

The LAM Foundation

**Financial Statements
December 31, 2016 and 2015, and
Independent Auditors' Report**

THE LAM FOUNDATION
December 31, 2016 and 2015

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Independent Auditors' Report

To the Board of Directors
The LAM Foundation
Cincinnati, Ohio

We have audited the accompanying financial statements of The LAM Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's 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.

Auditors' Responsibility

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 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 entity'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 entity'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 The LAM Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



May 17, 2017
Crestview Hills, Kentucky

THE LAM FOUNDATION

Statements of Financial Position December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,221,231	\$ 2,232,232
Certificates of deposit	-	50,489
Accounts and short term pledges receivable	14,771	5,069
Prepaid expenses and other current assets	10,663	10,631
Total current assets	2,246,665	2,298,421
Other assets:		
Long term pledges receivable, net	3,500	4,000
Property and equipment, net	1,282	5,329
Intangibles, net	2,382	2,934
Total other assets	7,164	12,263
Total assets	\$ 2,253,829	\$ 2,310,684
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable	\$ 24,342	\$ 25,550
Compensation and related taxes payable	18,584	24,076
Funds held for others	37,150	76,650
Research grants payable	200,000	220,000
Total current liabilities	280,076	346,276
Net Assets		
Unrestricted:		
Available for operations	1,169,683	1,099,160
Board designated funds for research commitments	400,000	420,000
Invested in property and equipment and intangibles	3,664	8,263
Total unrestricted net assets	1,573,347	1,527,423
Temporarily restricted	400,406	436,985
Total net assets	1,973,753	1,964,408
Total liabilities and net assets	\$ 2,253,829	\$ 2,310,684

See accompanying notes to financial statements.

THE LAM FOUNDATION
Statement of Activities
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, revenues and gains			
Support and revenues:			
Honor, memorial, bequests and general donations	\$ 614,664	\$ 32,914	\$ 647,578
Contributions from special events, net	372,877	-	372,877
Corporate and foundation gifts	34,865	12,271	47,136
Conference registrations and support	602,059	-	602,059
Contributed services and materials	61,448	-	61,448
Miscellaneous income	37,744	-	37,744
Net assets released from restrictions	81,764	(81,764)	-
Total support, revenues and gains	<u>1,805,421</u>	<u>(36,579)</u>	<u>1,768,842</u>
Expenses			
Research	911,116	-	911,116
Patient services	452,887	-	452,887
Clinical	57,431	-	57,431
Management and general	163,191	-	163,191
Fundraising	174,872	-	174,872
Total expenses	<u>1,759,497</u>	<u>-</u>	<u>1,759,497</u>
Change in net assets	45,924	(36,579)	9,345
Net assets, beginning of year	<u>1,527,423</u>	<u>436,985</u>	<u>1,964,408</u>
Net assets, end of year	<u><u>\$ 1,573,347</u></u>	<u><u>\$ 400,406</u></u>	<u><u>\$ 1,973,753</u></u>

See accompanying notes to financial statements.

THE LAM FOUNDATION
Statement of Activities
Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, revenues and gains			
Support and revenues:			
Honor, memorial, bequests and general donations	\$ 664,759	\$ 64,102	\$ 728,861
Contributions from special events, net	276,456	-	276,456
Corporate and foundation gifts	28,307	-	28,307
Conference registrations and support	498,986	-	498,986
Contributed services and materials	57,259	-	57,259
Miscellaneous income	24,120	-	24,120
Net assets released from restrictions	<u>139,438</u>	<u>(139,438)</u>	<u>-</u>
Total support, revenues and gains	<u>1,689,325</u>	<u>(75,336)</u>	<u>1,613,989</u>
Expenses			
Research	723,561	-	723,561
Patient services	467,300	-	467,300
Clinical	59,331	-	59,331
Management and general	166,222	-	166,222
Fundraising	<u>174,990</u>	<u>-</u>	<u>174,990</u>
Total expenses	<u>1,591,404</u>	<u>-</u>	<u>1,591,404</u>
Change in net assets	97,921	(75,336)	22,585
Net assets, beginning of year	<u>1,429,502</u>	<u>512,321</u>	<u>1,941,823</u>
Net assets, end of year	<u><u>\$ 1,527,423</u></u>	<u><u>\$ 436,985</u></u>	<u><u>\$ 1,964,408</u></u>

See accompanying notes to financial statements.

