

TAIT, WELLER & BAKER LLP

Certified Public Accountants

**THE LEONARD WOOD MEMORIAL
FOR THE ERADICATION OF LEPROSY AND
THE AMERICAN LEPROSY FOUNDATION**

*FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS*

DECEMBER 31, 2006

**THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY
AND THE AMERICAN LEPROSY FOUNDATION**

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TAIT, WELLER & BAKER LLP
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors
The Leonard Wood Memorial for the
Eradication of Leprosy and the
American Leprosy Foundation
Rockville, Maryland**

We have audited the accompanying statement of financial position of The Leonard Wood Memorial for the Eradication of Leprosy and the American Leprosy Foundation ("Foundation") as of December 31, 2006, and the related statement of activities, functional expenses and of cash flows for the six months ended December 31, 2006. These financial statements are the responsibility of the Foundation'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 the Foundation's financial statements for the year ended June 30, 2006, and in our report dated August 30, 2006, 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 The Leonard Wood Memorial for the Eradication of Leprosy and the American Leprosy Foundation as of December 31, 2006, and the changes in its net assets and its cash flows for the six months ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
March 30, 2007**

**THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY
AND THE AMERICAN LEPROSY FOUNDATION**

STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and June 30, 2006

	December 31, 2006	June 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 151,784	\$ 206,466
Investments (<i>Note 2</i>)	1,111,574	985,338
Accounts receivable	<u>15,434</u>	<u>35,796</u>
Total current assets	1,278,792	1,227,600
PROPERTY AND EQUIPMENT (<i>Note 3</i>)	<u>102,925</u>	<u>109,308</u>
Total assets	<u>\$1,381,717</u>	<u>\$1,336,908</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Unexpended grants	\$ 185,797	\$ 83,238
Philippine employees' retirement	-	18,438
Other	<u>59,211</u>	<u>45,216</u>
Total current liabilities	<u>245,008</u>	<u>146,892</u>
LONG-TERM LIABILITY		
Philippine employees' retirement – net of current portion	<u>169,574</u>	<u>148,020</u>
Total liabilities	<u>414,582</u>	<u>294,912</u>
NET ASSETS		
Unrestricted	839,296	914,157
Permanently restricted	<u>127,839</u>	<u>127,839</u>
Total net assets	<u>967,135</u>	<u>1,041,996</u>
Total liabilities and net assets	<u>\$1,381,717</u>	<u>\$1,336,908</u>

**THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY
AND THE AMERICAN LEPROSY FOUNDATION**

STATEMENTS OF ACTIVITIES

Six months ended December 31, 2006 and year ended June 30, 2006

	Six Months Ended December 31, 2006	Year Ended June 30, 2006
UNRESTRICTED NET ASSETS		
Support and revenues		
Grants	\$ 181,556	\$ 551,879
Contributions	37,025	136,020
Legacies	51,676	12,917
Investment income (<i>Note 2</i>)	<u>129,969</u>	<u>63,730</u>
Total support and revenues	400,226	764,546
Net assets released from restrictions	<u>-</u>	<u>69,886</u>
Total support and revenues and net assets released from restrictions	<u>400,226</u>	<u>834,432</u>
Expenses		
Program services		
Research and support	417,829	692,304
Administration	38,664	105,956
Fundraising	<u>18,594</u>	<u>6,665</u>
Total expenses	<u>475,087</u>	<u>804,925</u>
Increase (decrease) in unrestricted net assets	<u>(74,861)</u>	<u>29,507</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	-	-
Net assets released from restrictions	<u>-</u>	<u>(69,886)</u>
Increase (decrease) in temporarily restricted net assets	<u>-</u>	<u>(69,886)</u>
DECREASE IN NET ASSETS	(74,861)	(40,379)
NET ASSETS		
Beginning of year	<u>1,041,996</u>	<u>1,082,375</u>
End of year	<u>\$ 967,135</u>	<u>\$1,041,996</u>

**THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY
AND THE AMERICAN LEPROSY FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

Six months ended December 31, 2006 with Summarized Information for the year ended June 30, 2006

