

FINANCIAL STATEMENTS

THE LAM FOUNDATION

**Years ended December 31, 2004 and 2003
With Report of Independent Auditors**

FLYNN & COMPANY PSC, INC.
Certified Public Accountants

THE LAM FOUNDATION

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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, 2004 and 2003 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, 2004 and 2003, 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, 2005

THE LAM FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2004 and 2003

ASSETS		
	2004	2003
Current Assets		
Cash	\$ 675,585	\$ 521,606
Accounts receivable	109,477	49,152
Other assets	11,236	15,929
Investments	<u>123,275</u>	<u>102,209</u>
Total Current Assets	919,573	688,896
Property and Equipment, net	<u>14,776</u>	<u>14,385</u>
TOTAL ASSETS	\$ <u>934,349</u>	\$ <u>703,281</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 6,892	\$ 12,552
Compensation payable	18,367	12,624
Fellowships payable	430,000	356,163
Deferred revenue	700	-
Payroll taxes payable	<u>5,591</u>	<u>3,984</u>
Total Current Liabilities	461,550	385,323
Net Assets		
Unrestricted	455,139	307,704
Temporarily restricted	<u>17,660</u>	<u>10,254</u>
Total Net Assets	<u>472,799</u>	<u>317,958</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>934,349</u>	\$ <u>703,281</u>

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

THE LAM FOUNDATION
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2004 and 2003

	2004		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, support, and gains			
Support			
Contributions from special events	\$ 472,341	\$ -	\$ 472,341
General donations	166,872	-	166,872
Grants	81,564	-	81,564
Honorariums	81,559	-	81,559
LAMposium sponsorships and registrations	74,465	6,981	81,446
Memorials	37,905	10,000	47,905
Matching gifts	31,181	-	31,181
United Way	31,072	-	31,072
Donated investments	16,589	-	16,589
Contributed services and materials	16,488	-	16,488
Sponsorships	13,691	-	13,691
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 loss	<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 ACTIVITIES
For the years ended December 31, 2004 and 2003

	2003		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, support, and gains			
Support			
Contributions from special events	\$ 461,786	\$ -	\$ 461,786
General donations	68,783	-	68,783
Grants	103,626	-	103,626
Honorariums	58,270	-	58,270
LAMposium sponsorships and registrations	70,350	9,915	80,265
Memorials	68,920	-	68,920
Matching gifts	23,812	-	23,812
United Way	30,793	-	30,793
Donated investments	12,766	-	12,766
Contributed services and materials	7,585	-	7,585
Sponsorships	13,393	-	13,393
Combined federal campaign	5,356	-	5,356
Net assets released from restrictions	<u>16,101</u>	<u>(16,101)</u>	<u>-</u>
	941,541	(6,186)	935,355
Dividends, interest and gains			
Interest and dividends	4,997	-	4,997
Net realized and unrealized gain	<u>7,770</u>	<u>-</u>	<u>7,770</u>
Total revenues, support and gains	954,308	(6,186)	948,122
Expenses			
Program services	731,587	-	731,587
Management and general	64,971	-	64,971
Fundraising	<u>86,616</u>	<u>-</u>	<u>86,616</u>
Total expenses	<u>883,174</u>	<u>-</u>	<u>883,174</u>
Increase in Net Assets	71,134	(6,186)	64,948
Net assets at beginning of year	<u>236,570</u>	<u>16,440</u>	<u>253,010</u>
Net assets at end of year	\$ <u>307,704</u>	\$ <u>10,254</u>	\$ <u>317,958</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 154,841	\$ 64,948
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	4,721	4,325
Donated securities	(16,589)	(12,766)
Unrealized gain on investments	(457)	(7,819)
Realized loss on investments	-	49
(Increase) decrease in assets		
Accounts receivable	(60,325)	(1,942)
Other assets	4,693	(8,399)
Increase (decrease) in liabilities		
Accounts payable	(5,660)	(1,532)
Compensation payable	5,743	6,221
Payroll taxes payable	1,607	141
Deferred revenue	700	-
Fellowships payable	<u>73,837</u>	<u>38,341</u>
Net Cash Provided By Operating Activities	163,111	81,567
Cash Flows From Investing Activities		
Proceeds from sale of investments	57,000	2,960
Reinvestment of dividends	(20)	(9)
Purchase of investments	(61,000)	(28,000)
Purchase of property and equipment	<u>(5,112)</u>	<u>(4,595)</u>
Net Cash Used In Investing Activities	<u>(9,132)</u>	<u>(29,644)</u>
Net Increase in Cash and Cash Equivalents	153,979	51,923
Cash and Cash Equivalents, beginning of year	<u>521,606</u>	<u>469,683</u>
Cash and Cash Equivalents, end of year	\$ <u><u>675,585</u></u>	\$ <u><u>521,606</u></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	Professiona l Education & Training
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
Fellowships given	442,799	-	-	-
LAMposium conference	63,188	21,060	-	-
Shipping and postage	2,525	7,504	2,913	522
Printing	1,751	11,492	2,862	399
Contributed services and materials	-	939	9,967	-
Travel	1,895	1,397	4,292	3,429
Supplies	2,493	3,586	865	565
Conferences	2,598	167	352	5,883
Publicity	-	-	9,805	-
Telephone	2,572	1,736	693	275
Professional services	465	844	231	130
Occupancy	1,185	2,150	559	331
Miscellaneous	247	572	663	118
Depreciation	760	1,379	378	212
Insurance	349	634	174	98
Dues & membership	193	350	96	174
Tissue procurement	-	-	-	-
Research meetings	<u>-</u>	<u>-</u>	<u>-</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

