	81,355
<u>80,347</u>	<u>22,068</u>	<u>211,240</u>	<u>95,384</u>	<u>43,442</u>	<u>13,286</u>	<u>152,112</u>	<u>363,352</u>	<u>417,970</u>
619,573	170,175	1,628,920	530,765	204,777	169,325	904,867	2,533,787	2,061,728
15,971	4,387	41,990	62,041	32,005	125,930	219,976	261,966	158,304
917	252	2,411	4,473	2,632	40,307	47,412	49,823	10,312
2,097	576	5,513	370,786	35,300	31,525	437,611	443,124	252,640
64,225	17,640	168,854	29,453	11,717	-	41,170	210,024	270,413
44,134	12,122	116,033	944,566	5,699	512	950,777	1,066,810	1,099,442
3,427,574	941,435	9,011,446	-	-	-	-	9,011,446	8,453,096
-	-	-	63,671	-	-	63,671	63,671	109,538
5,012	1,377	13,177	325,360	-	-	325,360	338,537	266,908
143,938	39,535	378,429	205,700	-	-	205,700	584,129	486,276
6,286	1,726	16,526	25,339	13,221	-	38,560	55,086	82,832
<u>28,930</u>	<u>7,946</u>	<u>76,060</u>	<u>132,204</u>	<u>110,448</u>	<u>43,336</u>	<u>285,988</u>	<u>362,048</u>	<u>213,959</u>
<u>\$4,358,657</u>	<u>\$1,197,171</u>	<u>\$11,459,359</u>	<u>\$2,694,358</u>	<u>\$415,799</u>	<u>\$410,935</u>	<u>\$3,521,092</u>	<u>\$14,980,451</u>	
<u>\$4,547,001</u>	<u>\$ 722,092</u>	<u>\$10,585,306</u>	<u>\$2,398,148</u>	<u>\$387,027</u>	<u>\$ 94,967</u>	<u>\$2,880,142</u>		<u>\$13,465,448</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 And June 30, 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
<i>Cash flows from operating activities</i>		
Cash received from contributors	\$ 8,143,675	\$ 7,394,727
Interest and dividends received	120,784	117,537
Grants paid	(3,904,190)	(3,316,069)
Cash paid for other expenditures	<u>(5,515,439)</u>	<u>(4,915,379)</u>
Net cash used for operating activities	<u>(1,155,170)</u>	<u>(719,184)</u>
<i>Cash flows from investing activities</i>		
Purchase of building and equipment	(23,664)	(32,240)
Purchase of investments	(1,830,513)	(1,748,331)
Proceeds from sale of investments	2,498,492	3,346,830
Net change in cash and cash equivalents	<u>358,069</u>	<u>(447,796)</u>
Net cash provided by investing activities	<u>1,002,384</u>	<u>1,118,463</u>
<i>Cash flows from financing activities</i>		
Payments made to annuitants	(24,456)	(27,556)
Payments made under trust agreements	(14,157)	(19,508)
Payments on capital lease	<u>(1,385)</u>	<u>(3,089)</u>
Net cash used for financing activities	<u>(39,998)</u>	<u>(50,153)</u>
Net increase (decrease) in cash and cash equivalents	(192,784)	349,126
<i>Cash and cash equivalents</i>		
Beginning of year	<u>635,929</u>	<u>286,803</u>
End of year	<u>\$ 443,145</u>	<u>\$ 635,929</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ -</u>	<u>\$ 322</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (907,060)	\$(1,314,204)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	55,086	82,832
Gain on sale of investments	(246,189)	(322,174)
Actuarial (gain) loss on annuity and unitrust obligations	(36,538)	13,149
Change in unrealized losses on investments	42,659	468,593
Change in beneficial interest in perpetual trusts	(499,004)	333,444
Interest and dividends restricted for investment	38,047	2,375
(Increase) decrease in		
Accrued interest receivable	745	2,285
Accounts receivable and advances	(48,732)	1,645
Prepaid expenses and deposits	134,710	64,449
Increase (decrease) in		
Accounts payable and accrued expenses	304,080	(51,981)
Refundable advances	<u>7,026</u>	<u>403</u>
Net cash used for operating activities	<u>\$ (1,155,170)</u>	<u>\$ (719,184)</u>

See notes to financial statements.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 And 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

American Leprosy Missions, Inc. and Subsidiary (“*ALM*”) is incorporated pursuant to the provisions of the Not-For-Profit Corporation Law of the State of New York. As a non-profit organization, it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

ALM exists to serve as a channel of Christ’s love to persons affected by leprosy and related diseases, helping them to be healed in body and spirit and restored to lives of dignity and hope.

