

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

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

JUNE 30, 2016

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1-2
FINANCIAL STATEMENTS	
<i>Statement of Financial Position,</i> June 30, 2016 with summarized information for 2015	3
<i>Statement of Activities and Changes in Net Assets,</i> Year ended June 30, 2016 with summarized information for 2015	4
<i>Statement of Functional Expenses,</i> Year ended June 30, 2016 with summarized information for 2015	5
<i>Statements of Cash Flows,</i> Years ended June 30, 2016 and 2015	6-7
<i>Notes to Financial Statements</i>	8
SUPPLEMENTAL INFORMATION	
<i>Schedule of Program Service Grants and Other Disbursements</i> Year ended June 30, 2016 with summarized information for 2015	17

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, 2016 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 17, 2016**

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF FINANCIAL POSITION

June 30, 2016 With Summarized Information For 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
CURRENT ASSETS					
Cash and cash equivalents	\$ 611,464	\$ 24,465	\$ -	\$ 635,929	\$ 286,803
Accrued interest receivable	5,427	3,547	-	8,974	11,259
Accounts receivable and advances	1,595	-	-	1,595	3,240
Prepaid expenses and deposits	235,003	-	-	235,003	302,224
Due from (to) other net assets	135,890	(135,890)	-	-	-
Total current assets	<u>989,379</u>	<u>(107,878)</u>	<u>-</u>	<u>881,501</u>	<u>603,526</u>
OTHER ASSETS					
Building and equipment (Note 2)	153,447	-	-	153,447	204,039
Long-term investments (Note 3)	4,065,526	1,449,220	245,914	5,760,660	7,057,782
Beneficial interest in perpetual trusts (Note 5)	-	-	5,230,784	5,230,784	5,564,228
Other	55,335	-	-	55,335	52,563
Total other assets	<u>4,274,308</u>	<u>1,449,220</u>	<u>5,476,698</u>	<u>11,200,226</u>	<u>12,878,612</u>
Total assets	<u>\$ 5,263,687</u>	<u>\$ 1,341,342</u>	<u>\$ 5,476,698</u>	<u>\$ 12,081,727</u>	<u>\$ 13,482,138</u>
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 234,426	\$ -	\$ -	\$ 234,426	\$ 286,407
Current portion of capital lease (Note 4)	1,385	-	-	1,385	3,089
Total current liabilities	<u>235,811</u>	<u>-</u>	<u>-</u>	<u>235,811</u>	<u>289,496</u>
OTHER LIABILITIES					
Capital lease (Note 4)	-	-	-	-	1,385
Refundable advance	-	79,939	-	79,939	79,536
Unitrust and annuity obligations	-	196,420	-	196,420	227,960
Total other liabilities	<u>-</u>	<u>276,359</u>	<u>-</u>	<u>276,359</u>	<u>308,881</u>
Total liabilities	<u>235,811</u>	<u>276,359</u>	<u>-</u>	<u>512,170</u>	<u>598,377</u>
NET ASSETS					
Unrestricted					
Operating	2,121,633	-	-	2,121,633	1,937,056
Reserve	2,906,243	-	-	2,906,243	4,074,517
Temporarily restricted (Note 5)					
Accumulated endowment income	-	161,000	-	161,000	166,206
Life Income Agreements	-	903,983	-	903,983	895,840
Permanently restricted (Note 5)	-	-	5,476,698	5,476,698	5,810,142
Total net assets	<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>
Total liabilities and net assets	<u>\$ 5,263,687</u>	<u>\$ 1,341,342</u>	<u>\$ 5,476,698</u>	<u>\$ 12,081,727</u>	<u>\$ 13,482,138</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2016 With Summarized Information For 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Public support and revenue					
Public support					
Contributions	\$ 5,414,933	\$ -	\$ -	\$ 5,414,933	\$ 4,849,631
Contributions (In-Kind)	5,137,027	-	-	5,137,027	6,765,701
Income from outside trusts	229,553	-	-	229,553	193,215
Legacies and bequests	1,221,557	-	-	1,221,557	674,547
Special event	526,497	-	-	526,497	370,548
Total public support	<u>12,529,567</u>	<u>-</u>	<u>-</u>	<u>12,529,567</u>	<u>12,853,642</u>
Revenue					
Investment income, net of expenses	83,338	28,238	-	111,576	125,896
Realized gain on investment transactions	266,013	22,059	-	288,072	290,316
Other	2,187	-	-	2,187	8,263
Total revenue	<u>351,538</u>	<u>50,297</u>	<u>-</u>	<u>401,835</u>	<u>424,475</u>
Net assets released from restrictions (Note 5)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>12,881,105</u>	<u>50,297</u>	<u>-</u>	<u>12,931,402</u>	<u>13,278,117</u>
Expenses					
Program services (Note 7)					
Spiritual Wholeness	65,448	-	-	65,448	3,686
Early Detection and Management	2,708,380	-	-	2,708,380	3,056,109
Stopping Transmission	1,110,002	-	-	1,110,002	1,019,407
Healthy, Developing Communities	1,432,383	-	-	1,432,383	1,660,781
Disability Prevention and Management	4,547,001	-	-	4,547,001	5,032,745
Empowerment	722,092	-	-	722,092	867,892
Total program services	<u>10,585,306</u>	<u>-</u>	<u>-</u>	<u>10,585,306</u>	<u>11,640,620</u>
Supporting services					
Fund-raising	2,398,148	-	-	2,398,148	2,234,960
Management and general	387,027	-	-	387,027	345,818
Mission Thrift	94,967	-	-	94,967	-
Total supporting services	<u>2,880,142</u>	<u>-</u>	<u>-</u>	<u>2,880,142</u>	<u>2,580,778</u>
Total expenses	<u>13,465,448</u>	<u>-</u>	<u>-</u>	<u>13,465,448</u>	<u>14,221,398</u>
Change in net assets from operations	(584,343)	50,297	-	(534,046)	(943,281)
Other changes in net assets					
Actuarial gains/(loss) on annuity and unitrust obligations	-	(13,149)	-	(13,149)	115,841
Net unrealized loss on long-term investments	(399,354)	(29,005)	-	(428,359)	(318,466)
Investment return in excess (defecit) of amount designated for current operations	-	(5,206)	-	(5,206)	8,291
Change in beneficial interest in perpetual trusts	-	-	(333,444)	(333,444)	(14,745)
Total other changes	<u>(399,354)</u>	<u>(47,360)</u>	<u>(333,444)</u>	<u>(780,158)</u>	<u>(209,079)</u>
Changes in net assets	(983,697)	2,937	(333,444)	(1,314,204)	(1,152,360)
Net assets					
Beginning of year	6,011,573	1,062,046	5,810,142	12,883,761	14,036,121
End 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>