	<u>Supporting Services</u>			<u>Total</u>
	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
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
Fellowships given	442,799	-	-	442,799
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
Contributed services and materials	10,906	5,582	-	16,488
Travel	11,013	1,344	2,976	15,333
Supplies	7,509	3,113	3,067	13,689
Conferences	9,000	673	568	10,241
Publicity	9,805	-	-	9,805
Telephone	5,276	1,807	1,410	8,493
Professional services	1,670	5,796	902	8,368
Occupancy	4,255	1,899	1,207	7,361
Miscellaneous	1,600	3,330	426	5,356
Depreciation	2,729	1,218	774	4,721
Insurance	1,255	560	356	2,171
Dues & membership	813	310	257	1,380
Tissue procurement	-	-	-	-
Research meetings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2003

	<u>Program Services</u>			
	Research	Patient Services	Public Education	Professiona l Education & Training
Compensation				
Salaries	\$ 63,142	\$ 31,886	\$ 19,602	\$ 2,815
Payroll taxes and employee benefits	<u>1,990</u>	<u>3,648</u>	<u>2,003</u>	<u>229</u>
	65,132	35,534	21,605	3,044
Fellowships given	459,703	-	-	-
LAMposium conference	48,197	17,903	-	-
Shipping and postage	2,857	3,270	4,618	241
Printing	2,406	2,903	4,110	266
Contributed services and materials	-	646	5,969	-
Travel	2,470	2,164	1,912	1,562
Supplies	1,268	2,063	1,754	184
Conferences	2,950	-	333	3,493
Publicity	-	-	-	-
Telephone	2,523	1,069	733	91
Professional services	-	-	-	-
Occupancy	1,264	1,323	720	138
Miscellaneous	316	221	972	10
Depreciation	835	874	476	91
Insurance	128	134	226	14
Dues & membership	212	222	121	153
Tissue procurement	3,000	-	-	-
Research meetings	<u>17,164</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	\$ <u>610,425</u>	\$ <u>68,326</u>	\$ <u>43,549</u>	\$ <u>9,287</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, 2003