ALM International LLC was created in 2016 as a PEO (professional employer organization) for ALM’s foreign workers. ALM International LLC is a disregarded identity and is solely owned by ALM.

American Leprosy Missions Thrift LLC, incorporated in 2016 in the State of South Carolina, is a wholly owned subsidiary of ALM, and as such, the financial statements of American Leprosy Missions Thrift LLC have been consolidated with ALM.

In 2017, Mission Thrift existed to support local communities by providing a convenient source of quality and inexpensive items, to partner with churches to help meet the needs of those in their care through the Corners of Your Field program, and to generate funds to support the worldwide ministry of American Leprosy Missions.

ACCOUNTING ESTIMATES

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

INCOME TAX STATUS

The Organization is a public charity and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Management has reviewed the tax positions for each of the open tax years (2013 – 2015) or expected to be taken in the organization’s current year tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

PRINCIPLES OF CONSOLIDATION

All intercompany balances have been eliminated upon consolidation.

CASH EQUIVALENTS

All highly liquid investments purchased with a maturity of three months or less are considered to be cash equivalents.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

CONCENTRATION OF CREDIT RISK

ALM occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“ASC”) 825, “*Financial Instruments*”, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

BUILDING AND EQUIPMENT

Building and equipment is recorded at cost. Equipment acquired prior to January 1, 1974 is recorded at estimated fair market value. Depreciation is provided on the straight-line method over the estimated life of the asset – 3 to 10 years for equipment and 30 years for building.

INVESTMENTS

Investments consist of marketable securities which are stated at market value with gains and losses, both realized and unrealized, included in the statement of activities.

LIFE INCOME AGREEMENTS

The funds held subject to life income provisions include amounts held subject to the payment to life beneficiaries of stated amounts in the case of gift annuities and uni-trusts. On maturity, the remainder interests revert to the organization. In accordance with provisions of the New York State Insurance Laws and the U.S. Internal Revenue Code, the assets of the segregated gift annuity are segregated from other assets of the organization.

The agreements with the donors of the revocable gift fund provide that the excess income from the investment of the fund assets, over stated interest rate payments to beneficiaries, is to be available for unrestricted use unless stated to the contrary. Under the terms of the gift agreements, the donors may request the return of the principal.

The actuarial valuations of the gift annuities and uni-trusts are recorded as annuity/uni-trust obligations and the entire revocable trust is recorded as a refundable advance due to the right of return of funds to the donor. The present value of the segregated gift annuities and other annuities and uni-trust agreements was determined using discount rates ranging from 1.2% to 7.2%.

CONTRIBUTIONS

ALM reports gifts of cash and other assets as unrestricted support if they are received with donor stipulations that limit the use of the donated assets and these donor stipulations are met in the same reporting period. However, contributions for life income agreements are recorded as restricted support. When the donor restriction expires, that is, when the stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable and the related contribution revenue is recorded in the unrestricted and temporarily restricted net assets. Pledges are recorded net of an allowance for uncollectible pledges. All pledges receivable are generally due within one year and are recorded at net realizable value.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

CONTRIBUTIONS (IN-KIND)

During the years ended June 30, 2017 and 2016, ALM received various contributions in-kind. These contributions (in-kind) consisted of medical supplies that are used to treat leprosy. Donated supplies are recorded at estimated fair value based upon the pricing source inputs which considers wholesale prices and donor values on date of receipt. During the years ended June 30, 2017 and 2016, ALM received and distributed \$5,107,256 and \$5,137,027, respectively, of various medical supplies. As a result, contributions (in-kind) and expenses include the value of the donated supplies.

FUNCTIONAL ALLOCATION OF 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.

NET ASSETS

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of ALM and changes therein are classified and reported as follows:

Unrestricted net assets include the revenues and expenses associated with the principal mission of ALM.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met.

Permanently restricted net assets include gifts, trusts and pledges which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

SUMMARIZED INFORMATION

The financial statements include certain prior-year summarized information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the ALM's audited financial statements for the year ended June 30, 2016, from which the summarized information was derived.

