



Alpha-1 Foundation, Inc.

Consolidated Financial Statements
Years Ended June 30, 2018 and 2017



Alpha-1 Foundation, Inc.

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Independent Auditor's Report

Board of Directors
Alpha-1 Foundation, Inc.
Coral Gables, Florida

We have audited the accompanying consolidated financial statements of Alpha-1 Foundation, Inc. and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alpha-1 Foundation, Inc. and its subsidiaries as of June 30, 2018 and 2017, 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.

Independent Auditor's Report on Supplementary Information

Our audits of the consolidated financial statements were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Miami, Florida
October 9, 2018

BDO USA, LLP

Certified Public Accountants

Alpha-1 Foundation, Inc.

Consolidated Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 775,173	\$ 813,592
Investment securities	16,029,094	15,915,607
Accounts receivable, net of allowance for bad debts	2,127,798	2,517,530
Other assets	28,005	23,273
Total current assets	18,960,070	19,270,002
Investment securities - non-current	4,574,894	3,117,403
Property and equipment, net	69,378	121,771
Other assets	128,102	25,135
Total assets	\$ 23,732,444	\$ 22,534,311
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,191,995	\$ 1,615,806
Deferred revenue	160,000	158,000
Total current liabilities	2,351,995	1,773,806
Commitments and Contingencies		
Net Assets		
Unrestricted	18,612,506	17,929,416
Temporarily restricted	2,767,943	2,831,089
Total net assets	21,380,449	20,760,505
Total liabilities and net assets	\$ 23,732,444	\$ 22,534,311

*See accompanying summary of significant accounting policies
and notes to consolidated financial statements*

Alpha-1 Foundation, Inc.

Consolidated Statements of Activities and Changes in Net Assets

<i>Years ended June 30,</i>	2018	2017
Changes in Unrestricted Net Assets		
Unrestricted Support and Revenue		
Contributions, bequests and grant revenues	\$ 6,130,590	\$ 6,473,006
Net realized and unrealized investment gains	1,852,512	564,440
Fundraising revenues	336,725	328,420
Donated shares	2,238	1,028
Other income	832,740	932,452
Net assets released from restriction - satisfaction of program restrictions	1,805,502	2,217,177
Total unrestricted support and revenue	10,960,307	10,516,523
Unrestricted Expenses		
Program services		
Alpha-1 Research Network	3,792,907	3,743,424
Florida Detection Program	25,346	353,413
Alpha-1 National Conference	584,949	615,260
Alpha-1 Registry and ACT Trial	730,323	787,930
Alpha-1 Advocacy	334,536	341,989
Alpha-1 Education Days	308,959	345,526
Alpha-1 Patient Support Network	373,281	336,121
Alpha-1 Global	396,605	620,719
The Alpha-1 Project	940,187	765,943
Other Alpha-1 Services	806,878	861,917
Total program services	8,293,971	8,772,242
Supporting services		
Administrative and general	981,696	881,959
Fundraising	1,001,550	956,633
Total supporting services	1,983,246	1,838,592
Total unrestricted expenses	10,277,217	10,610,834
Increase (decrease) in unrestricted net assets	683,090	(94,311)
Changes in Temporarily Restricted Net Assets		
Contributions, bequests and grant revenues	1,742,356	2,996,416
Net assets released from restriction	(1,805,502)	(2,217,177)
(Decrease) increase in temporarily restricted net assets	(63,146)	779,239
Increase in net assets	619,944	684,928
Net assets, beginning of year	20,760,505	20,075,577
Net assets, end of year	\$ 21,380,449	\$ 20,760,505

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Alpha-1 Foundation, Inc.