	<u>Supporting Services</u>			<u>Total</u>
	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Compensation				
Salaries	\$ 117,445	\$ 37,461	\$ 58,699	\$ 213,605
Payroll taxes and employee benefits	<u>7,870</u>	<u>4,117</u>	<u>6,620</u>	<u>18,607</u>
	125,315	41,578	65,319	232,212
Fellowships given	459,703	-	-	459,703
LAMposium conference	66,100	-	-	66,100
Shipping and postage	10,986	3,351	4,822	19,159
Printing	9,685	1,405	2,633	13,723
Contributed services and materials	6,615	-	970	7,585
Travel	8,108	1,792	3,462	13,362
Supplies	5,269	2,095	2,901	10,265
Conferences	6,776	1,096	412	8,284
Publicity	-	-	-	-
Telephone	4,416	2,203	1,234	7,853
Professional services	-	4,100	-	4,100
Occupancy	3,445	1,676	1,428	6,549
Miscellaneous	1,519	2,947	1,434	5,900
Depreciation	2,276	1,107	942	4,325
Insurance	502	1,339	297	2,138
Dues & membership	708	282	762	1,752
Tissue procurement	3,000	-	-	3,000
Research meetings	<u>17,164</u>	<u>-</u>	<u>-</u>	<u>17,164</u>
 Total Expenses	 \$ <u>731,587</u>	 \$ <u>64,971</u>	 \$ <u>86,616</u>	 \$ <u>883,174</u>

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

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

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.

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.

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2004 and 2003.

Accounts Receivable

The Foundation's accounts receivable at December 31, 2004 consists of matching contributions receivable and donations pledged to fund a fellowship payable at December 31, 2004. 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.

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

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

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. Beginning in 2004, 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, 2004 and 2003

NOTE B – INVESTMENTS

At December 31, investments consisted of the following:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Common stocks – mutual fund	\$ 1,498	\$ 1,183	\$ 1,498	\$ 1,123
Common stocks	100,551	90,158	83,943	73,139
Certificate of deposit	<u>32,000</u>	<u>31,934</u>	<u>28,000</u>	<u>27,947</u>
	<u>\$134,049</u>	<u>\$ 123,275</u>	<u>\$ 113,441</u>	<u>\$ 102,209</u>

The components of investment gain and loss were as follows for 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Realized capital gains (losses), net	\$ -	\$ (49)
Unrealized capital gains	<u>457</u>	<u>7,819</u>
	<u>\$ 457</u>	<u>\$ 7,770</u>

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment at December 31 are as follows:

	<u>2004</u>	<u>2003</u>
Equipment	\$ 29,334	\$ 24,222
Leasehold improvements	<u>4,313</u>	<u>4,313</u>
	33,647	28,535
Less accumulated depreciation	<u>(18,871)</u>	<u>(14,150)</u>
Property and Equipment, net	<u>\$ 14,776</u>	<u>\$ 14,385</u>
Depreciation expense	<u>\$ 4,721</u>	<u>\$ 4,325</u>

THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

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. Fellowships authorized and unpaid at December 31, 2004 and 2003 were \$430,000 and \$356,163 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 \$290,000 and \$245,000 at December 31, 2004 and 2003, 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, 2004 include contributions designated to the LAM Family Network which assists LAM patients in attending the annual LAMposium conference and a contribution to help fund the 2004 LAMposium and a contribution to fund a future travel expense of the Scientific Director. Temporarily restricted net assets at December 31, 2003 represent contributions designated to the LAM Family Network and a contribution to fund research meeting expenses.

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 \$5,400 for 2004 and \$4,800 for 2003. The Foundation reimburses the executive director for utilities at a rate of 32% of the total billed amount. The amounts paid for utilities were \$1,087 and \$1,094 in 2004 and 2003 respectively.

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.

**THE LAM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE G – DONATIONS IN KIND (CONTINUED)

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:

	2004	2003
Video production	\$ 7,467	\$ -
Printing – program services	2,500	5,000
Registration fees	5,332	-
Website design	-	2,585
Other	1,189	-
	\$ 16,488	\$ 7,585

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 \$426,412 at December 31, 2004.

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.