See notes to financial statements.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016 With Summarized Information For June 30, 2015

	Program Services			
	<u>Spiritual Wholeness</u>	<u>Early Detention And Management</u>	<u>Stopping Transmission</u>	<u>Healthy, Developing Communities</u>
Salaries	\$ 6,294	\$ 260,459	\$ 106,746	\$ 137,749
Payroll taxes	263	10,884	4,461	5,756
Employee health, retirement, and other benefits	<u>1,655</u>	<u>68,478</u>	<u>28,065</u>	<u>36,216</u>
Total salaries and related expenses	8,212	339,821	139,272	179,721
Occupancy	261	10,786	4,420	5,704
Office supplies and program materials	15	611	250	323
Professional fees and contract service payments	-	-	-	-
Travel, conferences, conventions and meetings	1,232	50,969	20,889	26,956
Printing, postage and publications	791	32,749	13,422	17,320
Awards, grants and other program disbursements	52,263	2,162,828	886,413	1,143,857
Media	-	-	-	-
New donor costs	42	1,749	717	925
Special events	2,343	96,942	39,731	51,270
Depreciation	154	6,358	2,606	3,363
Miscellaneous	<u>135</u>	<u>5,567</u>	<u>2,282</u>	<u>2,944</u>
Total expenses – 2016	<u>\$ 65,448</u>	<u>\$2,708,380</u>	<u>\$1,110,002</u>	<u>\$ 1,432,383</u>
Total expenses – 2015	<u>\$ 3,686</u>	<u>\$3,056,109</u>	<u>\$1,019,407</u>	<u>\$ 1,660,781</u>

