

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

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

JUNE 30, 2018

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of American Leprosy Missions, Inc. and Subsidiary (“ALM”), which comprise the statement of financial position as of June 30, 2018 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
October 17, 2018**

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF FINANCIAL POSITION

June 30, 2018 With Summarized Information For 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
CURRENT ASSETS					
Cash and cash equivalents	\$ 349,507	\$ 20,116	\$ -	\$ 369,623	\$ 443,145
Accrued interest receivable	6,746	1,538	-	8,284	8,229
Accounts receivable and advances	3,396	-	-	3,396	50,327
Prepaid expenses and deposits	184,686	-	-	184,686	116,784
Due from (to) other net assets	(36,398)	36,398	-	-	-
Total current assets	<u>507,937</u>	<u>58,052</u>	<u>-</u>	<u>565,989</u>	<u>618,485</u>
OTHER ASSETS					
Building and equipment (<i>Note 2</i>)	122,761	-	-	122,761	122,025
Investments (<i>Note 3</i>)	8,140,895	1,045,187	245,914	9,431,996	4,938,142
Beneficial interest in perpetual trusts (<i>Note 5</i>)	-	-	6,085,392	6,085,392	5,729,788
Other	39,181	-	-	39,181	38,844
Total other assets	<u>8,302,837</u>	<u>1,045,187</u>	<u>6,331,306</u>	<u>15,679,330</u>	<u>10,828,799</u>
Total assets	<u>\$ 8,810,774</u>	<u>\$ 1,103,239</u>	<u>\$ 6,331,306</u>	<u>\$ 16,245,319</u>	<u>\$ 11,447,284</u>
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 162,950	\$ -	\$ -	\$ 162,950	\$ 538,506
OTHER LIABILITIES					
Refundable advance	-	-	-	-	86,965
Unitrust and annuity obligations	-	142,685	-	142,685	159,316
Total other liabilities	<u>-</u>	<u>142,685</u>	<u>-</u>	<u>142,685</u>	<u>246,281</u>
Total liabilities	<u>162,950</u>	<u>142,685</u>	<u>-</u>	<u>305,635</u>	<u>784,787</u>
NET ASSETS					
Unrestricted					
Operating	6,444,565	-	-	6,444,565	1,507,367
Reserve	2,203,259	-	-	2,203,259	2,025,573
Temporarily restricted (<i>Note 5</i>)					
Operations – program service grants	-	51,151	-	51,151	-
Accumulated endowment income	-	203,056	-	203,056	185,111
Life Income Agreements	-	706,347	-	706,347	968,744
Permanently restricted (<i>Note 5</i>)	-	-	6,331,306	6,331,306	5,975,702
Total net assets	<u>8,647,824</u>	<u>960,554</u>	<u>6,331,306</u>	<u>15,939,684</u>	<u>10,662,497</u>
Total liabilities and net assets	<u>\$ 8,810,774</u>	<u>\$ 1,103,239</u>	<u>\$ 6,331,306</u>	<u>\$ 16,245,319</u>	<u>\$ 11,447,284</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2018 With Summarized Information For 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2018	2017
