

# statement of activities and changes in net assets

Year ended December 31, 2002 with summarized information for 2001

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2002</u>	<u>Total 2001</u>
Public support and revenue					
Public support					
Contributions	\$6,552,513	\$276,887	\$ -	\$6,829,400	\$6,219,255
Income from outside trusts	122,210	-	-	122,210	132,714
Legacies and bequests	631,169	-	130,801	761,970	1,328,703
Total public support	<u>7,305,892</u>	<u>276,887</u>	<u>130,801</u>	<u>7,713,580</u>	<u>7,680,672</u>
Revenue					
Investment income, net of expenses	55,896	-	-	55,896	79,622
Realized gain (loss) on investment transactions	(391,192)	-	-	(391,192)	(248,242)
Other	15,184	-	-	15,184	17,878
Total revenue	<u>(320,112)</u>	<u>-</u>	<u>-</u>	<u>(320,112)</u>	<u>(150,742)</u>
Net assets released from restrictions (Note 6)	319,565	(319,565)	-	-	-
Total support and revenue	<u>7,305,345</u>	<u>(42,678)</u>	<u>130,801</u>	<u>7,393,468</u>	<u>7,529,930</u>
Expenses.....					
Program services					
Bringing cure, care, to those with leprosy and disabilities					
Rehabilitation	1,464,861	-	-	1,464,861	1,392,496
Finding and Curing Patients	2,091,016	-	-	2,091,016	1,279,289
Training of Professionals	767,654	-	-	767,654	1,017,999
Total program services	<u>4,323,531</u>	<u>-</u>	<u>-</u>	<u>4,323,531</u>	<u>3,689,784</u>
Patient Education and Research					
Patient Education	280,044	-	-	280,044	501,004
Research	693,390	-	-	693,390	497,115
Total patient education and research	<u>973,434</u>	<u>-</u>	<u>-</u>	<u>973,434</u>	<u>998,119</u>
Total program services	<u>5,296,965</u>	<u>-</u>	<u>-</u>	<u>5,296,965</u>	<u>4,687,903</u>
Supporting services					
Fund-raising	2,241,359	-	-	2,241,359	2,386,134
Management and general	610,679	-	-	610,679	628,957
Total supporting services	<u>2,852,038</u>	<u>-</u>	<u>-</u>	<u>2,852,038</u>	<u>3,015,091</u>
Total expenses	<u>8,149,003</u>	<u>-</u>	<u>-</u>	<u>8,149,003</u>	<u>7,702,994</u>
Other changes in net assets .....					
Actuarial gain (loss) on annuity and uni-trust obligations	-	(84,331)	-	(84,331)	53,577
Net unrealized losses on long-term investments	(85,716)	(72,842)	-	(158,558)	(299,708)
Change in beneficial interest in perpetual trusts	-	-	(765,049)	(765,049)	(512,766)
Total other changes	<u>(85,716)</u>	<u>(157,173)</u>	<u>(765,049)</u>	<u>(1,007,938)</u>	<u>(758,897)</u>
Changes in net assets	(929,374)	(199,851)	(634,248)	(1,763,473)	(931,961)
Net assets					
Beginning of year	7,068,850	834,931	4,635,659	12,539,440	13,471,401
End of year	<u>\$6,139,476</u>	<u>\$635,080</u>	<u>\$4,001,411</u>	<u>\$10,775,967</u>	<u>\$12,539,440</u>



