

# **The LAM Foundation**

**Financial Statements  
December 31, 2017 and 2016, and  
Independent Auditors' Report**

**THE LAM FOUNDATION**  
**December 31, 2017 and 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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 10, 2018  
Crestview Hills, Kentucky

**THE LAM FOUNDATION**

**Statements of Financial Position  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,143,733	\$ 2,221,231
Accounts and short term pledges receivable	40,500	14,771
Prepaid expenses and other current assets	12,514	10,663
Total current assets	2,196,747	2,246,665
Other assets:		
Long term pledges receivable, net	3,000	3,500
Property and equipment, net	1,068	1,282
Intangibles, net	1,830	2,382
Total other assets	5,898	7,164
Total assets	\$ 2,202,645	\$ 2,253,829
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 8,030	\$ 24,342
Compensation and related taxes payable	25,725	18,584
Funds held for others	34,983	37,150
Research grants payable	270,000	200,000
Total current liabilities	338,738	280,076
<b>Net Assets</b>		
Unrestricted:		
Available for operations	1,093,388	1,169,683
Board designated funds for research commitments	395,000	400,000
Invested in property and equipment and intangibles	2,898	3,664
Total unrestricted net assets	1,491,286	1,573,347
Temporarily restricted	372,621	400,406
Total net assets	1,863,907	1,973,753
Total liabilities and net assets	\$ 2,202,645	\$ 2,253,829

See accompanying notes to financial statements.

**THE LAM FOUNDATION**  
**Statement of Activities**  
**Year Ended December 31, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>Support, revenues and gains</b>			
Support and revenues:			
Honor, memorial, bequests and general donations	\$ 594,564	\$ 1,542	\$ 596,106
Contributions from special events, net	540,255	-	540,255
Corporate and foundation gifts	71,985	-	71,985
Conference registrations and support	265,154	-	265,154
Contributed services and materials	39,600	-	39,600
Miscellaneous income	59,052	-	59,052
Net assets released from restrictions	29,327	(29,327)	-
Total support, revenues and gains	<u>1,599,937</u>	<u>(27,785)</u>	<u>1,572,152</u>
<b>Expenses</b>			
Research	911,623	-	911,623
Patient services	371,158	-	371,158
Clinical	63,107	-	63,107
Management and general	159,245	-	159,245
Fundraising	176,865	-	176,865
Total expenses	<u>1,681,998</u>	<u>-</u>	<u>1,681,998</u>
<b>Change in net assets</b>	(82,061)	(27,785)	(109,846)
<b>Net assets, beginning of year</b>	<u>1,573,347</u>	<u>400,406</u>	<u>1,973,753</u>
<b>Net assets, end of year</b>	<u>\$ 1,491,286</u>	<u>\$ 372,621</u>	<u>\$ 1,863,907</u>

See accompanying notes to financial statements.

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Support, revenues and gains</b>			
Support and revenues:			
Honor, memorial, bequests and general donations	\$ 614,664	\$ 32,914	\$ 647,578
Contributions from special events, net	633,389	-	633,389
Corporate and foundation gifts	34,865	12,271	47,136
Conference registrations and support	329,975	-	329,975
Contributed services and materials	61,448	-	61,448
Miscellaneous income	37,744	-	37,744
Net assets released from restrictions	81,764	(81,764)	-
	<u>1,793,849</u>	<u>(36,579)</u>	<u>1,757,270</u>
<b>Expenses</b>			
Research	911,116	-	911,116
Patient services	451,055	-	451,055
Clinical	57,431	-	57,431
Management and general	163,191	-	163,191
Fundraising	165,132	-	165,132
	<u>1,747,925</u>	<u>-</u>	<u>1,747,925</u>
<b>Change in net assets</b>	45,924	(36,579)	9,345
<b>Net assets, beginning of year</b>	<u>1,527,423</u>	<u>436,985</u>	<u>1,964,408</u>
<b>Net assets, end of year</b>	<u>\$ 1,573,347</u>	<u>\$ 400,406</u>	<u>\$ 1,973,753</u>

See accompanying notes to financial statements.

## THE LAM FOUNDATION

### Statement of Functional Expenses Year Ended December 31, 2017

	Program Services			Supporting Services		Total
	Research	Patient Services	Clinical	Management and General	Fundraising	
Compensation	\$ 94,291	\$ 207,676	\$ 48,624	\$ 79,480	\$ 108,757	\$ 538,828
Research grants and awards	519,598	498	695	-	-	520,791
LAMposium conference	195,022	85,861	637	91	1,739	283,350
Professional services	14,704	20,202	2,315	62,012	10,730	109,963
Contributed services	39,600	-	-	-	-	39,600
Occupancy costs	6,975	9,648	2,277	5,273	8,372	32,545
Bank, credit card, and filing fees	-	-	-	1,928	27,652	29,580
Printing and publications	7,410	5,897	334	369	10,451	24,461
LAM patient network support	2,009	19,499	-	-	-	21,508
Conferences	10,519	1,714	1,993	-	870	15,096
Travel	4,414	6,448	1,797	-	1,816	14,475
Clinical research support	7,589	599	2,051	-	-	10,239
Shipping and postage	906	3,060	-	2,208	3,287	9,461
Miscellaneous	2,909	939	3	3,161	1,447	8,459
Telephone	2,036	3,590	1,003	1,112	479	8,220
Meetings	2,339	1,730	324	1,867	172	6,432
Office expenses	857	2,200	826	812	899	5,594
Equipment lease	445	1,042	228	166	194	2,075
Depreciation and amortization	-	-	-	766	-	766
Supplies	-	555	-	-	-	555
<b>Total expenses</b>	<b>\$ 911,623</b>	<b>\$ 371,158</b>	<b>\$ 63,107</b>	<b>\$ 159,245</b>	<b>\$ 176,865</b>	<b>\$ 1,681,998</b>

See accompanying notes to financial statements.