Consolidated Statement of Functional Expenses for the Year Ended June 30, 2018

	Alpha-1 Research Network	Florida Detection Program	Alpha-1 National Conference	Alpha-1 Registry and ACT Trial	Alpha-1 Advocacy	Alpha-1 Education Days	Alpha-1 Patient Support Network	Alpha-1 Global	The Alpha-1 Project	Other Alpha-1 Services	Total Program Services	Administrative and General	Fund Raising	Year ended June 30, 2018 Total
Awards and grants	\$ 3,030,340	\$ 16,500	\$ 19,457	\$ 662,353	\$ -	\$ -	\$ 50,500	\$ -	\$ 650,000	\$ 88,693	\$ 4,517,843	\$ -	\$ -	\$ 4,517,843
Salaries	341,626	1,457	111,822	33,118	117,433	113,740	135,413	207,720	204,591	305,493	1,572,413	192,674	402,693	2,167,780
Payroll taxes	23,978	112	7,933	1,991	8,041	8,319	9,431	15,270	11,221	21,640	107,936	15,634	28,945	152,515
Medical insurance	52,623	-	20,704	3,870	13,935	20,842	33,586	28,178	20,671	45,816	240,225	18,860	58,193	317,278
Simple IRA	8,516	-	2,417	812	2,292	2,456	3,373	4,819	-	5,700	30,385	3,751	6,872	41,008
Other benefits	12,823	(648)	7,542	487	7,608	9,564	15,470	9,469	-	6,247	68,562	10,053	22,291	100,906
Contract services	19,136	-	81,365	1,000	126,915	-	389	41,734	2,250	49,892	322,681	249,470	7,343	579,494
Professional fees	242	-	-	-	-	-	-	8,736	6,442	6,005	21,425	86,085	2,881	110,391
Supplies	13,014	-	9,001	13,429	4,237	988	9,913	1,767	4,134	6,696	63,179	39,256	33,461	135,896
Telephones	5,179	-	1,443	-	1,694	1,362	13,337	2,350	1,034	3,650	30,049	2,977	7,643	40,669
Online services	4,485	-	1,363	-	1,626	1,259	2,054	13,352	-	8,793	32,932	2,174	5,204	40,310
Postage and shipping	6,830	231	4,248	2,009	169	10,727	13,596	460	-	59,195	97,465	3,988	9,074	110,527
Occupancy	40,835	7,055	12,828	-	10,262	12,828	14,966	21,379	-	34,635	154,788	29,150	39,766	223,704
Equipment rental	1,991	-	604	-	669	615	725	1,110	-	1,847	7,561	1,062	2,244	10,867
Equipment repair and maintenance	4,760	-	1,445	-	1,600	1,471	1,733	2,653	-	4,417	18,079	2,538	5,365	25,982
Printing and publication	36,216	639	7,459	2,945	62	9,818	1,405	1,868	-	87,166	147,578	1,921	13,945	163,444
Travel	70,812	-	13,997	5,609	11,260	15,178	7,552	16,467	24,086	9,026	173,987	53,516	15,034	242,537
Conferences and meetings	94,843	-	277,403	2,700	17,342	95,804	55,138	8,757	6,438	49,853	608,278	76,855	132,447	817,580
Dues and subscriptions	11,749	-	-	-	5,051	-	-	3,322	600	137	20,859	4,663	26,729	52,251
Licenses, fees and taxes	-	-	-	-	-	-	-	-	3,599	-	3,599	163,512	32,827	199,938
Utilities	1,756	-	533	-	590	542	639	978	-	1,628	6,666	936	1,979	9,581
Insurance	-	-	-	-	-	-	-	-	5,121	-	5,121	16,673	-	21,794
Special events	-	-	-	-	-	-	-	-	-	-	-	-	134,043	134,043
Total expenses before depreciation	3,781,754	25,346	581,564	730,323	330,786	305,513	369,220	390,389	940,187	796,529	8,251,611	975,748	988,979	10,216,338
Depreciation and amortization	11,153	-	3,385	-	3,750	3,446	4,061	6,216	-	10,349	42,360	5,948	12,571	60,879
Total expenses	\$ 3,792,907	\$ 25,346	\$ 584,949	\$ 730,323	\$ 334,536	\$ 308,959	\$ 373,281	\$ 396,605	\$ 940,187	\$ 806,878	\$ 8,293,971	\$ 981,696	\$ 1,001,550	\$ 10,277,217

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Alpha-1 Foundation, Inc.

