

AMERICAN LEPROSY MISSIONS, INC.

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

JUNE 30, 2014 AND DECEMBER 31, 2013

AMERICAN LEPROSY MISSIONS, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of American Leprosy Missions, Inc., which comprise the statement of financial position as of June 30, 2014 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the six months 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. as of June 30, 2014, and the changes in its net assets and its cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

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

Report on Summarized Comparative Information

We have previously audited American Leprosy Missions, Inc.'s 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 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
December 11, 2014**

AMERICAN LEPROSY MISSIONS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2014 With Summarized Information For December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				June 30, 2014	December 31, 2013
CURRENT ASSETS					
Cash and cash equivalents	\$ 232,507	\$ 39,960	\$ -	\$ 272,467	\$ 302,049
Accrued interest receivable	10,710	4,522	-	15,232	15,579
Accounts receivable and advances	3,156	-	-	3,156	729
Pledges receivable, net	-	425,806	-	425,806	299,751
Prepaid expenses and deposits	223,189	-	-	223,189	245,117
Due from (to) other net assets	<u>135,891</u>	<u>(135,891)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>605,453</u>	<u>334,397</u>	<u>-</u>	<u>939,850</u>	<u>863,225</u>
OTHER ASSETS					
Land, building and equipment (<i>Note 2</i>)	286,293	-	-	286,293	629,991
Long-term investments (<i>Note 3</i>)	5,532,122	1,803,888	722,932	8,058,942	7,993,961
Beneficial interest in perpetual trusts (<i>Note 5</i>)	-	-	5,578,973	5,578,973	5,388,505
Other	<u>44,716</u>	<u>-</u>	<u>-</u>	<u>44,716</u>	<u>47,954</u>
Total other assets	<u>5,863,131</u>	<u>1,803,888</u>	<u>6,301,905</u>	<u>13,968,924</u>	<u>14,060,411</u>
Total assets	<u>\$ 6,468,584</u>	<u>\$ 2,138,285</u>	<u>\$ 6,301,905</u>	<u>\$ 14,908,774</u>	<u>\$ 14,923,636</u>
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 388,789	\$ -	\$ -	\$ 388,789	\$ 157,361
Current portion of capital lease (<i>Note 4</i>)	<u>2,784</u>	<u>-</u>	<u>-</u>	<u>2,784</u>	<u>2,643</u>
Total current liabilities	<u>391,573</u>	<u>-</u>	<u>-</u>	<u>391,573</u>	<u>160,004</u>
OTHER LIABILITIES					
Capital lease (<i>Note 4</i>)	4,474	-	-	4,474	5,902
Refundable advance	-	75,848	-	75,848	76,250
Uni-trust and annuity obligations	<u>-</u>	<u>400,758</u>	<u>-</u>	<u>400,758</u>	<u>415,015</u>
Total other liabilities	<u>4,474</u>	<u>476,606</u>	<u>-</u>	<u>481,080</u>	<u>497,167</u>
Total liabilities	<u>396,047</u>	<u>476,606</u>	<u>-</u>	<u>872,653</u>	<u>657,171</u>
NET ASSETS					
Unrestricted					
Operating	1,839,413	-	-	1,839,413	1,023,629
Reserve	<u>4,233,124</u>	<u>-</u>	<u>-</u>	<u>4,233,124</u>	<u>5,485,937</u>
Temporarily restricted (<i>Note 5</i>)					
Accumulated endowment income	-	464,235	-	464,235	434,844
Other income	-	425,806	-	425,806	456,001
Life Income Agreements	-	771,638	-	771,638	754,617
Permanently restricted (<i>Note 5</i>)	<u>-</u>	<u>-</u>	<u>6,301,905</u>	<u>6,301,905</u>	<u>6,111,437</u>
Total net assets	<u>6,072,537</u>	<u>1,661,679</u>	<u>6,301,905</u>	<u>14,036,121</u>	<u>14,266,465</u>
Total liabilities and net assets	<u>\$ 6,468,584</u>	<u>\$ 2,138,285</u>	<u>\$ 6,301,905</u>	<u>\$ 14,908,774</u>	<u>\$ 14,923,636</u>