(2) BUILDING AND EQUIPMENT

Building and equipment at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 52,856	\$ 52,856
Equipment	<u>344,053</u>	<u>320,389</u>
	396,909	373,245
Less accumulated depreciation	<u>274,884</u>	<u>219,798</u>
	<u>\$ 122,025</u>	<u>\$ 153,447</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

(3) INVESTMENTS

Cost and market values at June 30, 2017 and 2016 are summarized as follows:

<u>Net Assets</u>	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Unrestricted	\$ 3,121,257	\$ 3,185,052	\$ 3,994,084	\$ 4,065,526
Temporarily Restricted				
Revocable Gift Agreements	87,656	88,450	84,040	79,363
Segregated Gift Annuity Agreements	782,755	830,045	764,597	821,272
Unitrust and Annuity Agreements	400,089	403,570	410,575	387,585
Accumulated Endowment Income	185,111	185,111	150,862	161,000
	<u>1,455,611</u>	<u>1,507,176</u>	<u>1,410,074</u>	<u>1,449,220</u>
Permanently restricted	<u>245,914</u>	<u>245,914</u>	<u>230,427</u>	<u>245,914</u>
Total	<u>\$ 4,822,782</u>	<u>\$ 4,938,142</u>	<u>\$ 5,634,585</u>	<u>\$ 5,760,660</u>

The components of marketable securities at June 30, 2017 and 2016 are:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 779,654	\$ 779,654	\$ 1,137,723	\$ 1,137,723
U.S. Government Treasury securities	545,843	543,363	719,246	745,833
Corporate and municipal bonds	581,836	588,009	511,274	530,529
Common and preferred stocks	787,199	846,847	1,086,654	1,226,932
Mutual funds	<u>2,128,250</u>	<u>2,180,269</u>	<u>2,179,688</u>	<u>2,119,643</u>
	<u>\$ 4,822,782</u>	<u>\$ 4,938,142</u>	<u>\$ 5,634,585</u>	<u>\$ 5,760,660</u>

At June 30, 2017 and 2016, the portfolio of marketable securities had unrealized gains of \$115,360 and \$126,075, respectively.

Investment income in the statement of activities and changes in net assets is shown net of \$44,591 and \$56,133 of investment management fees for the years ended June 30, 2017 and 2016, respectively.

ALM has adopted the total return concept for Endowment Fund income (*See Note 5*). Under this concept, endowment income to be distributed is established at 6% of the average market values of the endowment assets of the prior five years. There were no endowment income distributions for operations in the years ended June 30, 2017 and 2016.

The following schedule summarizes the investment return of the endowment funds and its classification in the statement of activities for the years ended June 30:

	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Interest and dividends (net of management fees of \$3,123 and \$3,501)	\$ 3,669	\$ 3,669	\$ 3,676
Net realized and unrealized gains (losses)	<u>20,442</u>	<u>20,442</u>	<u>(8,882)</u>
Return on investments	24,111	24,111	(5,206)
Investment return designated for current operations	<u>-</u>	<u>-</u>	<u>-</u>
Investment return in excess (deficit) of amounts designated for current operations	<u>\$ 24,111</u>	<u>\$ 24,111</u>	<u>\$(5,206)</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

ALM utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that ALM has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing ALM’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value ALM’s investments as of June 30, 2017 and 2016 is as follows:

	2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 779,654	\$ 779,654	\$ -	\$ -
U.S. Government Treasury Securities	543,363	-	543,363	-
Corporate and municipal bonds	588,009	-	588,009	-
Common and preferred stocks	846,847	846,847	-	-
Mutual funds	<u>2,180,269</u>	<u>2,180,269</u>	-	-
Total	<u>\$4,938,142</u>	<u>\$3,806,770</u>	<u>\$1,131,372</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$5,729,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,729,788</u>
	2016			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 1,137,723	\$ 1,137,723	\$ -	\$ -
U.S. Government Treasury Securities	745,833	-	745,833	-
Corporate and municipal bonds	530,529	-	530,529	-
Common and preferred stocks	1,226,932	1,226,932	-	-
Mutual funds	<u>2,119,643</u>	<u>2,119,643</u>	-	-
Total	<u>\$5,760,660</u>	<u>\$4,484,298</u>	<u>\$1,276,362</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$5,230,784</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,230,784</u>

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2017 and 2016.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

The changes in the financial instruments as of June 30, 2017 and 2016 for which ALM used level 3 inputs to determine fair value are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 5,230,784	\$ 5,564,228
Unrealized gains (loss) – change in valuation	<u>499,004</u>	<u>(333,444)</u>
Balance, end of year	<u>\$ 5,729,788</u>	<u>\$ 5,230,784</u>

The beneficial interest in perpetual trust is measured at estimated future cash flows which involve unobservable inputs. As a result, the present value techniques would be Level 3 inputs.