# statement of cash flows

Years ended December 31, 2002 and 2001

	2002	2001
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
<b>Cash flows from operating activities</b>		
Cash received from contributors	\$7,265,642	\$7,712,651
Interest and dividends received	115,015	157,320
Grants paid	(4,423,489)	(3,701,447)
Cash paid for other expenditures	<u>(3,920,721)</u>	<u>(3,705,864)</u>
<b>Net cash provided by (used for) operating activities</b>	<u>(963,553)</u>	<u>462,660</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	(19,207)	(108,941)
Purchase of investments	(1,961,968)	(725,304)
Proceeds from sale of real estate held for investment, net	-	188,960
Proceeds from sale of investments	1,968,917	1,916,833
Net change in cash and cash equivalents – long term	634,101	(1,704,017)
Proceeds from mortgages receivable	<u>86,864</u>	<u>1,605</u>
<b>Net cash provided by (used for) investing activities</b>	<u>708,707</u>	<u>(430,864)</u>
<b>Cash flows from financing activities</b>		
Payments made to annuitants	(79,927)	(85,277)
Payments made under trust agreements	(67,562)	(72,444)
Payments made on capital lease	(17,939)	(17,521)
Proceeds from contributions restricted for – Investment subject to annuity agreements	71,500	72,250
Endowment	<u>130,801</u>	<u>100,000</u>
<b>Net cash provided by (used for) financing activities</b>	<u>36,873</u>	<u>(2,992)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(217,973)</b>	<b>28,804</b>
<b>Cash and cash equivalents</b>		
Beginning of year	<u>704,958</u>	<u>676,154</u>
End of year	<u><u>\$486,985</u></u>	<u><u>\$704,958</u></u>
	<u>2002</u>	<u>2001</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<b>Change in net assets</b>	<b>\$(1,763,473)</b>	<b>\$(931,961)</b>
<b>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</b>		
Depreciation	196,814	205,321
(Gain) loss on sale of investments	391,192	248,242
Actuarial (gain) loss on annuity obligations	84,331	(53,577)
Non-cash contributions – net of obligation assumed	(49,640)	(60,144)
Non-cash interest and dividends	(111)	(753)
Change in unrealized depreciation	158,558	299,708
Contributions restricted for long-term investment	(155,891)	(133,534)
Change in beneficial interest in perpetual trusts	765,049	512,766
Interest and dividends restricted for long-term investment	48,711	73,743
Increase in cash value of life insurance policies held	-	(1,118)
(Increase) decrease in		
Accrued interest receivable	10,519	4,708
Accounts receivable and advances	(125,764)	27,522
Legacy receivable	40,000	380,000
Pledges receivable	(297,590)	(171,103)
Prepaid expenses and deposits	(131,006)	(3,715)
Increase (decrease) in		
Accounts payable	<u>(135,252)</u>	<u>66,555</u>
<b>Net cash provided by (used for) operating activities</b>	<u><u>(\$963,553)</u></u>	<u><u>\$462,660</u></u>

**Board of Directors**  
**American Leprosy Missions, Inc.**  
**(ALM International)**  
**Greenville, South Carolina**

We have audited the accompanying statement of financial position of American Leprosy Missions, Inc. (ALM International) as of December 31, 2002, and the related statements of activities and changes in net assets, of functional expenses and of cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from American Leprosy Missions, Inc. (ALM International) 2001 financial statements and, in our report dated February 23, 2002, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Leprosy Missions, Inc. (ALM International) at December 31, 2002, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements referred to in the first paragraph taken as a whole. The accompanying supplemental information for program service grants, Page 11, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Tait, Weller & Baker, CPAs**  
**Philadelphia, Pennsylvania**  
**February 23, 2003**

# statement of functional expense

Year ended December 31, 2002 with summarized information

Salaries  
Employee health, retirement & other  
Payroll taxes  
**Total salaries & related expenses**  
Occupancy  
Office supplies & program materials  
Professional fees & contract services  
Travel, conferences, conventions &  
Printing, postage & publications  
Awards & grants  
Media  
New donor costs  
Depreciation  
Miscellaneous

# statement of financial position

Year ended December 31, 2002 with summarized information for 2001

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2002</u>	<u>Total 2001</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$482,917	\$4,068	\$ -	\$486,985	\$704,958
Accrued interest receivable	-	7,502	-	7,502	18,021
Accounts receivable and advances	160,088	-	-	160,088	34,324
Bequest receivable	264,600	-	-	264,600	304,600
Pledges receivable (Note 2)	558,670	128,695	-	687,365	389,775
Prepaid expenses and deposits	240,315	-	-	240,315	109,309
Mortgages receivable	-	-	-	-	1,952
Due from other net assets	<u>102,141</u>	<u>-</u>	<u>62,850</u>	<u>i</u>	<u>i</u>
Total current assets	<u>1,808,731</u>	<u>140,265</u>	<u>62,850</u>	<u>1,846,855</u>	<u>1,562,939</u>
<b>OTHER ASSETS</b>					
Mortgages receivable	-	-	-	-	84,912
Real estate held for investment	100,000	-	-	100,000	100,000
Land, building and equipment (Note 3)	1,026,096	-	-	1,026,096	1,203,703
Long-term investments (Note 4)	3,227,507	1,651,998	522,244	5,401,749	6,602,440
Beneficial interest in perpetual trusts (Note 6)	-	-	3,416,317	3,416,317	4,181,366
Other	<u>32,506</u>	<u>-</u>	<u>-</u>	<u>32,506</u>	<u>32,506</u>
Total other assets	<u>4,386,109</u>	<u>1,651,998</u>	<u>3,938,561</u>	<u>9,976,668</u>	<u>12,204,927</u>
Total assets	<u>\$6,194,840</u>	<u>\$1,792,263</u>	<u>\$4,001,411</u>	<u>\$11,823,523</u>	<u>\$13,767,866</u>
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$51,998	\$ -	\$ -	\$51,998	\$187,250
Leases payable (Note 5)	3,366	-	-	3,366	21,305
Due to other net assets	-	<u>164,991</u>	<u>-</u>	<u>i</u>	<u>i</u>
Total current liabilities	<u>55,364</u>	<u>164,991</u>	<u>-</u>	<u>55,364</u>	<u>208,555</u>
<b>OTHER LIABILITIES</b>					
Refundable advance	-	77,291	-	77,291	84,292
Uni-trust and annuity obligations	-	<u>914,901</u>	<u>-</u>	<u>914,901</u>	<u>935,579</u>
Total other liabilities	<u>-</u>	<u>992,192</u>	<u>-</u>	<u>992,192</u>	<u>1,019,871</u>
<b>NET ASSETS</b>					
<b>Unrestricted</b>					
Operating	2,219,174	-	-	2,219,174	2,211,880
Reserve	3,361,632	-	-	3,361,632	4,467,195
Pledges receivable	558,670	128,695	-	687,365	389,775
Temporarily restricted (Note 6)					
Life Income Agreements	-	506,385	-	506,385	834,931
Permanently restricted (Note 6)	-	-	<u>4,001,411</u>	<u>4,001,411</u>	<u>4,635,659</u>
Total net assets	<u>6,139,476</u>	<u>635,080</u>	<u>4,001,411</u>	<u>10,775,967</u>	<u>12,539,440</u>
Total liabilities and net assets	<u>\$6,194,840</u>	<u>\$1,792,263</u>	<u>\$4,001,411</u>	<u>\$11,823,523</u>	<u>\$13,767,866</u>