Public support and revenue					
Public support					
Contributions	\$10,231,795	\$ 547,982	\$ -	\$ 10,779,777	\$ 6,493,062
Contributions (In-Kind)	6,333,138	-	-	6,333,138	5,107,256
Sales, net of cost of goods sold	-	-	-	-	124,814
Income from outside trusts	235,288	-	-	235,288	233,312
Legacies and bequests	1,492,692	-	-	1,492,692	481,541
Special events	436,174	-	-	436,174	808,615
Net assets released (<i>Note 5</i>)	<u>781,986</u>	<u>(781,986)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support	<u>19,511,073</u>	<u>(234,004)</u>	<u>-</u>	<u>19,277,069</u>	<u>13,248,600</u>
Revenue					
Investment income, net of expenses	92,836	33,512	-	126,348	81,992
Realized gain on investment transactions	74,078	5,501	-	79,579	209,530
Other	<u>1,180</u>	<u>-</u>	<u>-</u>	<u>1,180</u>	<u>2,331</u>
Total revenue	<u>168,094</u>	<u>39,013</u>	<u>-</u>	<u>207,107</u>	<u>293,853</u>
Total support and revenue	<u>19,679,167</u>	<u>(194,991)</u>	<u>-</u>	<u>19,484,176</u>	<u>13,542,453</u>
Expenses					
Program services	<u>11,770,082</u>	<u>-</u>	<u>-</u>	<u>11,770,082</u>	<u>11,459,359</u>
Supporting services					
Fund-raising	2,345,410	-	-	2,345,410	2,694,358
Management and general	499,083	-	-	499,083	415,799
Mission Thrift	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>410,935</u>
Total supporting services	<u>2,844,493</u>	<u>-</u>	<u>-</u>	<u>2,844,493</u>	<u>3,521,092</u>
Total expenses	<u>14,614,575</u>	<u>-</u>	<u>-</u>	<u>14,614,575</u>	<u>14,980,451</u>
Change in net assets from operations	5,064,592	(194,991)	-	4,869,601	(1,437,998)
Other changes in net assets					
Actuarial gains/(loss) on annuity and unitrust obligations	-	(12,868)	-	(12,868)	36,538
Net unrealized gain (loss) on investments	50,292	(3,387)	-	46,905	(28,715)
Investment return in excess of amount designated for current operations	-	17,945	-	17,945	24,111
Change in beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>355,604</u>	<u>355,604</u>	<u>499,004</u>
Total other changes	<u>50,292</u>	<u>1,690</u>	<u>355,604</u>	<u>407,586</u>	<u>530,938</u>
Changes in net assets	5,114,884	(193,301)	355,604	5,277,187	(907,060)
Net assets					
Beginning of year	<u>3,532,940</u>	<u>1,153,855</u>	<u>5,975,702</u>	<u>10,662,497</u>	<u>11,569,557</u>
End of year	<u>\$ 8,647,824</u>	<u>\$ 960,554</u>	<u>\$ 6,331,306</u>	<u>\$ 15,939,684</u>	<u>\$ 10,662,497</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018 With Summarized Information For June 30, 2017