	2006			Totals	
	Program Services Research And Support	Administration	Fundraising	December 31, 2006	June 30, 2006
Staff and professional compensation	\$234,663	\$ 5,531	\$ -	\$240,194	\$392,654
Supplies	51,898	886	293	53,077	152,365
Electricity	16,989	-	-	16,989	32,952
Travel and transportation	14,658	7,167	-	21,825	47,448
Maintenance – animals	5,512	-	-	5,512	13,233
Benefits and payroll taxes	17,426	423	-	17,849	22,391
Mailing and shipping	4,524	1,141	16,134	21,799	11,304
Assistance to patients	2,035	-	-	2,035	3,437
Service contracts and repairs	2,382	-	-	2,382	2,893
Renovation and moving	1,395	-	-	1,395	469
Meetings and conferences	7,952	486	-	8,438	7,510
Telephone and cable	2,549	73	44	2,666	6,266
Laboratory testing	593	-	-	593	7,131
Professional services	882	20,970	685	22,537	26,149
Maintenance – premises	-	-	-	-	473
Printing and duplication	177	375	808	1,360	7,383
Employee retirement	35,726	-	-	35,726	29,785
Rent	1,456	606	364	2,426	14,556
Miscellaneous	<u>11,449</u>	<u>452</u>	<u>-</u>	<u>11,901</u>	<u>11,037</u>
Subtotals	412,266	38,110	18,328	468,704	789,436
Depreciation	<u>5,563</u>	<u>554</u>	<u>266</u>	<u>6,383</u>	<u>15,489</u>
Total expenses	<u>\$417,829</u>	<u>\$38,664</u>	<u>\$18,594</u>	<u>\$475,087</u>	<u>\$804,925</u>

See accompanying notes to financial statements.

**THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY
AND THE AMERICAN LEPROSY FOUNDATION**

STATEMENTS OF CASH FLOWS

Six months ended December 31, 2006 and year ended June 30, 2006

	Six Months Ended December 31, 2006	Year Ended June 30, 2006
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
<i>Cash flows from operating activities</i>		
Cash received from contributors	\$ 290,619	\$ 671,182
Interest and dividends received	25,226	49,812
Cash paid for other expenditures	<u>(349,034)</u>	<u>(812,017)</u>
Net cash used for operating activities	<u>(33,189)</u>	<u>(91,023)</u>
<i>Cash flows from investing activities</i>		
Purchase of investments	(40,211)	(95)
Proceeds from sale of investments	<u>18,718</u>	<u>168,865</u>
Net cash provided by (used for) investing activities	<u>(21,493)</u>	<u>168,770</u>
Net increase (decrease) in cash and cash equivalents	(54,682)	77,747
<i>Cash and cash equivalents</i>		
Beginning of year	<u>206,466</u>	<u>128,719</u>
End of year	<u>\$ 151,784</u>	<u>\$ 206,466</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (74,861)	\$ (40,379)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	6,383	15,489
(Gain) loss on sale of investments	(1,076)	31,580
Unrealized gain on investments	(103,667)	(45,498)
(Increase) decrease in		
Accounts receivable	20,362	(29,634)
Other current assets	-	6,437
Increase (decrease) in		
Unexpended grants	102,559	(81,811)
Philippine employees' retirement	3,116	10,539
Other	<u>13,995</u>	<u>42,254</u>
Net cash used for operating activities	<u>\$ (33,189)</u>	<u>\$ (91,023)</u>

THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY AND THE AMERICAN LEPROSY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND OPERATIONS

The Leonard Wood Memorial for the Eradication of Leprosy and the American Leprosy Foundation (“*Foundation*”), was incorporated as a nonprofit organization in 1928 to research and provide information on the disease of leprosy. In 1993, the Foundation expanded its operations to include certain areas of tuberculosis research. Research for leprosy and tuberculosis is performed at a facility in Cebu, Philippines.

Effective in May 2006, the bylaws of the Foundation were changed so that American Leprosy Missions, Inc. (“*ALM*”), a New York not-for-profit corporation, appoints the Board of Directors of the Foundation.

The Foundation changed its fiscal year-end from June 30 to December 31 to coincide with the year end of ALM. Consequently, the Foundation’s financial results reflect six months of activity for the Foundation.

INCOME TAX STATUS

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

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the recorded changes in net assets during the reporting period. Actual results could differ from those estimates.

FOREIGN CURRENCY

The Foundation has facilities in the Philippines. Assets and liabilities are translated at the rates of exchange at the balance sheet date while income statement accounts are translated at exchange rates in effect during the year.

CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consisted of money market accounts held at high quality financial institutions.

CONCENTRATION OF CREDIT RISK

The Foundation 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.

THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY AND THE AMERICAN LEPROSY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2006

INVESTMENTS

The Foundation reports investments in equity securities and debt securities with readily determinable fair values at fair value, with gains and losses, both realized and unrealized, included in the statements of activities.

Purchases and sales of securities are accounted for on a trade-date basis. The specific identification method is used for calculating realized gains and losses on sales or maturities of investments.

PROPERTY AND EQUIPMENT

Buildings, furniture, research equipment and vehicles are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 25 years for buildings and five years for furniture, research equipment and vehicles.

NET ASSETS

The Foundation 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 The Foundation and changes therein are classified and reported as follows:

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

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.

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence of donor-imposed restrictions. When the purpose restriction is accomplished or a 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.

GRANTS

Grants are received for specific research projects. These projects provide the grantor organizations with reports and results of their research in the specific areas of leprosy or tuberculosis. Grant revenue is recognized as research is conducted and reports are completed under the terms of the grant. Any amounts received but not yet earned are reported as unexpended grant liabilities. Expenses incurred but not reimbursed are accrued in accounts receivable.

THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY AND THE AMERICAN LEPROSY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2006

FUNCTIONAL EXPENSES

The Foundation allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their nature expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

DONATED SERVICES

Board members volunteer their time and perform a variety of tasks that assist the Foundation in attaining its goals. The value of these services is not reflected in these statements because it does not meet the recognition criteria of accounting principles generally accepted in the United States of America.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative 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 Foundation's audited financial statements for the year ended June 30, 2006, from which the summarized information was derived.

(2) INVESTMENTS

Investments consist of the following:

	<u>December 31, 2006</u>		<u>June 30, 2006</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Equities	\$517,409	\$ 654,716	\$522,630	\$545,898
Corporate obligations	245,291	244,709	217,706	261,819
Mutual Funds	50,272	36,685	50,067	31,814
Other	<u>70,609</u>	<u>175,464</u>	<u>70,609</u>	<u>145,807</u>
	<u>\$883,581</u>	<u>\$1,111,574</u>	<u>\$861,012</u>	<u>\$985,338</u>

The following table summarizes the investment return reported in the statements of activities as follows:

	<u>Six Months Ended December 31, 2006</u>	<u>Year Ended June 30, 2006</u>
Interest and dividend income	\$ 25,226	\$ 49,812
Net unrealized gain on investments	103,667	45,498
Realized gain (loss) on investments	<u>1,076</u>	<u>(31,580)</u>
Total investment income return	<u>\$129,969</u>	<u>\$ 63,730</u>

THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY AND THE AMERICAN LEPROSY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2006

(3) BUILDINGS, FURNITURE AND EQUIPMENT

The following is a summary of buildings, furniture and equipment, less accumulated depreciation, and depreciation expense:

	Six Months Ended December 31, 2006	Year Ended June 30, 2006
Building and improvements	\$ 134,414	\$ 134,414
Furniture and equipment	<u>389,013</u>	<u>389,013</u>
	523,427	523,427
Less: accumulated depreciation	<u>(420,502)</u>	<u>(414,119)</u>
Net	<u>\$ 102,925</u>	<u>\$ 109,308</u>
Depreciation expense	<u>\$ 6,383</u>	<u>\$ 15,489</u>

(4) CONCENTRATIONS

For the six months ended December 31, 2006, six funders provided 69% of the total grant revenue and contributions to the Foundation, including \$5,482 provided by ALM. For the year ended June 30, 2006, five funders provided 84% of the total grant revenue and contributions to the Foundation, including \$148,265 provided by ALM.

(5) COMMITMENTS

The Foundation leased space in Rockville, Maryland under a cancelable lease expiring March 31, 2010. In February 2006, the Foundation notified the landlord of its intention to exercise the termination option. The Foundation vacated the space in March 2006 and payments under the lease ran through August 2006.

The Foundation has a verbal agreement with the Philippine government to lease the land on which the Foundation has buildings for an unspecified term. The verbal agreement provides that the Foundation will have the use of the property in exchange for the Foundation providing medical services as requested to the people located in the surrounding area. The cost of the requested services is included as part of program services and is not significant to total expenses. The book value of the Foundation's structures on the property at December 31, 2006 and June 30, 2006, was \$89,890 and \$92,578, respectively.

The Foundation entered into an employment agreement with its scientific director. The initial term commenced September 1, 2004 and was for a three year period. The agreement contained a termination clause, by either party, with 30 days written notice, which the Foundation exercised in December 2006.

THE LEONARD WOOD MEMORIAL FOR THE ERADICATION OF LEPROSY AND THE AMERICAN LEPROSY FOUNDATION

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2006

(7) EMPLOYEE RETIREMENT

The Foundation sponsors a simplified employee pension (SEP) plan that covers United States employees who elect to participate and meet the eligibility requirements. The Foundation's contributions are based on a percentage of each eligible employee's salary, subject to a ceiling. Under the terms of the SEP plan, the Foundation is not required to make SEP contributions in any particular year and the percentage contributed, if any, can be changed at the Foundation's discretion. For the six months ended December 31, 2006 and year ended June 30, 2006, the Foundation made pension contributions of \$9,447 and \$19,246, respectively.

During the year ended June 30, 1999, the Foundation's Board of Directors voted to fund retirement benefits to cover full-time permanent employees who work and perform services for the Foundation in the Philippines. The eligibility to participate in the benefits is based on the Philippine retirement law which provides that an employee, upon reaching age 60 (but not later than 65), who serves at least ten years with the organization, may retire and is entitled to a lump-sum retirement payment equal to at least one-half of one month's salary for every year of service plus any unused sick leave at the time of retirement. Retirement expense under this plan for the six months ended December 31, 2006 and year ended June 30, 2006, amounted to \$26,279 and \$10,539.

(8) LITIGATION

The Foundation is a defendant to a lawsuit in the ordinary course of business. Management is of the opinion that such lawsuit will not have a material effect on the Foundation's financial position.