i Interfund balances eliminated in combination

Expenses	Bringing Cure and Care to Those with Leprosy and Disabilities			Patient Education and Research			Supporting Services			Total Expenses	
	Rehabilitation	Finding and curing	Training of Professionals	Patient Education	Research	Total 2002	Fund Raising	Mgmt. and General	Total 2002	2002	2001
Operation for 2001	\$135,053	\$192,782	\$70,774	\$25,819	\$63,928	\$488,356	\$307,354	\$282,387	\$589,741	\$1,078,097	\$1,193,909
Other benefits	36,605	52,251	19,182	6,998	17,327	132,363	114,441	80,560	195,001	327,364	309,724
Expenses	<u>9,869</u>	<u>14,087</u>	<u>5,172</u>	<u>1,887</u>	<u>4,671</u>	<u>35,686</u>	<u>20,929</u>	<u>20,373</u>	<u>41,302</u>	<u>76,988</u>	<u>89,474</u>
Salaries	181,527	259,120	95,128	34,704	85,926	656,405	442,724	383,320	826,044	1,482,449	1,593,107
Materials	14,004	19,990	7,339	2,677	6,629	50,639	32,090	38,420	70,510	121,149	150,371
Telephone payments	914	1,305	479	175	433	3,306	4,939	5,060	9,999	13,305	18,474
Travel & meetings	1,360	1,942	713	259	643	4,917	20,338	40,044	60,382	65,299	80,994
Printing	13,306	23,095	8,479	3,093	7,658	55,631	37,221	17,011	54,232	109,863	256,447
Supplies	26,469	37,783	13,871	5,060	12,529	95,712	470,215	3,861	474,076	569,788	612,639
Professional fees	1,200,952	1,710,200	627,848	229,044	567,111	4,335,155	-	-	-	4,335,155	3,729,133
Depreciation	-	-	-	-	-	-	631,183	-	631,183	631,183	575,790
Interest	-	-	-	-	-	-	552,338	-	552,338	552,338	408,134
Other	24,414	34,849	12,794	4,667	11,556	88,280	45,352	63,182	108,534	196,814	205,321
Reserve	<u>1,915</u>	<u>2,732</u>	<u>1,003</u>	<u>365</u>	<u>905</u>	<u>6,920</u>	<u>4,959</u>	<u>59,781</u>	<u>64,740</u>	<u>71,660</u>	<u>72,584</u>
Total	<u>\$1,464,861</u>	<u>\$2,091,016</u>	<u>\$767,654</u>	<u>\$280,044</u>	<u>\$693,390</u>	<u>\$5,296,965</u>	<u>\$2,241,359</u>	<u>\$610,679</u>	<u>\$2,852,038</u>	<u>\$8,149,003</u>	<u>\$7,702,994</u>

# notes to financial statements

Years ended December 31, 2002 and 2001

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ORGANIZATION AND PURPOSE

American Leprosy Missions, Inc. ("ALM") is incorporated pursuant to the provisions of the Membership 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. The mission of ALM is to serve as a channel of the love of Christ to persons with Hansen's Disease (Leprosy) and to those with disabilities, helping them to be healed in body and spirit, and to be restored to lives of dignity and usefulness within their communities.

### 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.

### 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. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

### REAL ESTATE HELD FOR INVESTMENT

Donated real estate held for investment is stated at estimated fair market value at date of receipt plus subsequent capitalized expenses and betterment's at cost.