Disability Prevention And Management			Supporting Services				Total Expenses	
Empowerment	Total 2016		Fund Raising	Management And General	Mission Thrift	Total 2016	June 30, 2016	June 30, 2015
\$ 437,274	\$ 69,442	\$ 1,017,964	\$ 390,530	\$ 139,601	\$ 14,308	\$ 544,439	\$ 1,562,403	\$ 1,341,795
18,273	2,902	42,539	27,781	9,931	1,104	38,816	81,355	79,231
<u>114,966</u>	<u>18,257</u>	<u>267,637</u>	<u>105,981</u>	<u>42,887</u>	<u>1,465</u>	<u>150,333</u>	<u>417,970</u>	<u>358,321</u>
570,513	90,601	1,328,140	524,292	192,419	16,877	733,588	2,061,728	1,779,347
18,108	2,876	42,155	62,923	32,263	20,963	116,149	158,304	137,234
1,026	163	2,388	3,821	3,598	505	7,924	10,312	6,821
-	-	-	173,189	31,484	47,967	252,640	252,640	167,087
85,570	13,589	199,205	56,708	10,914	3,586	71,208	270,413	245,295
54,980	8,731	127,993	966,054	4,684	711	971,449	1,099,442	1,126,316
3,631,094	576,641	8,453,096	-	-	-	-	8,453,096	9,869,357
-	-	-	109,538	-	-	109,538	109,538	99,129
2,936	466	6,835	260,073	-	-	260,073	266,908	179,289
162,752	25,846	378,884	107,392	-	-	107,392	486,276	297,876
10,675	1,695	24,851	38,103	19,878	-	57,981	82,832	81,303
<u>9,347</u>	<u>1,484</u>	<u>21,759</u>	<u>96,055</u>	<u>91,787</u>	<u>4,358</u>	<u>192,200</u>	<u>213,959</u>	<u>232,344</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>	
<u>\$5,032,745</u>	<u>\$867,892</u>	<u>\$11,640,620</u>	<u>\$2,234,960</u>	<u>\$345,818</u>	<u>\$ -</u>	<u>\$2,580,778</u>		<u>\$14,221,398</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 And June 30, 2015

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
<i>Cash flows from operating activities</i>		
Cash received from contributors	\$ 7,394,727	\$ 6,522,010
Interest and dividends received	117,537	127,044
Grants paid	(3,316,069)	(3,103,656)
Cash paid for other expenditures	<u>(4,915,379)</u>	<u>(4,447,310)</u>
Net cash used for operating activities	<u>(719,184)</u>	<u>(901,912)</u>
<i>Cash flows from investing activities</i>		
Purchase of building and equipment	(32,240)	(10,549)
Disposition of equipment	-	11,500
Purchase of investments	(1,748,331)	(2,735,805)
Proceeds from sale of investments	3,346,830	3,157,431
Net change in cash and cash equivalents – long term	<u>(447,796)</u>	<u>554,712</u>
Net cash provided by investing activities	<u>1,118,463</u>	<u>977,289</u>
<i>Cash flows from financing activities</i>		
Payments made to annuitants	(27,556)	(38,499)
Payments made under trust agreements	(19,508)	(19,758)
Payments on capital lease	<u>(3,089)</u>	<u>(2,784)</u>
Net cash used for financing activities	<u>(50,153)</u>	<u>(61,041)</u>
Net increase in cash and cash equivalents	349,126	14,336
<i>Cash and cash equivalents</i>		
Beginning of year	<u>286,803</u>	<u>272,467</u>
End of year	<u>\$ 635,929</u>	<u>\$ 286,803</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 322</u>	<u>\$ 626</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENTS OF CASH FLOWS – (Continued)