(4) LEASE COMMITMENTS

In January 2014, ALM agreed on a five year lease for its Greenville, South Carolina office. The lease, which runs from February 1, 2014 through January 31, 2018, allows for rent payments of \$6,726 per month. In June 2016, ALM agreed on a five year lease for retail space located in Pineville, North Carolina for the operation of Mission Thrift. Lease payments for the initial year were \$10,000 per month. ALM had the option to terminate the lease after any lease year and elected to terminate the lease on June 30, 2017. Total rent expense for each year ended June 30, 2017 and 2016 was approximately \$182,000 and \$80,700, respectively.

Future minimum lease payments are as follows:

2018	\$ 80,713
2019	<u>47,082</u>
	<u>\$ 127,795</u>

(5) NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Life Income Agreements	\$ 968,744	\$ 903,983
Accumulated Endowment Income	<u>185,111</u>	<u>161,000</u>
	<u>\$ 1,153,855</u>	<u>\$ 1,064,983</u>

Permanently restricted net assets are available for the following purpose as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investment in perpetuity, the income from which is expendable to support any activities of the organization	\$ 245,914	\$ 245,914
Beneficial interest in perpetual trusts	<u>5,729,788</u>	<u>5,230,784</u>
	<u>\$ 5,975,702</u>	<u>\$ 5,476,698</u>

ENDOWMENT FUNDS

ALM's endowment fund consists of donor-restricted endowment funds. As required by GAAP in the United States, net assets associated with endowment funds, including funds designated by ALM to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

INTERPRETATION OF RELEVANT LAW

ALM is incorporated in the state of New York, which has enacted a version of the Uniform Prudent Management of Institutional Funds Act (“*UPMIFA*”). UPMIFA governs donor restricted or permanently restricted endowment funds for not-for-profit corporations. ALM has interpreted the applicable state standards and guidelines for the prudent management of an endowment fund as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ALM classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund (i.e. the accumulated realized and unrealized gains/losses) that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ALM. ALM considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of ALM and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of ALM
- (7) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution.
- (8) The investment policies of ALM

RETURN OBJECTIVES AND RISK PARAMETERS

The total rate of return (net of fees) is expected to equal or exceed a passive investment in commonly quoted market indices (benchmarks) based on a long-term optimal asset allocation.

To satisfy its long-term rate-of-return objectives, ALM relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ALM targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY

In 2013, ALM adopted a policy of appropriating for distribution an approved percentage of its endowment funds’ average fair value over the prior five years. There was no distribution made for the years ended June 30, 2017 and 2016.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or state standards require ALM to retain as a fund of perpetual duration. At June 30, 2017 and 2016, no donor restricted endowment funds have fallen below the required level.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016:

	<u>2017</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ -	\$185,111	\$245,914	\$431,025

	<u>2016</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ -	\$161,000	\$245,914	\$406,914

ALM classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. Income earned on such gifts is classified as temporarily restricted.

	<u>June 30, 2017</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ -	\$ 161,000	\$ 245,914	\$ 406,914
Investment return (<i>See Note 3</i>)	-	24,111	-	24,111
Investment return designated for current operations	-	-	-	-
	<u>\$ -</u>	<u>\$ 185,111</u>	<u>\$ 245,914</u>	<u>\$ 431,025</u>

	<u>June 30, 2016</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ -	\$ 166,206	\$ 245,914	\$ 412,120
Investment return (<i>See Note 3</i>)	-	(5,206)	-	(5,206)
Investment return designated for current operations	-	-	-	-
	<u>\$ -</u>	<u>\$ 161,000</u>	<u>\$ 245,914</u>	<u>\$ 406,914</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

(6) PENSION PLANS

ALM contributes to a defined contribution plan covering substantially all of its employees. Contributions to the plan are based upon earnings and are accrued and funded on a current basis. Pension expense was approximately \$120,000 and \$127,000 for the years ended June 30, 2017 and 2016, respectively.

(7) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, October 27, 2017, have been evaluated in the preparation of the financial statements.