	Program Services	Supporting Services			Total 2018	Total Expenses	
		Fund Raising	Management And General	Mission Thrift		June 30, 2018	June 30, 2017
Salaries	\$ 1,324,139	\$ 315,216	\$ 169,951	\$ -	\$ 485,167	\$ 1,809,306	\$ 2,071,307
Payroll taxes	52,250	25,356	12,357	-	37,713	89,963	99,128
Employee health, retirement, and other benefits	<u>267,576</u>	<u>90,192</u>	<u>56,836</u>	<u>-</u>	<u>147,028</u>	<u>414,604</u>	<u>363,352</u>
Total salaries and related expenses	1,643,965	430,764	239,144	-	669,908	2,313,873	2,533,787
Occupancy	41,066	56,220	39,830	-	96,050	137,116	261,966
Office supplies, equipment, and program materials	2,395	3,465	2,181	-	5,646	8,041	49,823
Professional fees and contract service payments	-	376,870	38,567	-	415,437	415,437	443,124
Travel, conferences, conventions and meetings	190,011	52,102	15,406	-	67,508	257,519	210,024
Printing, postage and publications	112,468	980,147	14,717	-	994,864	1,107,332	1,066,810
Awards, grants and other program disbursements	9,589,858	-	-	-	-	9,589,858	9,011,446
Media	-	91,763	-	-	91,763	91,763	63,671
New donor costs	7,175	202,576	-	-	202,576	209,751	338,537
Special events	143,627	28,176	-	-	28,176	171,803	584,129
Depreciation	14,021	18,694	13,965	-	32,659	46,680	55,086
Miscellaneous	<u>25,496</u>	<u>104,633</u>	<u>135,273</u>	<u>-</u>	<u>239,906</u>	<u>265,402</u>	<u>362,048</u>
Total expenses – 2018	<u>\$ 11,770,082</u>	<u>\$ 2,345,410</u>	<u>\$ 499,083</u>	<u>\$ -</u>	<u>\$ 2,844,493</u>	<u>\$ 14,614,575</u>	
Total expenses – 2017	<u>\$ 11,459,359</u>	<u>\$ 2,694,358</u>	<u>\$ 415,799</u>	<u>\$ 410,935</u>	<u>\$ 3,521,092</u>		<u>\$ 14,980,451</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 And June 30, 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
<i>Cash flows from operating activities</i>		
Cash received from contributors	\$ 12,858,147	\$ 8,143,675
Interest and dividends received	144,237	120,784
Grants paid	(3,256,720)	(3,904,190)
Cash paid for other expenditures	<u>(5,374,901)</u>	<u>(5,515,439)</u>
Net cash provided by (used for) operating activities	<u>4,370,763</u>	<u>(1,155,170)</u>
<i>Cash flows from investing activities</i>		
Purchase of building and equipment	(47,416)	(23,664)
Purchase of investments	(3,411,209)	(1,830,513)
Proceeds from sale of investments	3,231,581	2,498,492
Net change in cash and cash equivalents	<u>(4,187,742)</u>	<u>358,069</u>
Net cash (used for) provided by investing activities	<u>(4,414,786)</u>	<u>1,002,384</u>
<i>Cash flows from financing activities</i>		
Payments made to annuitants	(23,297)	(24,456)
Payments made under trust agreements	(6,202)	(14,157)
Payments on capital lease	<u>-</u>	<u>(1,385)</u>
Net cash used for financing activities	<u>(29,499)</u>	<u>(39,998)</u>
Net decrease in cash and cash equivalents	(73,522)	(192,784)
<i>Cash and cash equivalents</i>		
Beginning of year	<u>443,145</u>	<u>635,929</u>
End of year	<u>\$ 369,623</u>	<u>\$ 443,145</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 5,277,187	\$ (907,060)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	46,680	55,086
Gain on sale of investments	(79,579)	(246,189)
Actuarial (gain) loss on annuity and unitrust obligations	12,868	(36,538)
Change in unrealized (gains) losses on investments	(46,905)	42,659
Change in beneficial interest in perpetual trusts	(355,604)	(499,004)
Interest and dividends restricted for investment	-	38,047
(Increase) decrease in		
Accrued interest receivable	(55)	745
Accounts receivable and advances	46,931	(48,732)
Prepaid expenses and deposits	(68,239)	134,710
Increase (decrease) in		
Accounts payable and accrued expenses	(375,556)	304,080
Refundable advances	<u>(86,965)</u>	<u>7,026</u>
Net cash provided by (used for) operating activities	<u>\$ 4,370,763</u>	<u>\$ (1,155,170)</u>

