

FINANCIAL STATEMENTS

THE LAM FOUNDATION

**Years ended December 31, 2005 and 2004
With Report of Independent Auditors**

FLYNN & COMPANY PSC, INC.
Certified Public Accountants

THE LAM FOUNDATION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Cash Flows.	6
Statements of Functional Expenses.....	7
Notes to the Financial Statements	11

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The LAM Foundation
Cincinnati, Ohio

We have audited the accompanying statements of financial position of The LAM Foundation (a non-profit organization) as of December 31, 2005 and 2004 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Flynn & Company PSC, Inc.

February 8, 2006

THE LAM FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2005 and 2004

ASSETS		
	2005	2004
Current Assets		
Cash	\$ 1,604,827	\$ 675,585
Accounts receivable	44,000	109,477
Other assets	12,004	11,236
Investments	41,106	123,275
Total Current Assets	1,701,937	919,573
Property and Equipment, net	13,059	14,776
TOTAL ASSETS	\$ 1,714,996	\$ 934,349
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 2,991	\$ 6,892
Compensation and related taxes payable	32,899	23,958
Fellowships payable	815,000	430,000
Deferred revenue	-	700
Total Current Liabilities	850,890	461,550
Net Assets		
Unrestricted		
Available for operations	453,062	150,363
Board designated funds for fellowships	385,000	290,000
Expended on property and equipment	13,059	14,776
	851,121	455,139
Temporarily restricted	12,985	17,660
Total Net Assets	864,106	472,799
TOTAL LIABILITIES AND NET ASSETS	\$ 1,714,996	\$ 934,349

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2005 and 2004

	2005		
	Unrestricted	Temporarily Restricted	Total
Revenues, support, and gains			
Support			
Contributions from special events	\$ 926,612	\$ -	\$ 926,612
Honorariums	159,134	-	159,134
General donations	140,191	-	140,191
Grants	94,805	-	94,805
Memorials	77,368	-	77,368
LAMposium sponsorships and registrations	62,025	2,925	64,950
Donated investments	48,065	-	48,065
United Way	34,894	-	34,894
Matching gifts	31,596	-	31,596
Sponsorships	13,146	-	13,146
Contributed services and materials	7,380	-	7,380
Combined federal campaign	1,775	-	1,775
Net assets released from restrictions	<u>7,600</u>	<u>(7,600)</u>	<u>-</u>
	1,604,591	(4,675)	1,599,916
Dividends, interest and gains			
Interest and dividends	28,226	-	28,226
Net realized and unrealized loss	<u>(4,395)</u>	<u>-</u>	<u>(4,395)</u>
Total revenues, support and gains	1,628,422	(4,675)	1,623,747
Expenses			
Program services	1,053,347	-	1,053,347
Management and general	101,177	-	101,177
Fundraising	<u>77,916</u>	<u>-</u>	<u>77,916</u>
Total expenses	<u>1,232,440</u>	<u>-</u>	<u>1,232,440</u>
Increase (Decrease) in Net Assets	395,982	(4,675)	391,307
Net assets at beginning of year	<u>455,139</u>	<u>17,660</u>	<u>472,799</u>
Net assets at end of year	\$ <u>851,121</u>	\$ <u>12,985</u>	\$ <u>864,106</u>

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2005 and 2004

	2004		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, support, and gains			
Support			
Contributions from special events	\$ 472,341	\$ -	\$ 472,341
Honorariums	81,559	-	81,559
General donations	166,872	-	166,872
Grants	81,564	-	81,564
Memorials	37,905	10,000	47,905
LAMposium sponsorships and registrations	74,465	6,981	81,446
Donated investments	16,589	-	16,589
United Way	31,072	-	31,072
Matching gifts	31,181	-	31,181
Sponsorships	13,691	-	13,691
Contributed services and materials	16,488	-	16,488
Combined federal campaign	7,737	-	7,737
Net assets released from restrictions	<u>9,575</u>	<u>(9,575)</u>	<u>-</u>
	1,041,039	7,406	1,048,445
Dividends, interest and gains			
Interest and dividends	12,649	-	12,649
Net realized and unrealized gain	<u>457</u>	<u>-</u>	<u>457</u>
Total revenues, support and gains	<u>1,054,145</u>	<u>7,406</u>	<u>1,061,551</u>
Expenses			
Program services	747,772	-	747,772
Management and general	83,282	-	83,282
Fundraising	<u>75,656</u>	<u>-</u>	<u>75,656</u>
Total expenses	<u>906,710</u>	<u>-</u>	<u>906,710</u>
Increase in Net Assets	147,435	7,406	154,841
Net assets at beginning of year	<u>307,704</u>	<u>10,254</u>	<u>317,958</u>
Net assets at end of year	\$ <u>455,139</u>	\$ <u>17,660</u>	\$ <u>472,799</u>