Years Ended June 30, 2016 And June 30, 2015

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (1,314,204)	\$ (1,152,360)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	82,832	81,303
Gain on sale of investments	(322,174)	(319,077)
Actuarial (gain) loss on annuity and unitrust obligations	13,149	(115,841)
Change in unrealized losses on investments	468,593	343,899
Change in beneficial interest in perpetual trusts	333,444	14,745
Interest and dividends restricted for long-term investment	2,375	4,988
(Increase) decrease in		
Accrued interest receivable	2,285	3,973
Accounts receivable and advances	1,645	(84)
Pledges receivable	-	425,806
Prepaid expenses and deposits	64,449	(86,882)
Increase (decrease) in		
Accounts payable and accrued expenses	(51,981)	(102,382)
Refundable advances	<u>403</u>	<u>-</u>
<i>Net cash used for operating activities</i>	<u>\$ (719,184)</u>	<u>\$ (901,912)</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 And 2015

(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.

On February 25, 2016, ALM created American Leprosy Missions Thrift LLC, which does business as Mission Thrift. American Leprosy Missions Thrift LLC, incorporated 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.

Mission Thrift exists 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 (2012 – 2014) 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.

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.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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.

LONG-TERM INVESTMENTS

Long-term 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.

CONTRIBUTIONS (IN-KIND)

During the years ended June 30, 2016 and 2015, 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, 2016 and 2015, ALM received and distributed \$5,137,027 and \$6,765,701, respectively, of various medical supplies. As a result, contributions (in-kind) and expenses include the value of the donated supplies.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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, 2015, from which the summarized information was derived.

(2) BUILDING AND EQUIPMENT

Building and equipment at June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 52,856	\$ 52,856
Equipment	<u>320,389</u>	<u>314,335</u>
	373,245	367,191
Less accumulated depreciation	<u>219,798</u>	<u>163,152</u>
	<u>\$ 153,447</u>	<u>\$ 204,039</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

(3) LONG-TERM INVESTMENTS

Cost and market values at June 30, 2016 and 2015 are summarized as follows:

<u>Net Assets</u>	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Unrestricted	<u>\$ 3,994,084</u>	<u>\$ 4,065,526</u>	<u>\$ 4,902,768</u>	<u>\$ 5,381,816</u>
Temporarily Restricted				
Revocable Gift Agreements	84,040	79,363	79,670	78,648
Segregated Gift Annuity Agreements	764,597	821,272	714,065	799,745
Unitrust and Annuity Agreements	410,575	387,585	390,775	385,453
Accumulated Endowment Income	<u>150,862</u>	<u>161,000</u>	<u>142,881</u>	<u>166,206</u>
	<u>1,410,074</u>	<u>1,449,220</u>	<u>1,327,391</u>	<u>1,430,052</u>
Permanently restricted	<u>230,427</u>	<u>245,914</u>	<u>211,632</u>	<u>245,914</u>
Total	<u>\$ 5,634,585</u>	<u>\$ 5,760,660</u>	<u>\$ 6,441,791</u>	<u>\$ 7,057,782</u>

The components of marketable securities at June 30, 2016 and 2015 are:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 1,137,723	\$ 1,137,723	\$ 689,927	\$ 689,927
U.S. Government Treasury securities	719,246	745,833	691,926	698,761
Corporate and municipal bonds	511,274	530,529	658,418	665,327
Common and preferred stocks	1,086,654	1,226,932	1,957,030	2,510,980
Mutual funds	<u>2,179,688</u>	<u>2,119,643</u>	<u>2,444,490</u>	<u>2,492,787</u>
	<u>\$ 5,634,585</u>	<u>\$ 5,760,660</u>	<u>\$ 6,441,791</u>	<u>\$ 7,057,782</u>

At June 30, 2016 and 2015, the portfolio of marketable securities had unrealized gains of \$126,075 and \$615,991, respectively

Investment income in the statement of activities and changes in net assets is shown net of \$56,133 and \$64,268 of investment management fees for the years ended June 30, 2016 and 2015, 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, 2016 and 2015.