SUPPLEMENTAL INFORMATION

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

SCHEDULE OF PROGRAM SERVICE GRANTS AND OTHER DISBURSEMENTS

Year Ended June 30, 2017 With Summarized Information For 2016

	<u>Spiritual Wholeness</u>	<u>Early Detection And Treatment</u>	<u>Stopping Transmission</u>	<u>Healthy Developing Communities</u>	<u>Disability Prevention And Management</u>	<u>Empowerment</u>	<u>Total</u>	
							<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Africa</u>								
Africa-Region	\$ 9,230	\$ 4,999	\$ -	\$ 4,999	\$ 4,999	\$ -	\$ 24,227	\$ 31,344
Congo – Brazzaville	10,053	-	-	-	30,161	-	40,214	-
DR – Congo	-	74,841	-	-	3,459	-	78,300	169,760
Cote D’ Ivoire	-	146,053	-	-	-	-	146,053	137,500
Ghana	-	51,896	-	-	7,471	5,000	64,367	73,042
Liberia	-	-	-	-	-	-	-	150,000
	<u>19,283</u>	<u>277,789</u>	<u>-</u>	<u>4,999</u>	<u>46,090</u>	<u>5,000</u>	<u>353,161</u>	<u>561,646</u>
<u>Asia And Pacific Islands</u>								
Asia Region	1,657	1,657	-	1,657	1,657	-	6,628	24,520
Bangladesh	-	-	-	-	-	-	-	12,500
India	-	8,000	-	64,777	35,000	-	107,777	183,302
Indonesia	-	-	-	-	-	-	-	13,000
Myanmar	4,795	15,102	54,137	-	15,102	-	89,136	255,206
Nepal	-	158,625	27,248	7,200	457,657	150,000	800,730	1,009,532
Philippines	-	100,000	-	-	-	-	100,000	100,000
	<u>6,452</u>	<u>283,384</u>	<u>81,385</u>	<u>73,634</u>	<u>509,416</u>	<u>150,000</u>	<u>1,104,271</u>	<u>1,598,060</u>
<u>South America</u>								
Latin America – Region	-	-	-	-	-	-	-	5,135
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,135</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

SCHEDULE OF PROGRAM SERVICE GRANTS AND OTHER DISBURSEMENTS – (Continued)

Year Ended June 30, 2017 With Summarized Information For June 30, 2016

	<u>Spiritual Wholeness</u>	<u>Early Detection And Treatment</u>	<u>Stopping Transmission</u>	<u>Healthy Developing Communities</u>	<u>Disability Prevention And Management</u>	<u>Empowerment</u>	<u>Total</u>	
							<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>AIM Initiative</u>								
Cameroon	\$ -	\$ 18,112	\$ -	\$ 18,111	\$ 18,111	\$ 18,112	\$ 72,446	\$ -
Ghana	-	29,119	-	29,119	29,119	29,119	116,476	-
Liberia	-	104,686	-	104,685	104,685	104,686	418,742	-
Mozambique	-	13,953	-	13,954	13,954	13,954	55,815	-
Myanmar	-	9,593	-	9,594	9,594	9,593	38,374	-
Nigeria	-	51,427	-	51,428	51,428	51,428	205,711	-
Sri Lanka	-	521	-	521	521	521	2,084	-
AIM – Other	-	36,250	-	36,250	36,250	36,250	145,000	-
	-	263,661	-	263,662	263,662	263,663	1,054,648	-
	<u>25,735</u>	<u>824,834</u>	<u>81,385</u>	<u>342,295</u>	<u>819,168</u>	<u>418,663</u>	<u>2,512,080</u>	<u>2,164,841</u>
<u>Miscellaneous Grants And Disbursements</u>								
Vaccine Research	-	-	488,145	-	-	-	488,145	307,037
Other Research	-	-	667,424	-	-	-	667,424	461,619
Gifts-in-Kind	-	1,297,402	-	778,441	2,594,804	518,961	5,189,608	5,224,479
Training and Other	<u>19,939</u>	<u>99,870</u>	<u>11,911</u>	<u>5,056</u>	<u>13,602</u>	<u>3,811</u>	<u>154,189</u>	<u>295,120</u>
	<u>19,939</u>	<u>1,397,272</u>	<u>1,167,480</u>	<u>783,497</u>	<u>2,608,406</u>	<u>522,772</u>	<u>6,499,366</u>	<u>6,288,255</u>
Total grants	<u>\$ 45,674</u>	<u>\$2,222,106</u>	<u>\$1,248,865</u>	<u>\$1,125,792</u>	<u>\$3,427,574</u>	<u>\$941,435</u>	<u>\$9,011,446</u>	<u>\$8,453,096</u>