### 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.

### 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 the trust to the donor. The present value of the segregated gift annuities and other annuities and uni-trust agreements was determined using a discount rate of 7%.

### 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 net assets and temporarily restricted. Pledges are recorded net of an allowance for uncollectible pledges.

### 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

ALM applies the Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations" ("SFAS No. 117"). Under the provisions of SFAS No. 117, 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.

### (2) PLEDGES RECEIVABLE

Unconditional promises to give are included in the financial statements as pledges receivable of the appropriate net asset category. Pledges are recorded after discounting to the present value of the future cash flows and after recording a reserve for doubtful accounts.

	2002	2001
In one year or less	\$946,279	\$556,822
In one to five years	<u>93,700</u>	<u>-</u>
	1,039,979	556,822
Less discount to present value	10,206	-
Less reserve for doubtful accounts	342,408	167,047
Net pledges receivable	<u>\$687,365</u>	<u>\$389,775</u>

### (3) LAND, BUILDING AND EQUIPMENT:

Land, building and equipment at December 31 are summarized as follows:

	2002	2001
Land	\$285,675	\$285,675
Building and improvements	957,314	957,314
Equipment	<u>2,119,681</u>	<u>2,100,798</u>
	3,362,670	3,343,787
Less accumulated depreciation	<u>2,336,574</u>	<u>2,140,084</u>
	<u>\$1,026,096</u>	<u>\$1,203,703</u>

### (4) LONG-TERM INVESTMENTS

At December 31, 2002 and 2001, the portfolio of marketable securities had unrealized gains (losses) of \$(305,095) and \$(142,242), respectively. Investment income in the statement of activities and changes in net assets is shown net of \$46,663 and \$54,112 of investment management fees for the years ended December 31, 2002 and 2001, respectively.

	2002		2001	
Net Assets	Cost	Market	Cost	Market
Unrestricted	\$3,407,585	\$3,227,462	\$4,494,249	\$4,384,992
Temporarily Restricted				
Revocable Gift Agreements	66,814	79,866	67,370	84,292
Segregated Gift Annuity Agreements	920,198	931,057	1,106,594	1,121,091
Uni-trust and Annuity Agreements	<u>756,539</u>	<u>641,120</u>	<u>708,186</u>	<u>662,397</u>
	1,743,551	1,652,043	1,882,150	1,867,780
Permanently restricted	<u>555,708</u>	<u>522,244</u>	<u>368,283</u>	<u>349,668</u>
Total	<u>\$5,706,844</u>	<u>\$5,401,749</u>	<u>\$6,744,682</u>	<u>\$6,602,440</u>

The components of marketable securities at December 31 are:

	2002		2001	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$1,523,294	\$1,523,294	\$2,157,395	\$2,157,395
U.S. Government Treasury securities	337,836	373,744	495,548	532,564
Corporate bonds	360,995	384,943	431,201	447,507
Common and preferred stock	1,644,896	1,503,255	1,935,065	1,819,858
Mutual funds	<u>1,839,823</u>	<u>1,616,513</u>	<u>1,725,473</u>	<u>1,645,116</u>
	<u>\$5,706,844</u>	<u>\$5,401,749</u>	<u>\$6,744,682</u>	<u>\$6,602,440</u>

At December 31, 2002 and 2001 the portfolio of marketable securities had unrealize gains (losses) of \$(305,095) and \$(142,242), respectively.

Investment income in the statement of activities and changes in net assets is shown net of \$46,663 and \$54,112 of investment management fees for the years ended December 31, 2002 and 2001 respectively.

### (5) LEASE COMMITMENTS

ALM leases office equipment under capital leases expiring in 2003. The related property is included in equipment at December 31, 2002, at a cost of \$41,668. Depreciation expense of \$37,501 has been recognized on this property as of December 31, 2002. Future annual minimum lease payments under the capital leases together with the present value of the net minimum lease payments are as follows:

Year ending December 31, 2003	\$3,418
Less amount representing interest	52
Present value of minimum lease payments	<u>\$3,366</u>

### (6) NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2002	2001
Life Income Agreements	\$506,385	\$834,931
Other	<u>128,695</u>	<u>-</u>
	<u>\$635,080</u>	<u>\$834,931</u>

Permanently restricted net assets are available for the following purpose:

Investment in perpetuity, the income from which is expendable to support any activities of the organization	\$585,094	\$454,293
Beneficial interest in perpetual trusts	<u>3,416,317</u>	<u>4,181,366</u>
	<u>\$4,001,411</u>	<u>\$4,635,659</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Time restrictions expired	\$196,465
Research	72,000
Other	<u>51,100</u>
	<u>\$319,565</u>

### (7) 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 \$107,000 and \$136,000 for the years ended December 31, 2002 and 2001, respectively.