THE LAM FOUNDATION

Statement of Functional Expenses Year Ended December 31, 2016

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Research</u>	<u>Patient Services</u>	<u>Clinical</u>	<u>Management and General</u>	<u>Fundraising</u>	
Compensation	\$ 120,326	\$ 186,685	\$ 45,556	\$ 60,253	\$ 85,844	\$ 498,664
Research grants and awards	485,713	-	-	-	-	485,713
LAMposium conference	161,258	155,073	2,597	-	10,653	329,581
Professional services	12,135	11,917	1,911	64,256	12,829	103,048
Contributed services	61,448	-	-	-	-	61,448
Printing and publications	4,648	23,169	1,301	3,804	15,859	48,781
Occupancy costs	6,879	9,469	2,327	5,229	8,245	32,149
Clinical research support	18,883	5,311	518	5,311	-	30,023
Bank, credit card, and filing fees	-	-	-	1,685	22,436	24,121
LAM patient network support	783	22,375	-	-	414	23,572
Travel	11,222	7,641	89	256	4,046	23,254
Supplies	3,701	6,666	624	6,706	5,424	23,121
Miscellaneous	5,372	10,780	54	3,094	2,669	21,969
Conferences	12,421	1,783	674	-	937	15,815
Shipping and postage	924	4,601	43	2,090	3,678	11,336
Telephone	2,430	3,299	704	1,182	772	8,387
Office expenses	1,149	2,226	782	1,272	676	6,105
Depreciation and amortization	-	-	-	6,095	-	6,095
Meetings	1,379	850	23	1,792	196	4,240
Equipment lease	445	1,042	228	166	194	2,075
Total expenses	<u>\$ 911,116</u>	<u>\$ 452,887</u>	<u>\$ 57,431</u>	<u>\$ 163,191</u>	<u>\$ 174,872</u>	<u>\$ 1,759,497</u>

See accompanying notes to financial statements.

THE LAM FOUNDATION

Statement of Functional Expenses Year Ended December 31, 2015

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Research</u>	<u>Patient Services</u>	<u>Clinical</u>	<u>Management and General</u>	<u>Fundraising</u>	
Compensation	\$ 98,109	\$ 157,945	\$ 39,751	\$ 65,236	\$ 79,409	\$ 440,450
Research grants and awards	494,624	-	-	-	-	494,624
LAMposium conference	30,101	215,202	51	216	11,894	257,464
Professional services	17,154	28,250	4,049	62,121	24,273	135,847
Contributed services	44,360	12,900	-	-	-	57,260
Printing and publications	5,112	21,138	76	8,119	16,702	51,147
Occupancy costs	4,222	5,842	1,378	4,548	3,718	19,708
Clinical research support	2,918	-	12,116	-	-	15,034
Bank, credit card, and filing fees	48	94	-	1,257	22,478	23,877
LAM patient network support	-	7,636	-	-	511	8,147
Travel	10,500	4,815	513	669	8,031	24,528
Supplies	22	596	7	17	59	701
Miscellaneous	2,687	537	2	3,996	308	7,530
Conferences	7,653	-	-	-	-	7,653
Shipping and postage	1,472	6,542	-	2,783	4,775	15,572
Telephone	2,424	2,673	626	1,446	1,374	8,543
Office expenses	1,191	1,842	570	1,574	1,157	6,334
Depreciation and amortization	-	-	-	8,353	-	8,353
Meetings	800	903	108	5,826	229	7,866
Equipment lease	164	385	84	61	72	766
Total expenses	<u>\$ 723,561</u>	<u>\$ 467,300</u>	<u>\$ 59,331</u>	<u>\$ 166,222</u>	<u>\$ 174,990</u>	<u>\$ 1,591,404</u>

See accompanying notes to financial statements.