AMERICAN LEPROSY MISSIONS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Six Months Ended June 30, 2014 With Summarized Information For The Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				June 30, 2014	December 31, 2013
Public support and revenue					
Public support					
Contributions	\$ 1,920,733	\$ 128,516	\$ -	\$ 2,049,249	\$ 5,399,068
Contributions (In-Kind)	2,984,068	-	-	2,984,068	3,638,188
Income from outside trusts	93,820	-	-	93,820	184,097
Legacies and bequests	169,040	-	-	169,040	1,384,245
Special event	<u>265,253</u>	<u>-</u>	<u>-</u>	<u>265,253</u>	<u>479,354</u>
Total public support	<u>5,432,914</u>	<u>128,516</u>	<u>-</u>	<u>5,561,430</u>	<u>11,084,952</u>
Revenue					
Investment income, net of expenses	29,949	6,961	-	36,910	88,568
Investment return designated for current operations	-	-	-	-	54,000
Realized gain on investment transactions	278,255	32,918	-	311,173	240,135
Other	<u>268</u>	<u>-</u>	<u>-</u>	<u>268</u>	<u>4,547</u>
Total revenue	<u>308,472</u>	<u>39,879</u>	<u>-</u>	<u>348,351</u>	<u>387,250</u>
Net assets released from restrictions (Note 5)	<u>156,250</u>	<u>(156,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,897,636</u>	<u>12,145</u>	<u>-</u>	<u>5,909,781</u>	<u>11,472,202</u>
Expenses					
Program services					
Leprosy and Related Diseases	4,648,442	-	-	4,648,442	6,099,164
Training of Professionals	154,929	-	-	154,929	322,608
Socio-Economic Services	249,721	-	-	249,721	678,488
Prevention of Disabilities	217,548	-	-	217,548	1,064,528
Research	465,089	-	-	465,089	704,293
Christian Witness	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,411</u>
Total program services	<u>5,735,729</u>	<u>-</u>	<u>-</u>	<u>5,735,729</u>	<u>8,880,492</u>
Supporting services					
Fund-raising	987,279	-	-	987,279	2,183,671
Management and general	<u>270,102</u>	<u>-</u>	<u>-</u>	<u>270,102</u>	<u>434,624</u>
Total supporting services	<u>1,257,381</u>	<u>-</u>	<u>-</u>	<u>1,257,381</u>	<u>2,618,295</u>
Total expenses	<u>6,993,110</u>	<u>-</u>	<u>-</u>	<u>6,993,110</u>	<u>11,498,787</u>
Change in net assets from operations	(1,095,474)	12,145	-	(1,083,329)	(26,585)
Other changes in net assets					
Actuarial gains/(loss) on annuity and unitrust obligations	-	(8,032)	-	(8,032)	(11,777)
Net unrealized gains (loss) on long-term investments	(79,917)	(17,287)	-	(97,204)	438,827
Investment return in excess of amount designated for current operations	-	29,391	-	29,391	106,534
Change in beneficial interest in perpetual trusts	-	-	190,468	190,468	536,277
Gain on sale of property and building, net (Note 2)	<u>738,362</u>	<u>-</u>	<u>-</u>	<u>738,362</u>	<u>-</u>
Total other changes	<u>658,445</u>	<u>4,072</u>	<u>190,468</u>	<u>852,985</u>	<u>1,069,861</u>
Changes in net assets	(437,029)	16,217	190,468	(230,344)	1,043,276
Net assets					
Beginning of year	<u>6,509,566</u>	<u>1,645,462</u>	<u>6,111,437</u>	<u>14,266,465</u>	<u>13,223,189</u>
End of year	<u>\$ 6,072,537</u>	<u>\$ 1,661,679</u>	<u>\$ 6,301,905</u>	<u>\$ 14,036,121</u>	<u>\$ 14,266,465</u>

See notes to financial statements.

AMERICAN LEPROSY MISSIONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Six Months Ended June 30, 2014 With Summarized Information For The Year Ended December 31, 2013

	Program Services		
	<u>Leprosy And Related Diseases</u>	<u>Training Of Professionals</u>	<u>Socio- Economic Services</u>
Salaries	\$ 167,819	\$ 5,593	\$ 9,015
Payroll taxes	11,109	370	597
Employee health, retirement, and other benefits	<u>50,702</u>	<u>1,690</u>	<u>2,724</u>
Total salaries and related expenses	229,630	7,653	12,336
Occupancy	18,929	631	1,017
Office supplies and program materials	1,437	48	77
Professional fees and contract service payments	-	-	-
Travel, conferences, conventions and meetings	75,934	2,531	4,079
Printing, postage and publications	32,888	1,096	1,767
Awards, grants and other program disbursements	4,001,415	133,364	214,962
Media	-	-	-
New donor costs	2,215	74	119
Special events	269,971	8,998	14,503
Depreciation	8,579	286	461
Miscellaneous	<u>7,444</u>	<u>248</u>	<u>400</u>
	<u>\$ 4,648,442</u>	<u>\$ 154,929</u>	<u>\$ 249,721</u>