See notes to financial statements.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 And 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

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

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

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

American Leprosy Missions Thrift LLC, incorporated in 2016 in the State of South Carolina, was a wholly owned subsidiary of ALM, and as such, the financial statements of American Leprosy Missions Thrift LLC were consolidated with ALM for the year ended June 30, 2017.

In 2017, Mission Thrift existed to support local communities by providing a convenient source of quality and inexpensive items, to partner with churches to help meet the needs of those in their care through the Corners of Your Field program, and to generate funds to support the worldwide ministry of American Leprosy Missions. As of June 30, 2017, Mission Thrift ceased operations.

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 fiscal tax years (2015 – 2017) or expected to be taken in the organization’s current fiscal 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, 2018 And 2017

BUILDING AND EQUIPMENT

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

INVESTMENTS

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

LIFE INCOME AGREEMENTS

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

The agreements with the donors of the revocable gift fund provided that the excess income from the investment of the fund assets, over stated interest rate payments to beneficiaries, was to be available for unrestricted use unless stated to the contrary. Under the terms of the gift agreements, the donors could request the return of the principal. During the year ended June 30, 2018, the revocable gift fund was terminated upon the death of the donors and the assets recorded as a gift to ALM.

The actuarial valuations of the gift annuities and uni-trusts are recorded as annuity/uni-trust obligations. 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%. During the year ended June 30, 2018, the annuity uni-trusts were terminated upon the conclusion of the terms of the agreements.

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.

CONTRIBUTIONS (IN-KIND)

During the years ended June 30, 2018 and 2017, 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, 2018 and 2017, ALM received and distributed \$6,333,138 and \$5,107,256, 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. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

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, 2017, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications were made to the 2017 financial statements to conform to the 2018 presentation.

(2) BUILDING AND EQUIPMENT

Building and equipment at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Building and improvements	\$ 60,866	\$ 52,856
Equipment	<u>383,459</u>	<u>344,053</u>
	444,325	396,909
Less accumulated depreciation	<u>321,564</u>	<u>274,884</u>
	<u>\$ 122,761</u>	<u>\$ 122,025</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

(3) INVESTMENTS

Cost and market values at June 30, 2018 and 2017 are summarized as follows:

<u>Net Assets</u>	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Unrestricted	\$ 8,015,601	\$ 8,140,895	\$ 3,121,257	\$ 3,185,052
Temporarily Restricted				
Revocable Gift Agreements	-	-	87,656	88,450
Segregated Gift Annuity Agreements	798,227	842,131	782,755	830,045
Unitrust and Annuity Agreements	-	-	400,089	403,570
Accumulated Endowment Income	203,056	203,056	185,111	185,111
	<u>1,001,283</u>	<u>1,045,187</u>	<u>1,455,611</u>	<u>1,507,176</u>
Permanently restricted	<u>245,914</u>	<u>245,914</u>	<u>245,914</u>	<u>245,914</u>
Total	<u>\$ 9,262,798</u>	<u>\$ 9,431,996</u>	<u>\$ 4,822,782</u>	<u>\$ 4,938,142</u>

The components of marketable securities at June 30, 2018 and 2017 are:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and cash equivalents	\$ 4,967,396	\$ 4,967,396	\$ 779,654	\$ 779,654
U.S. Government Treasury securities	486,736	476,579	545,843	543,363
Corporate and municipal bonds	593,551	582,375	581,836	588,009
Common and preferred stocks	1,040,327	1,157,165	787,199	846,847
Mutual funds	2,174,788	2,248,481	2,128,250	2,180,269
	<u>\$ 9,262,798</u>	<u>\$ 9,431,996</u>	<u>\$ 4,822,782</u>	<u>\$ 4,938,142</u>

At June 30, 2018 and 2017, the portfolio of marketable securities had unrealized gains of \$169,198 and \$115,360, respectively.

Investment income in the statement of activities and changes in net assets is shown net of \$45,103 and \$44,591 of investment management fees for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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>2018 Total</u>	<u>2017 Total</u>
Interest and dividends (net of management fees of \$3,001 and \$3,123)	\$ 7,326	\$ 7,326	\$ 3,669
Net realized and unrealized gains	<u>10,619</u>	<u>10,619</u>	<u>20,442</u>
Return on investments	17,945	17,945	24,111
Investment return designated for current operations	-	-	-
Investment return in excess of amounts designated for current operations	<u>\$ 17,945</u>	<u>\$ 17,945</u>	<u>\$ 24,111</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

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, 2018 and 2017 is as follows:

	2018			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 4,967,396	\$ 4,967,396	\$ -	\$ -
U.S. Government Treasury Securities	476,579	-	476,579	-
Corporate and municipal bonds	582,375	-	582,375	-
Common and preferred stocks	1,157,165	1,157,165	-	-
Mutual funds	<u>2,248,481</u>	<u>2,248,481</u>	-	-
Total	<u>\$ 9,431,996</u>	<u>\$ 8,373,042</u>	<u>\$ 1,058,954</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$ 6,085,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,085,392</u>
	2017			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 779,654	\$ 779,654	\$ -	\$ -
U.S. Government Treasury Securities	543,363	-	543,363	-
Corporate and municipal bonds	588,009	-	588,009	-
Common and preferred stocks	846,847	846,847	-	-
Mutual funds	<u>2,180,269</u>	<u>2,180,269</u>	-	-
Total	<u>\$ 4,938,142</u>	<u>\$ 3,806,770</u>	<u>\$ 1,131,372</u>	<u>\$ -</u>
Beneficial interest in trust	<u>\$ 5,729,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,729,788</u>

There were no transfers between Level 1 and Level 2 during the years ended June 30, 2018 and 2017.