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>2016 Total</u>	<u>2015 Total</u>
Interest and dividends (net of management fees of \$3,501 and \$3,887)	\$ 3,676	\$ 3,676	\$ 5,121
Net realized and unrealized gains (losses)	<u>(8,882)</u>	<u>(8,882)</u>	<u>3,170</u>
Return on long-term investments	(5,206)	(5,206)	8,291
Investment return designated for current operations	<u>-</u>	<u>-</u>	<u>-</u>
Investment return in excess (deficit) of amounts designated for current operations	<u>\$(5,206)</u>	<u>\$(5,206)</u>	<u>\$ 8,291</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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, 2016 and 2015 is as follows:

	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>

	2015			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 689,927	\$ 689,927	\$ -	\$ -
U.S. Government Treasury Securities	698,761	-	698,761	-
Corporate and municipal bonds	665,327	-	665,327	-
Common and preferred stocks	2,510,980	2,510,980	-	-
Mutual funds	<u>2,492,787</u>	<u>2,492,787</u>	-	-
Total	<u>\$ 7,057,782</u>	<u>\$ 5,693,694</u>	<u>\$ 1,364,088</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$ 5,564,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,564,228</u>

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2016 and 2015.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

The changes in the financial instruments as of June 30, 2016 and 2015 for which ALM used level 3 inputs to determine fair value are as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 5,564,228	\$ 5,578,973
Unrealized gains (loss) – change in valuation	<u>(333,444)</u>	<u>(14,745)</u>
Balance, end of year	<u>\$ 5,230,784</u>	<u>\$ 5,564,228</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. The lease runs from August 15, 2016 through August 14, 2021. Annual rental payments are \$10,000 per month for year one; \$11,000 per month for years two and three; and \$12,000 per month for years four and five. ALM has an option to terminate the lease after any lease year, with 30 days' notice, should Mission Thrift sales not exceed \$300,000 in any lease year. Total rent expense for each year ended June 30, 2016 and 2015 was approximately \$80,700.

Future minimum lease payments are as follows:

2017	\$ 185,713
2018	95,713
2019	<u>47,082</u>
	<u>\$ 328,508</u>

CAPITAL LEASES

ALM leases telephone equipment under a capital lease expiring in November 2016. The related office equipment is included in equipment at a cost of \$13,245 with accumulated depreciation of \$12,141 at June 30, 2016. Future minimum lease payments under this capital lease together with the present value of the net minimum lease payments at June 30, 2016 are as follows:

2017	\$ 1,421
Less: Amounts representing interest	<u>36</u>
Present value of minimum lease payments	<u>\$ 1,385</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

(5) NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Life Income Agreements	\$ 903,983	\$ 895,840
Accumulated Endowment Income	<u>161,000</u>	<u>166,206</u>
	<u>\$ 1,064,983</u>	<u>\$ 1,062,046</u>

Permanently restricted net assets are available for the following purpose as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</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>5,230,784</u>	<u>5,564,228</u>
	<u>\$ 5,476,698</u>	<u>\$ 5,810,142</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.

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

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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, 2016 and 2015.

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, 2016 and 2015, no donor restricted endowment funds have fallen below the required level.

Endowment net asset composition by type of fund as of June 30, 2016 and 2015:

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

	2015			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$166,206</u>	<u>\$245,914</u>	<u>\$412,120</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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.