Prevention Of Disabilities			Supporting Services			Total Expenses	
Research	Total 2014	Fund Raising	Management And General	Total 2014	June 30, 2014	December 31, 2013	
\$ 7,854	\$ 207,072	\$ 117,780	\$ 128,584	\$ 246,364	\$ 453,436	\$ 900,129	
520	13,707	7,151	8,939	16,090	29,797	66,253	
<u>2,373</u>	<u>62,562</u>	<u>66,590</u>	<u>22,269</u>	<u>88,859</u>	<u>151,421</u>	<u>253,129</u>	
10,747	283,341	191,521	159,792	351,313	634,654	1,219,511	
886	23,357	36,380	19,308	55,688	79,045	94,357	
67	1,773	2,868	1,936	4,804	6,577	10,008	
-	-	88,380	29,500	117,880	117,880	181,977	
3,554	93,695	15,354	6,984	22,338	116,033	213,683	
1,539	40,581	402,639	436	403,075	443,656	1,187,979	
187,266	4,937,359	-	-	-	4,937,359	7,509,778	
-	-	53,512	-	53,512	53,512	24,530	
104	2,734	37,356	-	37,356	40,090	169,741	
12,635	333,118	66,034	-	66,034	399,152	649,589	
402	10,586	16,232	8,469	24,701	35,287	70,528	
<u>348</u>	<u>9,185</u>	<u>77,003</u>	<u>43,677</u>	<u>120,680</u>	<u>129,865</u>	<u>167,106</u>	
<u>\$217,548</u>	<u>\$5,735,729</u>	<u>\$987,279</u>	<u>\$270,102</u>	<u>\$1,257,381</u>	<u>\$ 6,993,110</u>	<u>\$ 11,498,787</u>	

AMERICAN LEPROSY MISSIONS, INC.

STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2014 And The Year Ended December 31, 2013

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
<i>Cash flows from operating activities</i>		
Cash received from contributors	\$ 2,451,575	\$ 6,899,222
Interest and dividends received	39,459	114,682
Grants paid	(1,953,291)	(3,871,590)
Cash paid for other expenditures	<u>(1,756,303)</u>	<u>(3,838,032)</u>
Net cash used for operating activities	<u>(1,218,560)</u>	<u>(695,718)</u>
<i>Cash flows from investing activities</i>		
Purchase of building and equipment	(247,179)	(94,587)
Proceeds on sale of property and building, net	1,293,952	-
Purchase of investments	(1,768,976)	(3,558,689)
Proceeds from sale of investments	2,800,741	3,353,288
Net change in cash and cash equivalents – long term	<u>(851,520)</u>	<u>53,103</u>
Net cash provided by (used for) investing activities	<u>1,227,018</u>	<u>(246,885)</u>
<i>Cash flows from financing activities</i>		
Payments made to annuitants	(31,378)	(65,129)
Payments made under trust agreements	(10,375)	(18,197)
Payments on capital lease	(1,287)	(2,383)
Proceeds from contributions restricted for – Investment subject to annuity agreements	<u>5,000</u>	<u>25,000</u>
Net cash used for financing activities	<u>(38,040)</u>	<u>(60,709)</u>
Net decrease in cash and cash equivalents	(29,582)	(1,003,312)
<i>Cash and cash equivalents</i>		
Beginning of year	<u>302,049</u>	<u>1,305,361</u>
End of year	<u>\$ 272,467</u>	<u>\$ 302,049</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 418</u>	<u>\$ 1,028</u>

AMERICAN LEPROSY MISSIONS, INC.