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005 and 2004

	2005	2004
Cash Flows From Operating Activities		
Change in net assets	\$ 391,307	\$ 154,841
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	3,962	4,721
Donated securities	(48,065)	(16,589)
Unrealized gain on investments	2,805	(457)
Realized loss on investments	1,590	-
(Increase) decrease in assets		
Accounts receivable	65,477	(60,325)
Other assets	(768)	4,693
Increase (decrease) in liabilities		
Accounts payable	(3,901)	(5,660)
Compensation and related taxes payable	8,941	7,350
Deferred revenue	(700)	700
Fellowships payable	<u>385,000</u>	<u>73,837</u>
Net Cash Provided By Operating Activities	805,648	163,111
Cash Flows From Investing Activities		
Proceeds from sale of investments	95,027	57,000
Maturities of certificates of deposit	31,934	-
Reinvestment of dividends	(1,122)	(20)
Purchase of investments	-	(61,000)
Purchase of property and equipment	<u>(2,245)</u>	<u>(5,112)</u>
Net Cash Provided by (Used In) Investing Activities	<u>123,594</u>	<u>(9,132)</u>
Net Increase in Cash and Cash Equivalents	929,242	153,979
Cash and Cash Equivalents, beginning of year	<u>675,585</u>	<u>521,606</u>
Cash and Cash Equivalents, end of year	\$ <u>1,604,827</u>	\$ <u>675,585</u>

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2005

	Program Services			
	Research	Patient Services	Public Education	Professional Education & Training
Fellowships given	\$ 726,190	\$ -	\$ -	\$ -
Compensation				
Salaries	34,721	70,196	35,064	11,267
Payroll taxes and employee benefits	3,991	10,552	4,432	1,336
	38,712	80,748	39,496	12,603
LAMposium conference	36,116	35,566	-	-
Shipping and postage	3,295	6,012	5,773	2,732
Printing	2,094	7,040	3,858	2,010
Supplies	1,019	3,516	2,082	784
Travel	413	2,567	1,606	4,096
Miscellaneous	-	295	70	200
Conferences	1,668	518	1,013	5,861
Telephone	1,757	1,972	1,080	422
Occupancy	1,143	2,261	1,014	370
Contributed services and materials	-	734	5,000	-
Insurance	710	1,405	630	230
Professional services	43	85	38	14
Depreciation	563	1,113	499	182
Dues & membership	424	346	540	306
Publicity	-	-	2,513	-
 Total Expenses	 \$ 814,147	 \$ 144,178	 \$ 65,212	 \$ 29,810

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2005

	Program Services			
	Total Program Services	Management and General	Fundraising	Total
Fellowships given	\$ 726,190	\$ -	\$ -	\$ 726,190
Compensation				
Salaries	151,248	58,696	47,079	257,023
Payroll taxes and employee benefits	<u>20,311</u>	<u>8,360</u>	<u>7,458</u>	<u>36,129</u>
	171,559	67,056	54,537	293,152
LAMposium conference	71,682	-	-	71,682
Shipping and postage	17,812	2,458	6,855	27,125
Printing	15,002	1,784	4,724	21,510
Supplies	7,401	4,601	2,527	14,529
Travel	8,682	897	3,728	13,307
Miscellaneous	565	10,609	323	11,497
Conferences	9,060	1,641	402	11,103
Telephone	5,231	2,892	1,283	9,406
Occupancy	4,788	2,100	1,159	8,047
Contributed services and materials	5,734	-	146	5,880
Insurance	2,975	1,305	720	5,000
Professional services	180	4,479	44	4,703
Depreciation	2,357	1,034	571	3,962
Dues & membership	1,616	321	897	2,834
Publicity	<u>2,513</u>	<u>-</u>	<u>-</u>	<u>2,513</u>
 Total Expenses	 \$ <u>1,053,347</u>	 \$ <u>101,177</u>	 \$ <u>77,916</u>	 \$ <u>1,232,440</u>