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

The changes in the financial instruments as of June 30, 2018 and 2017 for which ALM used level 3 inputs to determine fair value are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 5,729,788	\$ 5,230,784
Unrealized gains (loss) – change in valuation	<u>355,604</u>	<u>499,004</u>
Balance, end of year	<u>\$ 6,085,392</u>	<u>\$ 5,729,788</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 February 2018, ALM exercised an option to extend lease for 60 months through January 2024 with monthly rent of \$7,603 in the first year and increasing fifty cents per rentable square foot each year hereafter. Total rent expense for each year ended June 30, 2018 and 2017 was approximately \$80,700 and \$182,000, respectively.

Future minimum lease payments are as follows:

2019	\$ 85,099
2020	92,215
2021	94,555
2022	96,894
2023	99,234
2024 and thereafter	<u>58,682</u>
	<u>\$ 526,679</u>

(5) NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
AIM Initiative	\$ 51,151	\$ -
Life Income Agreements	706,347	968,744
Accumulated Endowment Income	<u>203,056</u>	<u>185,111</u>
	<u>\$ 960,554</u>	<u>\$ 1,153,855</u>

Net assets were released from donor restrictions during the year ended June 30, 2018 for the following purposes:

	<u>2018</u>
AIM Initiative	\$ 496,831
Time restrictions met – Life Income Agreements	<u>285,155</u>
	<u>\$ 781,986</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

Permanently restricted net assets are available for the following purpose as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</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>6,085,392</u>	<u>5,729,788</u>
	<u>\$ 6,331,306</u>	<u>\$ 5,975,702</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, 2018 And 2017

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, 2018 and 2017.

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, 2018 and 2017, no donor restricted endowment funds have fallen below the required level.

Endowment net asset composition by type of fund as of June 30, 2018 and 2017:

	2018			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ -	\$203,056	\$245,914	\$448,970

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

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, 2018			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ -	\$ 185,111	\$ 245,914	\$ 431,025
Investment return (<i>See Note 3</i>)	-	17,945	-	17,945
Investment return designated for current operations	-	-	-	-
	<u>\$ -</u>	<u>\$203,056</u>	<u>\$245,914</u>	<u>\$448,970</u>

AMERICAN LEPROSY MISSIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2018 And 2017

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

(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 \$121,000 and \$120,000 for the years ended June 30, 2018 and 2017, respectively.

(7) GRANTS

During the years ended June 30, 2018 and 2017, ALM awarded grants for projects affected by leprosy and related diseases, as follows:

	<u>2018</u>	<u>2017</u>
Africa-Region	\$ 33,589	\$ 24,227
Asia Region	29,755	6,628
Cameroon	8,275	72,446
Congo-Brazzaville	56,058	40,214
Cote D'Ivoire	123,629	146,053
DR – Congo	1,831	78,300
Ghana	14,006	180,843
India	67,085	107,777
Liberia	510,879	418,742
Mozambique	126,589	55,815
Myanmar	76,909	127,510
Nepal	437,135	800,730
Nigeria	63,452	205,711
Philippines	100,000	100,000
Sierra Leone	7,092	-
Sri Lanka	-	2,084
Vaccine Research	484,896	488,145
Other Research	553,989	667,424
Gifts-in-Kind	6,440,253	5,189,608
Training and Other	217,610	154,189
AIM Initiative – Other	<u>236,826</u>	<u>145,000</u>
	<u>\$ 9,589,858</u>	<u>\$ 9,011,446</u>

(8) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, October 17, 2018, have been evaluated in the preparation of the financial statements.