STATEMENTS OF CASH FLOWS – (Continued)

Six Months Ended June 30, 2014 And The Year Ended December 31, 2013

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (230,344)	\$ 1,043,276
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	35,287	70,528
Gain on sale of investments	(593,234)	(271,260)
Gain on sale of property	(738,362)	-
Actuarial loss on annuity and unitrust obligations	8,032	11,777
Change in unrealized gains on investments	357,037	(553,809)
Change in beneficial interest in perpetual trusts	(190,468)	(536,277)
Liability for new annuities issued	2,539	19,677
Interest and dividends restricted for long-term investment	2,896	11,434
(Increase) decrease in		
Accrued interest receivable	347	254
Accounts receivable and advances	(2,427)	1,271
Pledges receivable	(126,055)	(299,751)
Prepaid expenses and deposits	25,166	(45,095)
Increase (decrease) in		
Accounts payable and accrued expenses	231,428	(147,743)
Refundable advances	(402)	-
<i>Net cash used for operating activities</i>	<u>\$ (1,218,560)</u>	<u>\$ (695,718)</u>

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 And December 31, 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

American Leprosy Missions, Inc. (“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.

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 (2011 – 2013) or expected to be taken in the organization’s 2014 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

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.

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.

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

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 2.4% to 7.4%.

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 six months ended June 30, 2014 and year ended December 31, 2013, 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 six months ended June 30, 2014 and year ended December 31, 2013, ALM received and distributed \$2,984,068 and \$3,638,188, 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.

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

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 December 31, 2013, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications were made to the 2013 financial statements to conform to the 2014 presentation.

(2) LAND, BUILDING AND EQUIPMENT

Land, building and equipment at June 30, 2014 and December 31, 2013 are summarized as follows:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Land	\$ -	\$ 285,675
Building and improvements	50,874	1,037,037
Equipment	<u>317,268</u>	<u>2,815,110</u>
	368,142	4,137,822
Less accumulated depreciation	<u>81,849</u>	<u>3,507,831</u>
	<u>\$ 286,293</u>	<u>\$ 629,991</u>

In January 2014, ALM sold its Greenville office building and land for \$1,351,500. After all expenses and closing costs associated with the sale, ALM realized a gain on the sale of the property of \$738,362. This gain is included with other changes in net assets on the statement of activities and changes in net assets.

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

(3) LONG-TERM INVESTMENTS

Cost and market values at June 30, 2014 and December 31, 2013 are summarized as follows:

<u>Net Assets</u>	<u>June 30, 2014</u>		<u>December 31, 2013</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Unrestricted	<u>\$ 4,911,007</u>	<u>\$ 5,532,122</u>	<u>\$ 4,558,768</u>	<u>\$ 5,490,114</u>
Temporarily Restricted				
Revocable Gift Agreements	69,635	71,405	69,004	68,672
Segregated Gift Annuity Agreements	725,837	840,643	731,480	863,573
Uni-trust and Annuity Agreements	417,851	427,605	415,586	413,826
Accumulated Endowment Income	<u>374,280</u>	<u>464,235</u>	<u>337,254</u>	<u>434,844</u>
	<u>1,587,603</u>	<u>1,803,888</u>	<u>1,553,324</u>	<u>1,780,915</u>
Permanently restricted	<u>582,849</u>	<u>722,932</u>	<u>560,687</u>	<u>722,932</u>
Total	<u>\$ 7,081,459</u>	<u>\$ 8,058,942</u>	<u>\$ 6,672,779</u>	<u>\$ 7,993,961</u>

The components of marketable securities at June 30, 2014 and December 31, 2013 are:

	<u>June 30, 2014</u>		<u>December 31, 2013</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 1,244,639	\$ 1,244,639	\$ 393,119	\$ 393,119
U.S. Government Treasury securities	866,535	876,435	1,025,192	1,020,796
Corporate and municipal bonds	956,923	986,693	1,068,934	1,086,527
Common and preferred stocks	2,296,324	3,122,119	2,795,530	3,898,522
Mutual funds	<u>1,717,038</u>	<u>1,829,056</u>	<u>1,390,004</u>	<u>1,594,997</u>
	<u>\$ 7,081,459</u>	<u>\$ 8,058,942</u>	<u>\$ 6,672,779</u>	<u>\$ 7,993,961</u>

At June 30, 2014 and December 31, 2013, the portfolio of marketable securities had unrealized gains of \$977,483 and \$1,321,182, respectively

Investment income in the statement of activities and changes in net assets is shown net of \$33,116 and \$53,813 of investment management fees for the six months ended June 30, 2014 and the year ended December 31, 2013, respectively.