Consolidated Statement of Functional Expenses for the Year Ended June 30, 2017

	Alpha-1 Research Network	Florida Detection Program	Alpha-1 National Conference	Alpha-1 Registry and ACT Trial	Alpha-1 Advocacy	Alpha-1 Education Days	Alpha-1 Patient Support Network	Alpha-1 Global	The Alpha-1 Project	Other Alpha-1 Services	Total Program Services	Administrative and General	Fund Raising	Year ended June 30, 2017 Total
Awards and grants	\$ 2,828,481	\$ 139,500	\$ 17,401	\$ 717,126	\$ -	\$ -	\$ 40,000	\$ -	\$ 465,000	\$ 79,802	\$ 4,287,310	\$ -	\$ -	\$ 4,287,310
Salaries	311,267	85,524	109,129	38,262	104,201	114,519	132,266	199,757	204,337	317,513	1,616,775	177,332	379,535	2,173,642
Payroll taxes	21,904	6,002	7,615	2,308	6,829	8,224	9,202	14,250	11,214	21,829	109,377	17,482	26,950	153,809
Medical insurance	49,371	13,974	20,096	4,969	16,596	20,903	31,830	32,298	16,064	54,578	260,679	11,499	58,003	330,181
Simple IRA	8,179	1,171	2,142	1,172	2,080	1,975	2,108	4,187	-	6,450	29,464	4,402	6,042	39,908
Other benefits	23,890	6,529	7,195	2,317	7,090	7,596	11,769	12,632	-	15,692	94,710	13,406	34,742	142,858
Contract services	22,997	12,596	56,961	2,500	144,360	660	360	69,593	2,940	61,476	374,443	195,450	400	570,293
Professional fees	3,417	-	-	-	-	-	-	14,732	29,347	2,573	50,069	92,129	3,668	145,866
Supplies	6,886	17,383	18,932	10,201	3,521	605	1,035	1,388	3,430	12,926	76,307	25,050	44,097	145,454
Telephones	4,195	299	1,227	-	1,234	1,111	13,027	1,800	849	2,728	26,470	1,509	7,572	35,551
Online services	5,345	1,681	1,576	-	1,983	1,601	1,789	9,938	-	8,292	32,205	2,430	5,931	40,566
Postage and shipping	2,271	5,461	5,945	1,647	138	10,913	11,257	27	-	57,168	94,827	6,740	13,594	115,161
Occupancy	42,778	6,523	12,833	-	10,694	12,833	14,972	21,389	-	34,222	156,244	25,205	40,639	222,088
Equipment rental	2,446	220	673	-	660	709	1,403	1,260	-	1,957	9,328	1,113	2,373	12,814
Equipment repair and maintenance	6,299	567	1,732	-	1,701	1,827	2,110	3,244	-	5,039	22,519	2,866	6,110	31,495
Printing and publication	6,879	6,021	5,130	2,867	288	9,374	1,089	4,511	-	112,857	149,016	11,096	20,752	180,864
Travel	155,512	14,466	15,944	2,818	12,876	17,322	2,482	55,195	18,857	7,879	303,351	51,723	16,446	371,520
Conferences and meetings	221,892	34,257	326,945	1,743	15,845	131,363	54,812	166,734	4,362	47,860	1,005,813	51,494	144,262	1,201,569
Dues and subscriptions	5,656	-	-	-	8,179	-	-	697	1,000	69	15,601	7,189	4,635	27,425
Licenses, fees and taxes	-	-	-	-	-	-	-	-	3,223	-	3,223	163,128	31,263	197,614
Utilities	2,020	182	556	-	545	586	677	1,041	-	1,616	7,223	919	1,960	10,102
Insurance	-	-	-	-	-	-	-	-	5,320	-	5,320	14,456	-	19,776
Special events	-	-	-	-	-	-	-	-	-	-	-	-	96,272	96,272
Total expenses before depreciation	3,731,685	352,356	612,032	787,930	338,820	342,121	332,188	614,673	765,943	852,526	8,730,274	876,618	945,246	10,552,138
Depreciation and amortization	11,739	1,057	3,228	-	3,169	3,405	3,933	6,046	-	9,391	41,968	5,341	11,387	58,696
Total expenses	\$ 3,743,424	\$ 353,413	\$ 615,260	\$ 787,930	\$ 341,989	\$ 345,526	\$ 336,121	\$ 620,719	\$ 765,943	\$ 861,917	\$ 8,772,242	\$ 881,959	\$ 956,633	\$ 10,610,834

