



THE LAM FOUNDATION

AUDIT REPORT

DECEMBER 31, 2007

With

*Independent CPA's Report
on Financial Statements*

THE LAM FOUNDATION
AUDIT REPORT – December 31, 2007

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**Independent CPA's Report
on Financial Statements**

Board of Trustees
The LAM Foundation
Cincinnati, Ohio

We have audited the accompanying statement of financial position of The LAM Foundation, a nonprofit organization, as of December 31, 2007 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of The LAM Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of December 31, 2006 were audited by other auditors whose report dated February 6, 2007 expressed an unqualified opinion on the 2006 financial statements.

We conducted our audit in accordance with United States generally accepted auditing standards ("U.S. GAAS"). 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 LAM Foundation as of December 31, 2007, and the changes in its net assets, functional expenses, and cash flows for the year then ended in conformity with United States generally accepted accounting principles ("U.S. GAAP").

Hennekes CPA Services

April 2, 2008

THE LAM FOUNDATION
STATEMENTS OF FINANCIAL POSITION

December 31, 2007 and 2006

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 888,827	\$ 1,821,206
Certificate of deposit	102,650	-
Accounts receivable	37,433	20,341
Prepaid expenses and other assets	11,022	7,571
Total current assets	1,039,932	1,849,118
Investments	533,136	269,625
Property and equipment, net	14,937	15,729
Total assets	\$ 1,588,005	\$ 2,134,472
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 46,321	\$ 19,282
Compensation and related taxes payable	16,366	46,025
Fellowships payable	347,750	522,500
Accrued expenses - MILES Trial commitment	335,474	433,450
Total liabilities	745,911	1,021,257
 Net assets:		
Unrestricted surplus:		
Available for operations	462,219	497,641
Board designated funds for fellowships	290,500	540,000
Board designated for property and equipment	14,937	15,729
Total unrestricted	767,656	1,053,370
Temporarily restricted	19,345	16,795
Permanently restricted	55,093	43,050
Total net assets	842,094	1,113,215
Total liabilities and net assets	\$ 1,588,005	\$ 2,134,472

The accompanying notes are an integral part of these financial statements

THE LAM FOUNDATION
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, SUPPORT & GAINS								
Contributions from special events	\$ 487,033	\$ -	\$ 9,693	\$ 496,726	\$ 810,337	\$ -	\$ 1,000	\$ 811,337
Corporate and foundation gifts	172,583	-	-	172,583	124,236	-	1,000	125,236
Honor and memorial tributes	216,054	-	-	216,054	267,210	-	40,050	307,260
Other donations	193,004	5,000	2,350	200,354	186,591	-	1,000	187,591
Conference sponsorships & registrations	91,015	2,645	-	93,660	80,245	6,310	-	86,555
Investment earnings	78,256	-	-	78,256	89,277	-	-	89,277
Contributed services and materials	61,341	-	-	61,341	9,140	-	-	9,140
Net assets released from restrictions	5,095	(5,095)	-	-	2,500	(2,500)	-	-
Total revenues, support & gains	1,304,381	2,550	12,043	1,318,974	1,569,536	3,810	43,050	1,616,396
EXPENSES								
Program services:								
Research	705,940			705,940	819,133			819,133
Patient services	188,137			188,137	134,273			134,273
Public education	361,971			361,971	168,666			168,666
Professional education & training	101,085			101,085	33,312			33,312
Total program services	1,357,133	-	-	1,357,133	1,155,384	-	-	1,155,384
Management and general	152,971	-	-	152,971	111,455	-	-	111,455
Fundraising	79,991	-	-	79,991	100,448	-	-	100,448
Total expenses	1,590,095	-	-	1,590,095	1,367,287	-	-	1,367,287
Increase (decrease) in net assets	(285,714)	2,550	12,043	(271,121)	202,249	3,810	43,050	249,109
				-				
Net assets at beginning of year	1,053,370	16,795	43,050	1,113,215	851,121	12,985	-	864,106
Net assets at end of year	\$ 767,656	\$ 19,345	\$ 55,093	\$ 842,094	\$ 1,053,370	\$ 16,795	\$ 43,050	\$ 1,113,215