## THE LAM FOUNDATION

### Statement of Functional Expenses Year Ended December 31, 2016

	Program Services			Supporting Services		Total
	Research	Patient Services	Clinical	Management and General	Fundraising	
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	153,241	2,597	-	913	318,009
Professional services	12,135	11,917	1,911	64,256	12,829	103,048
Contributed services	61,448	-	-	-	-	61,448
Occupancy costs	6,879	9,469	2,327	5,229	8,245	32,149
Bank, credit card, and filing fees	-	-	-	1,685	22,436	24,121
Printing and publications	4,648	23,169	1,301	3,804	15,859	48,781
LAM patient network support	783	22,375	-	-	414	23,572
Conferences	12,421	1,783	674	-	937	15,815
Travel	11,222	7,641	89	256	4,046	23,254
Clinical research support	18,883	5,311	518	5,311	-	30,023
Shipping and postage	924	4,601	43	2,090	3,678	11,336
Miscellaneous	5,372	10,780	54	3,094	2,669	21,969
Telephone	2,430	3,299	704	1,182	772	8,387
Meetings	1,379	850	23	1,792	196	4,240
Office expenses	1,149	2,226	782	1,272	676	6,105
Equipment lease	445	1,042	228	166	194	2,075
Depreciation and amortization	-	-	-	6,095	-	6,095
Supplies	3,701	6,666	624	6,706	5,424	23,121
<b>Total expenses</b>	<b>\$ 911,116</b>	<b>\$ 451,055</b>	<b>\$ 57,431</b>	<b>\$ 163,191</b>	<b>\$ 165,132</b>	<b>\$ 1,747,925</b>

See accompanying notes to financial statements.



**THE LAM FOUNDATION**

**Statements of Cash Flows  
Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (109,846)	\$ 9,345
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	766	6,095
Changes in:		
Accounts and pledges receivable	(25,229)	(9,202)
Prepaid expenses and other current assets	(1,851)	(32)
Accounts payable	(16,312)	(1,208)
Compensation and related taxes payable	7,141	(5,492)
Funds held for others	(2,167)	(39,500)
Research grants payable	70,000	(20,000)
	<u>(77,498)</u>	<u>(59,994)</u>
Net cash used in operating activities		
	<u>(77,498)</u>	<u>(59,994)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	-	(1,496)
Redemptions of certificates of deposits	-	50,489
	<u>-</u>	<u>48,993</u>
Net cash provided by investing activities		
	<u>-</u>	<u>48,993</u>
<b>Net change in cash and cash equivalents</b>	(77,498)	(11,001)
<b>Cash and cash equivalents, beginning of year</b>	<u>2,221,231</u>	<u>2,232,232</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,143,733</u>	<u>\$ 2,221,231</u>

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 Lymphangioleiomyomatosis (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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, the Foundation had \$6,531 in trademarks with the United States, Europe and Canada. Amortization expense for the years ended December 31, 2017 and 2016 was \$552. Accumulated amortization as of December 31, 2017 and 2016 was \$4,701 and \$4,149, 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 of time 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.

##### ***Reclassifications***

Certain 2016 figures have been reclassified to conform to the 2017 presentation.

##### ***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 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.

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 these ASU's 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 10, 2018, 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:

	2017	2016
Equipment	\$ 39,269	\$ 39,269
Less accumulated depreciation	(38,201)	(37,987)
Property and equipment, net	<u>\$ 1,068</u>	<u>\$ 1,282</u>

Depreciation expenses for the years ended December 31, 2017 and 2016 was \$214 and \$5,543, respectively.

## THE LAM FOUNDATION

### Notes to Financial Statements (Continued)

#### NOTE 3 FUNDS HELD FOR OTHERS

The Foundation has 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 grant includes funds awarded to the Foundation for administrative support and funds to be passed through to the approved clinical research institutions as directed by the study chairs. Funds held for others, and to be passed through to the approved clinical research institutions, included in the statement of financial position as of December 31, 2017 and 2016 were \$34,983 and \$37,150, respectively.

#### 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 \$270,000 and \$200,000 at December 31, 2017 and 2016, respectively.

The additional, yet contingent amounts were approximately \$395,000 and \$400,000 at December 31, 2017 and 2016, 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 \$10,364 and \$11,025 in 2017 and 2016, 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:

	2017	2016
Restricted for the following purposes:		
MILED trial	\$ 337,577	\$ 342,495
Helen Green travel grant	19,760	25,000
LAMposium	15,284	13,742
LAM 360 platform	-	12,271
Statin trial	-	6,898
	\$ 372,621	\$ 400,406

**NOTE 7 CONTRIBUTED SERVICES**

Contributed services are as follows for the years ending December 31, 2017 and 2016:

	2017	2016
Professional services	\$ 39,600	\$ 39,600
Graphic design and print production services	-	21,848
	\$ 39,600	\$ 61,448

**NOTE 8 OPERATING LEASES**

The Foundation leases office space under a non-cancelable operating lease that expires on April 30, 2021. Additionally, the Foundation leases other minor office equipment under non-cancelable operating leases through August 2019. Rent expense for these leases included in occupancy costs for the years ended December 31, 2017 and 2016 was \$18,895 and \$17,351, respectively.

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

2018	\$ 17,971
2019	17,482
2020	16,421
2021	5,483
	\$ 57,357