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Alpha-1 Foundation, Inc.
Consolidated Statements of Cash Flows

<i>Years ended June 30,</i>	2018	2017
Operating Activities		
Increase in net assets	\$ 619,944	\$ 684,928
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	60,879	58,696
Investment gains	(1,852,512)	(564,440)
Donated shares	(2,238)	(1,028)
Changes in operating assets and liabilities:		
Changes in accounts receivable	389,732	(1,097,438)
Changes in decrease in other assets	(107,699)	14,950
Changes in accounts payable and accrued expenses	579,189	100,728
Changes in deferred revenue	2,000	(1,500)
Net cash used in operating activities	(313,705)	(805,104)
Investing Activities		
Purchase of investment securities	(7,924,119)	(3,793,116)
Proceeds from redemption of investment securities	8,207,891	3,942,361
Purchase of property and equipment	(8,486)	(23,349)
Net cash provided by investing activities	275,286	125,896
Net decrease in cash	(38,419)	(679,208)
Cash and cash equivalents, at beginning of year	813,592	1,492,800
Cash and cash equivalents, at end of year	\$ 775,173	\$ 813,592
Supplemental Cash Flow Disclosures		
Cash paid for taxes	\$ 53,814	\$ 38,975

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

Organization and Principles of Consolidation

Alpha-1 Foundation, Inc. (“Alpha-1 Foundation” or “the Foundation”) was incorporated as a not-for-profit organization under the laws of the State of Florida in 1995. The mission of Alpha-1 Foundation is to provide the leadership and resources that will result in increased research, improved health, worldwide detection and find a cure for Alpha-1 Antitrypsin Deficiency (“Alpha-1”). Alpha-1 Foundation’s services include sponsoring research, funding a national registry, promoting awareness, supporting a National Targeted Detection Program, the State of Florida Detection Program, advocacy, educational programs, and providing an interactive web site on the Internet.

On February 7, 2014, the respective Board of Directors of Alpha-1 Foundation and Alpha-1 Antitrypsin Deficiency Association, Inc. (the Association), a Minnesota nonprofit corporation whose mission is to provide education, advocacy, and support for those affected by Alpha-1 Antitrypsin Deficiency, unanimously approved the merger of the two organizations effective July 1, 2014.

The Alpha-1 Foundation remained as the surviving entity and all assets, liabilities, membership, and revenue sources including gifts and grants of the Association were assigned to Alpha-1 Foundation as of the effective date of the merger. After the merger, the Board of Directors was comprised of 17 Board members, of which 6 Board members were from the Association. Alpha-1 Foundation did not transfer any consideration; hence, the business combination was accounted for under the acquisition method.

The Alpha-1 Project, Inc. (“TAP”) was incorporated as a for-profit entity under the laws of the State of Delaware in 2009. Alpha-1 Foundation is the sole shareholder of TAP. TAP was incorporated to focus on providing critical funding to expedite the commercialization of therapies for the elimination of COPD and liver disease caused by Alpha-1. TAP is also focused on funding drug therapies or devices in the translational research or clinical trial stage of development to expedite the commercialization of these therapies. It leverages the experience and scientific knowledge of the Alpha-1 Foundation as well as the drug therapy and device commercialization expertise of large pharmaceutical and biotechnology companies.

Accordingly, the two entities, collectively referred to as the “Foundation”, have been consolidated herein, for all periods presented. All significant inter-company balances and transactions have been eliminated in consolidation.