The accompanying notes are an integral part of these financial statements

THE LAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2007

	2007							
	Research	Patient Services	Public Education	Professional Education & Training	Total Program Services	Management and General	Fundraising	Total
Fellowships granted	\$ 470,354	\$ -	\$ -	\$ -	\$ 470,354	\$ -	\$ -	\$ 470,354
Compensation	91,185	90,780	101,145	20,642	303,752	105,092	51,990	460,834
Professional services	4,584	8,189	191,971	47,738	252,482	11,295	2,228	266,005
LAMposium conference	51,236	57,519	-	-	108,755	-	-	108,755
Printing and publications	11,806	9,999	25,854	5,188	52,847	1,824	8,005	62,676
Contributed services and materials	40,000	-	15,341	-	55,341	6,000	-	61,341
Shipping and postage	12,880	4,983	6,474	1,192	25,529	2,919	5,933	34,381
Travel	4,811	3,000	4,635	11,871	24,317	1,296	4,712	30,325
Conferences	6,913	2,881	2,454	10,550	22,798	2,206	2,490	27,494
Occupancy	3,331	3,095	3,152	661	10,239	3,665	1,288	15,192
Telephone	3,988	2,815	2,785	630	10,218	3,155	1,110	14,483
Supplies	1,875	1,554	1,983	385	5,797	2,707	993	9,497
Depreciation	1,271	1,589	1,589	635	5,084	635	635	6,354
Miscellaneous	1,706	1,733	4,588	1,593	9,620	12,177	607	22,404
Total expenses	\$ 705,940	\$ 188,137	\$ 361,971	\$ 101,085	\$ 1,357,133	\$ 152,971	\$ 79,991	\$ 1,590,095
Percent of total	44.4%	11.8%	22.8%	6.4%	85.4%	9.6%	5.0%	100.0%

The accompanying notes are an integral part of these financial statements

THE LAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2006

	2006							
	Research	Patient Services	Public Education	Professional Education & Training	Total Program Services	Management and General	Fundraising	Total
Fellowships granted	\$ 688,732	\$ -	\$ -	\$ -	\$ 688,732	\$ -	\$ -	\$ 688,732
Compensation	41,669	84,498	84,046	11,446	221,659	74,600	65,982	362,241
LAMposium conference	62,230	29,254	-	-	91,484	-	-	91,484
Professional services	460	775	28,601	9,649	39,485	5,998	3,802	49,285
Shipping and postage	6,454	4,294	10,665	526	21,939	3,577	5,602	31,118
Printing and publications	6,486	1,285	17,291	204	25,266	1,569	11,362	38,197
Supplies	2,077	3,177	4,903	463	10,620	4,440	3,424	18,484
Conferences	1,633	1,385	3,315	5,689	12,022	2,173	1,129	15,324
Travel	1,116	898	4,009	3,867	9,890	394	2,802	13,086
Telephone	2,827	2,380	2,437	311	7,955	2,424	1,412	11,791
Occupancy	1,535	2,756	2,651	326	7,268	2,975	1,393	11,636
Contributed services and materials	191	327	7,990	35	8,543	400	197	9,140
Depreciation	1,067	1,803	1,650	215	4,735	1,949	989	7,673
Miscellaneous	2,656	1,441	1,108	581	5,786	10,956	2,354	19,096
Total expenses	\$ 819,133	\$ 134,273	\$ 168,666	\$ 33,312	\$ 1,155,384	\$ 111,455	\$ 100,448	\$ 1,367,287
Percent of total	60.0%	9.8%	12.3%	2.4%	84.5%	8.2%	7.3%	100.0%

The accompanying notes are an integral part of these financial statements

THE LAM FOUNDATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (271,121)	\$ 249,109
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,354	7,673
Donated investment securities	(23,384)	(24,121)
Unrealized (gains) losses on investments, net	(19,927)	(36,718)
Realized (gains) losses on investments, net	65	16,931
(Increase) decrease in:		
Accounts receivable	(17,092)	23,659
Prepaid expenses and other assets	(3,451)	4,433
Increase (decrease) in:		
Accounts payable	27,039	16,291
Compensation and related taxes payable	(29,659)	13,126
Accrued expenses - MILES Trial commitment	(97,976)	(26,550)
Fellowships payable	(174,750)	167,500
Net cash provided (used in) by operating activities	(603,902)	411,333
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit	(102,650)	-
Proceeds from sale of investments	23,319	37,298
Purchases of investments	(243,584)	(221,909)
Purchases of property and equipment	(5,562)	(10,343)
Net cash (used in) investing activities	(328,477)	(194,954)
Net increase (decrease) in cash	(932,379)	216,379
Cash and cash equivalents:		
Beginning of year	1,821,206	1,604,827
End of year	\$ 888,827	\$ 1,821,206

The accompanying notes are an integral part of these financial statements

LAM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

This summary of significant policies of The LAM Foundation (“the Foundation”) is presented to assist in understanding the Foundation’s financial statements. The financial statements and notes are representations of the Foundation’s management who is responsible for their integrity and objectivity.