Beginning in 2013, ALM 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. Total endowment income distributed for operations amounted to \$54,000 for the year ended December 31, 2013. There was no endowment income distributed for operations in the six months ended June 30, 2014.

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

The following schedule summarizes the investment return of the endowment funds and its classification in the statement of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>June 30, 2014 Total</u>	<u>December 31, 2013 Total</u>
Interest and dividends (net of management fees of \$4,163 and \$8,153)	\$ -	\$ 7,810	\$ 7,810	\$ 14,426
Net realized and unrealized gains (losses)	<u>-</u>	<u>21,581</u>	<u>21,581</u>	<u>146,108</u>
Return on long-term investments	-	29,391	29,391	160,534
Investment return designated for current operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,000)</u>
Investment return in excess (deficit) of amounts designated for current operations	<u>\$ -</u>	<u>\$ 29,391</u>	<u>\$ 29,391</u>	<u>\$ 106,534</u>

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, 2014 and December 31, 2013 is as follows:

	<u>June 30, 2014</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 1,244,639	\$ 1,244,639	\$ -	\$ -
U.S. Government Treasury Securities	876,435	-	876,435	-
Corporate and municipal bonds	986,693	-	986,693	-
Common and preferred stocks	3,122,119	3,122,119	-	-
Mutual funds	<u>1,829,056</u>	<u>1,829,056</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 8,058,942</u>	<u>\$ 6,195,814</u>	<u>\$ 1,863,128</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$ 5,578,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,578,973</u>

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 393,119	\$ 393,119	\$ -	\$ -
U.S. Government Treasury Securities	1,020,796	-	1,020,796	-
Corporate and municipal bonds	1,086,527	-	1,086,527	-
Common and preferred stocks	3,898,522	3,898,522	-	-
Mutual funds	<u>1,594,997</u>	<u>1,594,997</u>	-	-
Total	<u>\$7,993,961</u>	<u>\$5,886,638</u>	<u>\$2,107,323</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$5,388,505</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,388,505</u>

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2014 and year ended December 31, 2013.

The changes in the financial instruments as of June 30, 2014 and December 31, 2013 for which ALM used level 3 inputs to determine fair value are as follows:

	June 30, 2014	December 31, 2013
Balance, beginning of year	\$5,388,505	\$4,852,228
Unrealized gains – change in valuation	<u>190,468</u>	<u>536,277</u>
Balance, end of year	<u>\$5,578,973</u>	<u>\$5,388,505</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 sold its Greenville office (*Note 2*). In connection with the sale, ALM agreed on a five year lease with the buyer to lease space at its current location. Total rent expense for the six months ending June 30, 2014 was approximately \$33,600.

Future minimum lease payments are as follows:

2015	\$ 80,713
2016	80,713
2017	80,713
2018	80,713
2019	<u>47,082</u>
	<u>\$369,934</u>

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

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 \$6,843 at June 30, 2014. Future minimum lease payments under this capital lease together with the present value of the net minimum lease payments at June 30, 2014 are as follows:

2015	\$ 3,411
2016	3,411
2017	<u>1,420</u>
Total minimum lease payments	8,242
Less: Amounts representing interest	<u>984</u>
Present value of minimum lease payments	7,258
Less: current portion of capital lease	<u>2,784</u>
Capital lease – noncurrent portion	<u>\$4,474</u>

(5) NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Life Income Agreements	\$ 771,638	\$ 754,617
Accumulated Endowment Income	464,235	434,844
Time restricted – use in future periods	<u>425,806</u>	<u>456,001</u>
	<u>\$ 1,661,679</u>	<u>\$ 1,645,462</u>

New York State law requires a segregated minimum reserve (liabilities plus minimum required surplus) for the gift annuity agreements. Assets (at market value) in the segregated gift annuity fund exceeded the calculated minimum reserve of \$520,285 as of June 30, 2014 and \$551,054 as of December 31, 2013 by \$349,054 and \$321,657, respectively.

Permanently restricted net assets are available for the following purpose:

	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Investment in perpetuity, the income from which is expendable to support any activities of the organization	\$ 722,932	\$ 722,932
Beneficial interest in perpetual trusts	<u>5,578,973</u>	<u>5,388,505</u>
	<u>\$ 6,301,905</u>	<u>\$ 6,111,437</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.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

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.

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

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 six months ended June 30, 2014.

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, 2014, no donor restricted endowment funds have fallen below the required level.