THE LAM FOUNDATION
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 9,345	\$ 22,585
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	6,095	8,353
Gain on sale of fixed assets	-	(699)
Changes in:		
Accounts and pledges receivable	(9,202)	16,698
Prepaid expenses and other current assets	(32)	(4,665)
Accounts payable	(1,208)	21,353
Compensation and related taxes payable	(5,492)	23,753
Deferred revenue	-	(2,530)
Funds held for others	(39,500)	76,650
Research grants payable	(20,000)	28,000
	(59,994)	189,498
Cash flows from investing activities		
Purchase of property and equipment	(1,496)	-
Proceeds from sale of property and equipment	-	1,500
Redemptions of certificates of deposits	50,489	154,352
	48,993	155,852
Net change in cash and cash equivalents	(11,001)	345,350
Cash and cash equivalents, beginning of year	2,232,232	1,886,882
Cash and cash equivalents, end of year	\$ 2,221,231	\$ 2,232,232

See accompanying notes to financial statements.

THE LAM FOUNDATION
Notes to Financial Statements

NOTE 1 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.

Nature of Operations

The LAM Foundation is an Ohio non-profit entity incorporated in 1995 urgently seeking safe and effective treatments and ultimately a cure for Lymphangiomyomatosis (LAM). LAM is a progressive and frequently fatal lung disease that affects primarily women. The LAM Foundation believes its goals will be achieved through patient advocacy, the funding of promising research and advancement of clinical expertise in the treatment of LAM through a global network of LAM clinics. The Foundation 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 financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Foundation is required to report information regarding its financial position and activities according to three classes of net assets:

- *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* - Board designated net assets are amounts designated by the Board of Directors for specified purposes, including contingent grant awards, clinical trial support and other research commitments.
- *Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that may or will be met either by future actions of the Foundation satisfying the purpose 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 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.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market deposit accounts. 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.

THE LAM FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. As of December 31, 2016 and 2015, management considers all pledges and accounts receivable collectable, thus, no allowance is recorded.

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 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 and amortization 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 expensed as incurred while significant improvements are capitalized.

Intangible Assets

Intangible assets are recorded at cost at the date of acquisition and amortized over their estimated useful lives. The Foundation's policy is to capitalize intangible asset purchases that exceed \$500. As of December 31, 2016 and 2015, the Foundation had \$6,531 in trademarks with the United States, Europe and Canada. Amortization expense for the years ended December 31, 2016 and 2015 was \$552. Accumulated amortization as of December 31, 2016 and 2015 was \$4,149 and \$3,597, respectively.

Recognition of Donated Assets

The Foundation reports gifts of cash and other assets at their estimated fair value as of the date of contribution. Such donations are recorded as unrestricted support unless explicit donor stipulations 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 rendered create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically 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 fundraising activities.

THE LAM FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of 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 United States generally accepted accounting principles 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 Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation's IRS Form 990 is subject to review and examination by federal and state authorities. The Foundation believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Accounting Standard Updates

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions). Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. Expenses will be reported by both natural and functional classification to aid in the usefulness of financial statements. This standard will be effective for the calendar year ending December 31, 2018. The Foundation is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

THE LAM FOUNDATION

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standard Updates (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019. The Foundation is currently in the process of evaluating the impact of adoption of this ASU on the financial statements

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020. The Foundation is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent Events

In preparing its financial statements, the Foundation has evaluated events subsequent to the statement of financial position date through May 17, 2017, which is the date the financial statements were available to be issued.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment at December 31 are as follows:

	2016	2015
Equipment	\$ 39,269	\$ 38,611
Leasehold improvements	-	11,560
	39,269	50,171
Less accumulated depreciation	(37,987)	(44,842)
Property and equipment, net	\$ 1,282	\$ 5,329

Depreciation expenses for the years ended December 31, 2016 and 2015 was \$5,543 and \$7,800, respectively.