Nature of Operations

The LAM Foundation is an Ohio non-profit entity incorporated in 1995 urgently seeking an effective treatment and ultimately a cure for lymphangioleiomyomatosis (“LAM”). LAM is a progressive and frequently fatal lung disease that affects primarily women. The Foundation believes its goals will be achieved through advocacy and the funding of promising research and is dedicated to serving the scientific, medical and patient communities by offering information, resources and a worldwide network of hope and support. The Foundation is governed by a Board of Trustees and obtains significant funding from contributions and fundraising activities.

Basis of Presentation

The Foundation’s financial statements have been prepared using the accrual basis of accounting pursuant to United States generally accepted accounting principles (“U.S. GAAP”). Accordingly, support and revenue are recognized when earned and expenses when incurred.

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 – Net assets that are not subject to donor-imposed stipulations and may be used at the discretion of the Board of Trustees. Restricted donations whose restrictions are met within the same year as the donation are reported as unrestricted.
- Unrestricted net assets - Board designated – These unrestricted net assets have been specifically designated by the Board of Trustees for certain purposes and may be similarly un-designated.
- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation satisfying the purpose or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the principal be maintained intact in perpetuity and that only the income from the investment thereof be expended either for the general purposes of the Foundation or for purposes specified by the donor.

Recognition of Donated Assets

The Foundation reports gifts of cash and other assets at their estimated fair market value as of the date of contribution. Such donations are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Recognition of Donated Services

The Foundation records donated services as revenues in the period received only when the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Additionally, not included in the accompanying financial statements is the value of a substantial number of volunteers (including Board members) that have donated significant amounts for programming and fund raising activities.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments such as checking, commercial paper, and savings accounts with an original maturity of three months or less to be cash equivalents. The Foundation maintains its cash in bank deposit accounts, which at times exceed federally-insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Certificate of Deposit

The certificate of deposit of \$102,650 as of December 31, 2007 matures in July 2008 and bears interest at 5.4% (annual percentage yield).

Investments

Investments consist primarily of a variety of mutual funds and are reported at fair market value according to U.S. GAAP.

Investments are subject to credit risk and other business risks. The Foundation maintains its investments with Smith Barney, a large national investment company. Other than losses from broad market declines, the Foundation has not incurred any significant credit losses on its investment and believes it is not exposed to any significant adverse credit risk on its derivatives.

Pledges and Accounts Receivable

Pledges and accounts receivable are due from various donors and the general public. An allowance for bad debts is reported when necessary to provide for estimated uncollectible accounts. The Foundation has not experienced any significant losses on its receivables and believes it is not exposed to significant credit risk on its receivables.

The Foundation currently has no active long-term unconditional pledge campaigns.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition or at estimated fair value at date of gift, if donated. The LAM Foundation's policy is to capitalize asset purchases that exceed \$500. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, which range from three to six years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income or expense for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals, improvements and betterments that extend an asset's useful life are capitalized.

Allocation of Functional Expenses

Salaries and other employee costs are allocated to program, management and general and fundraising expenses based upon estimated time spent on each functional area. Other expenses are charged based on specific identification when feasible or are otherwise allocated using rational and reasonable cost allocation methodologies.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Income Tax Status

The LAM Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the Foundation is not a private foundation as defined in Section 509(a)(2) of the Internal Revenue Code.

Reclassifications

Certain 2006 amounts have been reclassified to conform to the 2007 presentation. The reclassifications had no impact on reported earnings or ending net assets.

(2) **Investments**

Investments as of December 31, 2007 and 2006 are as follows:

	2007		2006	
	Market	Cost	Market	Cost
Mutual funds:				
I Shares S&P 500 Growth Index Fund	\$ 114,661	\$ 103,901	\$ 70,763	\$ 64,640
I Shares S&P 500 Value Index Fund	84,301	82,465	54,284	48,838
I Shares Trust S&P Midcap Growth Index Fund	52,135	48,519	25,507	23,773
I Shares Trust S&P Midcap Value Index Fund	47,497	48,419	25,594	23,693
I Shares Trust Lehman US Aggregate Fund	24,483	24,025	24,129	24,029
I Shares Trust MSCI EAFE Index Fund	82,818	72,570	41,734	36,538
I Shares Trust S&P Smallcap Value Index Fund	16,730	17,143	13,561	12,229
I Share Trust S&P Smallcap Growth Index Fund	18,746	17,423	13,436	12,399
SPDR Index Fund	86,118	70,228	-	-
Total mutual funds	527,489	484,693	269,008	246,139
Common stocks	617	347	617	347
Cash reserves	5,030	5,030	-	-
	<u>\$ 533,136</u>	<u>\$ 490,070</u>	<u>\$ 269,625</u>	<u>\$ 246,486</u>

The components of investment earnings were as follows for 2007 and 2006:

	2007	2006
Interest and dividends - includes interest on cash	\$ 58,394	\$ 69,490
Realized capital gains (losses), net	(65)	(16,931)
Unrealized capital gains (losses), net	19,927	36,718
Total investment earnings	<u>\$ 78,256</u>	<u>\$ 89,277</u>

(3) **Property and Equipment**

The Foundation's property and equipment are as follows at December 31, 2007 and 2006:

	2007	2006
Furniture, equipment and computers	\$ 35,926	\$ 35,277
Leasehold improvements	11,559	6,646
Total, at cost	47,485	41,923
Accumulated depreciation	(32,548)	(26,194)
Property and equipment, net	<u>\$ 14,937</u>	<u>\$ 15,729</u>

(4) Fellowships Payable

The Foundation provides three grant award types: Fellowship Awards, Established Investigator Awards and Pilot Project Awards. The Fellowship Awards provide salary support for a post-doctoral fellow for three years. Established Investigator Awards provide three years of salary support for a technician. Pilot Project Awards provide seed monies to pursue new research directions.

The Foundation has the right to withdraw or modify the amount awarded amount based on review of each project's results. Project results are reviewed at least annually. Therefore, the Foundation accrues a payable for the expected award payments for the succeeding 12 months with the remainder representing a contingent liability. Fellowships payable included on page 2 were \$347,750 and \$522,500 at December 31, 2007 and 2006, respectively.

The additional, yet contingent amounts are not included on page 2 and were approximately \$290,500 and \$540,000 at December 31, 2007 and 2006, respectively. The Foundation's Board of Trustees has, however, designated these amounts of its unrestricted net assets for the possible funding of these contingent fellowships.

(5) Accrued Expenses – MILES Trial Commitment

The MILES Trial is a research trial of a medication that may more effectively treat LAM. The Foundation funds various MILES Trial site expenses pursuant to a 2004 verbal commitment with Cincinnati Children's Hospital, another funding agency for the project. The nature of the verbal commitment with Cincinnati Children's Hospital is such that the Foundation became fully obligated to incur its expenses for the MILES Trial as of December 31, 2005. Therefore, the Foundation accrued all of the anticipated related expenses through December 31, 2005, with additional accrued expenses in 2006.

Below is a summary of the accrued liability for MILES Trial as of December 31, 2007 and 2006:

MILES Trial accrued expenses:	<u>2007</u>	<u>2006</u>
Liability, beginning of year	\$ 433,450	\$ 400,000
Additional expenses accrued	-	60,000
Trial related disbursements	<u>(97,976)</u>	<u>(26,550)</u>
Liability, end of year	<u>\$ 335,474</u>	<u>\$ 433,450</u>

In connection with contracts with each trial site, the Foundation technically retains title to any equipment purchased with the MILES Trial accrued funds. However, the contracts contain provisions allowing each site to request that the equipment not be returned to the Foundation. It is generally not the intent of the Foundation to re-take possession of the equipment. Therefore, equipment purchased for the MILES Trial sites has been excluded from the accompanying Statements of Financial Position. The cumulative purchased cost of such equipment totaled approximately \$106,000 and \$26,300 as of December 31, 2007 and 2006, respectively.

(6) **Temporarily Restricted Net Assets**

Temporarily restricted net assets are as follows as of December 31:

Donations restricted for the following purposes:	2007	2006
LAMposium conference registrations and travel	\$ 4,345	\$ 6,795
Scientific Director travel	10,000	10,000
Cincinnati LAM Clinic support	5,000	-
	<u>\$ 19,345</u>	<u>\$ 16,795</u>

In connection with the MILES Trial, The LAM Foundation has also received restricted donations of approximately \$390,000 through December 31, 2005. These have been considered fully released into operations as explained further in Note 5.

(7) **Contributed Services and Materials**

Contributions of services and supplies are as follows for the years ending December 31, 2007 and 2006:

	2007	2006
Professional services - equivalent compensation	\$ 40,000	\$ -
Public awareness services	15,341	-
Legal services	5,000	-
Printing and design services	1,000	7,700
Other	-	1,440
Total	<u>\$ 61,341</u>	<u>\$ 9,140</u>

(8) **Commitments**

The LAM Foundation rents office space under an operating lease that expires August 31, 2009. Total future lease obligations under all agreements having an initial non-cancelable term in excess of one year are as follows:

2008	\$ 15,192
2009	10,128
Thereafter	<u>-</u>
Total	<u>\$ 25,320</u>

(9) **Related Party Transactions**

Until September 2006, the Foundation rented office space in the home of its executive director. Total related party rent expense was \$5,135 for 2006. There was no related party rent for 2007.