Endowment net asset composition by type of fund as of June 30, 2014 and December 31, 2013:

	<u>June 30, 2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$464,235	\$722,932	\$1,187,167

	<u>December 31, 2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$434,844	\$722,932	\$1,157,776

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, 2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 434,844	\$ 722,932	\$ 1,157,776
Investment return (<i>See Note 3</i>)	-	29,391	-	29,391
Investment return designated for current operations	-	-	-	-
	<u>\$ -</u>	<u>\$ 464,235</u>	<u>\$ 722,932</u>	<u>\$ 1,187,167</u>

	<u>December 31, 2013</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 328,310	\$ 722,932	\$ 1,051,242
Investment return (<i>See Note 3</i>)	-	160,534	-	160,534
Investment return designated for current operations	-	(54,000)	-	(54,000)
	<u>\$ -</u>	<u>\$ 434,844</u>	<u>\$ 722,932</u>	<u>\$ 1,157,776</u>

AMERICAN LEPROSY MISSIONS, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2014 And December 31, 2013

(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 \$41,000 and \$73,000 for the six months ended June 30, 2014 and the year ended December 31, 2013, respectively.

(7) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, December 11, 2014, have been evaluated in the preparation of the financial statements.

SUPPLEMENTAL INFORMATION

AMERICAN LEPROSY MISSIONS, INC.

SCHEDULE OF PROGRAM SERVICE GRANTS AND OTHER DISBURSEMENTS

Six Months Ended June 30, 2014 With Summarized Information For The Year Ended December 31, 2013

	<u>Medical Treatment</u>	<u>Training Of Professionals</u>	<u>Community Development</u>	<u>Prevention Of Disabilities</u>	<u>Research</u>	<u>Total</u>	
						<u>June 30, 2014</u>	<u>December 31, 2013</u>
<u>Africa</u>							
Africa-Region	\$ 77,688	\$ 223	\$ 223	\$ 223	\$ -	\$ 78,357	\$ 150,000
Angola	-	-	-	-	-	-	70,000
Congo	194,164	14,110	1,119	5,390	-	214,783	459,577
Cote D' Ivoire	52,500	-	-	-	-	52,500	105,000
Ethiopia	-	-	-	-	-	-	22,000
Ghana	65,000	-	-	-	-	65,000	132,500
Liberia	82,500	-	-	2,500	-	85,000	185,038
Somalia	50,000	-	-	-	-	50,000	-
	<u>521,852</u>	<u>14,333</u>	<u>1,342</u>	<u>8,113</u>	<u>-</u>	<u>545,640</u>	<u>1,124,115</u>
<u>Asia and Pacific Islands</u>							
Asia Region	29,536	566	566	566	-	31,234	199,902
Bangladesh	12,500	-	26,257	26,257	-	65,014	126,921
India	68,170	9,375	30,550	12,250	3,125	123,470	255,900
Indonesia	15,500	-	7,500	5,500	-	28,500	57,000
Myanmar	90,722	41,876	2,865	31,695	-	167,158	321,005
Nepal	23,475	12,749	126,886	54,925	25,094	243,129	592,152
Philippines	50,000	-	4,914	-	-	54,914	190,843
	<u>289,903</u>	<u>64,566</u>	<u>199,538</u>	<u>131,193</u>	<u>28,219</u>	<u>713,419</u>	<u>1,743,723</u>
	<u>811,755</u>	<u>78,899</u>	<u>200,880</u>	<u>139,306</u>	<u>28,219</u>	<u>1,259,059</u>	<u>2,867,838</u>
<u>Miscellaneous Grants and Disbursements</u>							
Vaccine Research	-	-	-	-	100,000	100,000	70,000
Other Research	43,950	-	-	-	217,550	261,500	311,164
Gifts-in-Kind	3,064,528	-	-	1,134	-	3,065,662	3,743,840
Training and Other	81,182	54,465	14,082	46,826	54,583	251,138	516,936
	<u>3,189,660</u>	<u>54,465</u>	<u>14,082</u>	<u>47,960</u>	<u>372,133</u>	<u>3,678,300</u>	<u>4,641,940</u>
Total grants	<u>\$4,001,415</u>	<u>\$133,364</u>	<u>\$214,962</u>	<u>\$187,266</u>	<u>\$400,352</u>	<u>\$4,937,359</u>	<u>\$7,509,778</u>