THE LAM FOUNDATION

Notes to Financial Statements (Continued)

NOTE 3 FUNDS HELD FOR OTHERS

During 2015, the Foundation entered into an agreement with Cincinnati Children's Hospital Medical Center (CCHMC) to administer the Rare Lung Disease Consortium (RLDC) and the multi-site clinical studies conducted within the RLDC. The total amount of the grant is \$91,650, with \$15,000 awarded to the Foundation for administrative support and \$76,650 to be passed through to the approved clinical research institutions as directed by the study chairs. The pass through amount of \$76,650 is included in funds held for others on the statement of financial position as of December 31, 2015.

During 2016, additional funds were passed through to the approved clinical research institutions as directed by the study chairs in the amount of \$39,500, leaving \$37,150 included in funds held for others on the statement of financial position as of December 31, 2016.

NOTE 4 RESEARCH GRANTS PAYABLE

The Foundation provides five grant award types: Career Development Awards, Established Investigator Awards, Pilot Project Awards, Designated Awards, Special Project Awards and Bridge Funding Awards. Career Development Awards provide support for postdoctoral research fellows who are starting their research careers and are working in the laboratories of established researchers or conducting research with the mentorship of established researchers. Established Investigator Awards provide a maximum of three years of salary support for a technician. Pilot Project Awards provide seed monies to pursue new research directions. A Designated Award supports work in which fundraisers and donors work with the Foundation to support specific research projects or awareness programs, chosen from a slate of pre-peer reviewed and Board approved proposals. Special Project Awards fund projects that do not fall into one of the above three categories and Bridge Funding Awards provide interim funding until anticipated funding from other sources is awarded.

The Foundation has the right to withdraw or modify the amount awarded based on review of each project's results. Project results are reviewed at least annually. Therefore, the Foundation accrues a payable for the approved award payments for the succeeding 12 months with the remainder representing a contingent liability. Grants payable were \$200,000 and \$220,000 at December 31, 2016 and 2015, respectively.

The additional, yet contingent amounts were approximately \$400,000 and \$420,000 at December 31, 2016 and 2015, respectively. The Foundation's Board of Directors has, however, designated these amounts of its unrestricted net assets for the funding of these contingent fellowships.

NOTE 5 RETIREMENT PLAN

The Foundation established a simple IRA plan covering substantially all employees. Employees may contribute a portion of their compensation not to exceed the maximum allowed by the Internal Revenue Service. The Foundation contributed a total of \$11,025 and \$9,688 in 2016 and 2015, respectively, to the plan.

THE LAM FOUNDATION

**Notes to Financial Statements
(Continued)**

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31 include donor restricted support for a future clinical drug trial, contributions to fund patient travel to the Foundation's annual conference and their first visit to the National Institutes of Health, future support of the Foundation's research program services, and funding to promote and establish a secure portal to facilitate the communication between clinicians and patients.. Temporarily restricted net assets were available for the following purposes:

	<u>2016</u>	<u>2015</u>
Restricted for the following purposes:		
MILED trial	\$ 342,495	\$ 342,495
Helen Green travel grant	25,000	-
LAMposium	13,742	74,020
LAM 360 platform	12,271	-
Statin trial	6,898	20,470
	<u>\$ 400,406</u>	<u>\$ 436,985</u>

NOTE 7 CONTRIBUTED SERVICES

Contributed services are as follows for the years ending December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Professional services	\$ 39,600	\$ 39,600
Graphic design and print production services	21,848	17,659
	<u>\$ 61,448</u>	<u>\$ 57,259</u>

NOTE 8 OPERATING LEASES

The Foundation leased office space under a non-cancelable operating lease that expired on November 30, 2015 and was renewed on a month-to-month basis through January 31, 2016. In, February 2016 the Foundation moved its administrative office to a new location under a non-cancelable operating lease that expires on April 30, 2021. Additionally, the Foundation leases other minor equipment under non-cancellable operating leases through August 2019. Rent expense for these leases included in occupancy costs for the years ended December 31, 2016 and 2015 was \$17,351 and \$19,708, respectively.

Future minimum lease payments for all non-cancelable operating leases are as follows:

2017	\$ 18,895
2018	17,971
2019	17,482
2020	16,421
2021	5,483
	<u>\$ 76,252</u>