	June 30, 2016			<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>

	June 30, 2015			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ -	\$ 464,235	\$ 722,932	\$ 1,187,167
Investment return (<i>See Note 3</i>)	-	8,291	-	8,291
Investment return designated for current operations	-	-	-	-
Transfer between net assets	-	(306,320)	(477,018)	(783,338)
	<u>\$ -</u>	<u>\$ 166,206</u>	<u>\$ 245,914</u>	<u>\$ 412,120</u>

During the year ended June 30, 2015, and in connection with the rules permissible in the State of New York in regards to UPMIFA, ALM transferred \$477,018 of net assets previously classified as permanently restricted net assets to unrestricted net assets. Additionally, ALM transferred \$306,320 of unspent accumulated earnings on the aforementioned permanently restricted assets, previously classified as temporarily restricted net assets to unrestricted net assets.

(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 \$127,000 and \$120,000 for the years ended June 30, 2016 and 2015, respectively.

(7) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, October 17, 2016, 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, 2016 With Summarized Information For 2015

	<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, 2016</u>	<u>June 30, 2015</u>
<u>Africa</u>								
Africa-Region	\$ -	\$ 7,836	\$ -	\$ 7,836	\$ 7,836	\$ 7,836	\$ 31,344	\$ 4,942
Nigeria	-	-	-	-	-	-	-	5,000
Congo	-	155,400	-	2,760	11,600	-	169,760	327,463
Cote D' Ivoire	-	137,500	-	-	-	-	137,500	117,208
Ghana	-	42,241	-	-	29,301	1,500	73,042	136,579
Liberia	-	<u>50,000</u>	-	-	<u>100,000</u>	-	<u>150,000</u>	<u>196,970</u>
	-	<u>392,977</u>	-	<u>10,596</u>	<u>148,737</u>	<u>9,336</u>	<u>561,646</u>	<u>788,162</u>
<u>Asia And Pacific Islands</u>								
Asia Region	6,130	6,130	-	6,130	6,130	-	24,520	1,915
Bangladesh	-	-	-	-	12,500	-	12,500	104,774
India	-	2,500	-	131,585	44,762	4,455	183,302	216,100
Indonesia	-	-	-	-	-	13,000	13,000	28,252
Myanmar	6,239	100,365	48,237	-	100,365	-	255,206	250,991
Nepal	6,000	107,756	50,838	182,249	646,886	15,803	1,009,532	511,734
Philippines	-	<u>100,000</u>	-	-	-	-	<u>100,000</u>	<u>100,000</u>
	<u>18,369</u>	<u>316,751</u>	<u>99,075</u>	<u>319,964</u>	<u>810,643</u>	<u>33,258</u>	<u>1,598,060</u>	<u>1,213,766</u>
<u>South America</u>								
Latin America – Region	-	<u>5,135</u>	-	-	-	-	<u>5,135</u>	<u>2,509</u>
	-	<u>5,135</u>	-	-	-	-	<u>5,135</u>	<u>2,509</u>
	<u>18,369</u>	<u>714,863</u>	<u>99,075</u>	<u>330,560</u>	<u>959,380</u>	<u>42,594</u>	<u>2,164,841</u>	<u>2,004,437</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

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

Year Ended June 30, 2016 With Summarized Information For June 30, 2015

	<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, 2016</u>	<u>June 30, 2015</u>
Miscellaneous Grants And Disbursements								
Vaccine Research	-	-	307,037	-	-	-	307,037	465,000
Other Research	-	-	461,619	-	-	-	461,619	253,314
Gifts-in-Kind	-	1,306,120	-	783,671	2,612,240	522,448	5,224,479	6,967,140
Training and Other	33,894	141,845	18,682	29,626	59,474	11,599	295,120	179,466
	<u>33,894</u>	<u>1,447,965</u>	<u>787,338</u>	<u>813,297</u>	<u>2,671,714</u>	<u>534,047</u>	<u>6,288,255</u>	<u>7,864,920</u>
Total grants	<u>\$ 52,263</u>	<u>\$2,162,828</u>	<u>\$ 886,413</u>	<u>\$1,143,857</u>	<u>\$3,631,094</u>	<u>\$576,641</u>	<u>\$8,453,096</u>	<u>\$9,869,357</u>