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2004

	Program Services			
	Research	Patient Services	Public Education	Professional Education & Training
Fellowships given	\$ 442,799	\$ -	\$ -	\$ -
Compensation				
Salaries	29,884	55,831	17,186	9,690
Payroll taxes and employee benefits	<u>2,745</u>	<u>6,604</u>	<u>1,866</u>	<u>1,120</u>
	32,629	62,435	19,052	10,810
LAMposium conference	63,188	21,060	-	-
Shipping and postage	2,525	7,504	2,913	522
Printing	1,751	11,492	2,862	399
Supplies	2,493	3,586	865	565
Travel	1,895	1,397	4,292	3,429
Miscellaneous	247	572	663	118
Conferences	2,598	167	352	5,883
Telephone	2,572	1,736	693	275
Occupancy	1,185	2,150	589	331
Contributed services and materials	-	939	9,967	-
Insurance	349	634	174	98
Professional services	465	844	231	130
Depreciation	760	1,379	378	212
Dues & membership	193	350	96	174
Publicity	<u>-</u>	<u>-</u>	<u>9,805</u>	<u>-</u>
Total Expenses	\$ <u>555,649</u>	\$ <u>116,245</u>	\$ <u>52,932</u>	\$ <u>22,946</u>

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2004

	Supporting Services			Total
	Total Program Services	Management and General	Fundraising	
Fellowships given	\$ 442,799	\$ -	\$ -	\$ 442,799
Compensation				
Salaries	112,591	47,106	50,208	209,905
Payroll taxes and employee benefits	<u>12,335</u>	<u>4,909</u>	<u>6,719</u>	<u>23,963</u>
	124,926	52,015	56,927	233,868
LAMposium conference	84,248	-	-	84,248
Shipping and postage	13,464	4,155	5,409	23,028
Printing	16,504	1,480	1,377	19,361
Supplies	7,509	3,113	3,067	13,689
Travel	11,013	1,344	2,976	15,333
Miscellaneous	1,600	3,330	426	5,356
Conferences	9,000	673	568	10,241
Telephone	5,276	1,807	1,410	8,493
Occupancy	4,255	1,899	1,207	7,361
Contributed services and materials	10,906	5,582	-	16,488
Insurance	1,255	560	356	2,171
Professional services	1,670	5,796	902	8,368
Depreciation	2,729	1,218	774	4,721
Dues & membership	813	310	257	1,380
Publicity	<u>9,805</u>	<u>-</u>	<u>-</u>	<u>9,805</u>
Total Expenses	\$ <u>747,772</u>	\$ <u>83,282</u>	\$ <u>75,656</u>	\$ <u>906,710</u>

The accompanying notes are an integral part of these financial statements.

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting 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. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Business

The LAM Foundation (incorporated Ohio, 1995) is a not-for-profit organization dedicated to finding a cure for Lymphangioliomyomatosis (LAM), a rare and fatal lung disease which affects only women. The Foundation's fundamental belief is that the cause of LAM disease will be uncovered by scientific research. The Foundation exists to support efforts by the scientific community to develop better methods of prevention, diagnosis, and treatment. The Foundation is governed by a Board of Trustees. The Foundation obtains significant funding from contributions and fundraising activities.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Unrestricted Net Assets

Funds which have not been restricted in any manner by the donors are referred to as unrestricted net assets and are available for general purposes of the Foundation. Unrestricted net assets are currently expendable.

Board Designated Net Assets

Board designated net assets include amounts for contingent fellowship commitments which the Foundation has awarded. Fulfillment of the fellowship is dependant on the awardees receiving favorable reviews by the Foundation's Scientific Board.

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets

Temporarily restricted net assets are amounts received from donors who specified the use of their gifts for specific purposes. Temporarily restricted net assets are subject to donor imposed restrictions which will be met either by future actions or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as released from restrictions.

Cash and Cash Equivalents

For the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2005 and 2004.

Accounts Receivable

The Foundation's accounts receivable at December 31, 2005 consists of matching contributions receivable and donations pledged to fund a fellowship payable at December 31, 2005. Management believes the balance to be fully collectible and has not recorded an allowance for uncollectible accounts receivable.

Investments

The Foundation's investments consist of various marketable securities, presented at fair market value. Contributed securities are recorded at their fair market value on the date received. The unrealized investment gains and losses are reported in the change in net assets. All gains and investment income are unrestricted.

Property and Equipment

Property and equipment are recorded at cost or fair value at the time of the gift in the case of donated items. Depreciation is provided using the straight line method over the estimated useful lives of the assets, which range from six to fifteen 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 changes in net assets for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

The Foundation records contributions at fair value as either unrestricted, temporarily restricted, or permanently restricted contributions when they are received. When donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. It is the Foundation's policy to record temporarily restricted contributions received and expended in the same accounting period in the unrestricted net asset class.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Tax Status

The Foundation is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the Foundation is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program services, management and general, and fundraising. Program service expenses are further categorized as research, patient services, public education, and professional education and training. Research costs are primarily fellowships given to research scientists, as well as costs incurred to administer, evaluate and support the fellowships given. Patient services include mailings and meetings that have the purpose of educating and supporting LAM patients and their families. Public education is the efforts to inform and educate the general public. Professional education and training is primarily the costs to attend other organizations' conferences and meetings where LAM information can be shared with medical professionals. Management and general includes administrative expenses that provide for the overall support and direction of the Foundation. Fundraising includes efforts to provide LAM financial support. Expenses related to more than one function are charged to the functional category on the basis of periodic time and expense studies.

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain 2004 amounts have been reclassified to conform to the 2005 presentation. The reclassifications had no impact on reported net assets.

NOTE B – INVESTMENTS

At December 31, investments consisted of the following:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Common stocks – mutual fund	\$ 1,716	\$ 1,735	\$ 1,498	\$ 1,183
Common stocks	52,969	39,371	100,551	90,158
Certificates of deposit	<u>-</u>	<u>-</u>	<u>32,000</u>	<u>31,934</u>
	<u>\$ 54,685</u>	<u>\$ 41,106</u>	<u>\$ 134,049</u>	<u>\$ 123,275</u>

During 2005, the Foundation authorized the sale of selected stocks. The proceeds were invested in short-term certificates of deposit, which the Foundation classifies as cash on the statement of financial position.

The components of investment gain and loss were as follows for 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Realized capital losses	\$ (1,590)	\$ -
Unrealized capital gains (losses)	<u>(2,805)</u>	<u>457</u>
	<u>\$ (4,395)</u>	<u>\$ 457</u>

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment at December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Equipment	\$ 31,579	\$ 29,334
Leasehold improvements	<u>4,313</u>	<u>4,313</u>
	35,892	33,647
Less accumulated depreciation	<u>(22,833)</u>	<u>(18,871)</u>
Property and Equipment, net	<u>\$ 13,059</u>	<u>\$ 14,776</u>
Depreciation expense	<u>\$ 3,962</u>	<u>\$ 4,721</u>

NOTE D – FELLOWSHIPS PAYABLE

The Foundation provides three 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; and Pilot Project Awards provide seed monies to pursue new research directions. The Foundation has also committed monies to a drug treatment trial that will start in 2006. Fellowships authorized and unpaid at December 31, 2005 and 2004 were \$815,000 and \$430,000 respectively. In addition, subject to certain conditions including satisfactory scientific progress, review and financial reporting, the Foundation is contingently liable for future fellowships and awards of \$385,000 and \$290,000 at December 31, 2005 and 2004, respectively. These fellowships and awards have not been included in the Foundation's liabilities since all conditions have not yet been satisfied.

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2005 and 2004 include contributions designated to the LAM Family Network which assists LAM patients in attending the annual LAMposium conference, a contribution to help fund the LAMposium, and a contribution to fund a future travel expense of the Scientific Director.

NOTE F – RELATED PARTY TRANSACTIONS

The Foundation rents office space, located in the executive director's home, from the executive director. The amount paid for rent was \$6,000 for 2005 and \$5,400 for 2004. The Foundation reimburses the executive director for utilities at a rate of 32% of the total billed amount. The amounts paid for utilities were \$1,453 and \$1,087 in 2005 and 2004, respectively.

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE G – DONATIONS IN KIND

Donated Services

The Foundation receives the volunteer services of many individuals who perform a variety of tasks that assist the Foundation with fund raising solicitations, oversight assistance, and other support. The volunteer services were not recorded in the financial statements since the recognition criteria under accounting principles generally accepted in the United States of America was not met.

Donated Property and Equipment and Supplies

Donations of property and equipment and supplies are recorded as contributions at their estimated fair value at the date of donation. The donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. The donated property and equipment and supplies were:

	<u>2005</u>	<u>2004</u>
Video production	\$ -	\$ 7,467
Printing – program services	5,000	2,500
Registration fees	-	5,332
Other	<u>2,380</u>	<u>1,189</u>
	<u>\$ 7,380</u>	<u>\$ 16,488</u>

NOTE H – CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Foundation to a concentration of credit risk consist primarily of cash and investments.

The Foundation maintains its cash in various bank accounts which, at times, may exceed the federally insured limits. The Foundation has not experienced any losses in such accounts. The amount in excess of the insurance coverage was \$1,224,572 at December 31, 2005.

The Foundation's investments consist primarily of money market, mutual funds and common stock. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that its investment policy is prudent for the long-term welfare of the Foundation.