Basis of Accounting and Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting. Classification of the Foundation’s net assets, revenues and expenses are based on the existence or absence of donor-imposed restrictions. The Foundation classifies net assets by the following categories:

- **Unrestricted** - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- **Temporarily Restricted** - Net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Foundation pursuant to those stipulations. For the years ended June 30, 2018 and 2017, temporarily restricted contributions and bequests include state grant revenues totaling \$3,835 and \$364,180, respectively. The

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

Foundation had temporarily restricted net assets of \$2,767,943 and \$2,831,089 as of June 30, 2018 and 2017, respectively.

- **Permanently Restricted** - Net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation did not have any permanently restricted net assets as of June 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with maturities of three months or less when purchased.

Investment Securities

Investments in securities with readily determinable fair values and investments in debt securities are carried at their estimated fair values in the consolidated statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities and changes in net assets.

Accounts Receivable

Accounts receivable represent pledges from donors. Management periodically performs a review of its accounts receivable balances to determine if they are impaired based on factors affecting the collectability of those balances. Management's estimate of collectability of these receivables requires management to exercise significant judgment about the timing, frequency and severity of collection losses, if any, which may affect recoverability of such receivables. Management believes that no allowance was required as of June 30, 2018 and 2017.

Property and Equipment, Net

Property and equipment are recorded at cost or, if donated, at estimated fair market value at the date of donation. Depreciation and amortization is provided on the straight-line basis over the estimated useful lives of the assets, ranging from five to seven years. Leasehold improvements are recorded at cost and are amortized on a straight-line basis over five years, the term of the underlying lease, which is shorter than the estimated useful life of the improvements.

Fundraising

Revenues from special fundraising events and the related expenses incurred in generating such revenues are included in "Fundraising revenues" and "Unrestricted Expenses - Fundraising," respectively in the accompanying June 30, 2018 and 2017 consolidated statements of activities and changes in net assets.

During the year ended June 30, 2018, the following fundraising special events were sponsored by the Foundation:

	Revenues	Direct Expenses	Net
Celebration of Life Dinner	\$ 336,725	\$ 134,044	\$ 202,681
	\$ 336,725	\$ 134,044	\$ 202,681

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

During the year ended June 30, 2017, the following fundraising special events were sponsored by the Foundation:

	Revenues	Direct Expenses	Net
Celebration of Life Dinner	\$ 328,420	\$ 96,272	\$ 232,148
	\$ 328,420	\$ 96,272	\$ 232,148

Income Taxes

Alpha-1 Foundation is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, the consolidated financial statements do not include an income tax provision, except for certain taxable transactions.

Alpha-1 Foundation has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") No. 740 Income Taxes. Under ASC 740, the Foundation must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. Management of the Foundation does not believe there are any material uncertain tax positions and accordingly has not recognized any liability for unrecognized tax benefits. The Foundation has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Foundation has filed Internal Revenue Service Form 990 tax returns as required and all other applicable returns in those jurisdictions where it is required. The Foundation believes that it is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2014. However, the Foundation is still open to examination by taxing authorities from fiscal year 2014 forward. For the years ended June 30, 2018 and 2017, there was no interest or penalties recorded or included in the consolidated statements of activities and changes in net assets.

For the year ended June 30, 2018, Alpha-1 Foundation reported a taxable income of \$108,076 from its publication activities and a tax expense of \$28,594 recorded in administration and general supporting services. For the year ended June 30, 2017, Alpha-1 Foundation reported a taxable income of \$133,030 from its publication activities and a tax expense of \$39,975 recorded in administration and general supporting services. TAP is a for-profit entity that pays federal income tax. For the year ended June 30, 2018 and 2017, TAP recorded net operating losses of \$862,009 and \$533,308, respectively, which will be used to offset taxes relating to the future years' income. Deferred taxes are not material to the consolidated financial statements and a full valuation allowance was recorded against such assets as a result of the uncertainty of generating future taxable income in this subsidiary.

Allocation of Functional Expenses

Identifiable expenditures made in direct fulfillment of Alpha-1 Foundation's expressed goals are classified as program services. The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of functional expenses. Certain common expenses have been allocated among the programs and supporting services based upon management's estimate including factors such as time spent or space utilized.

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

Volunteer Services

Alpha-1 Foundation utilizes the services of volunteers in their fundraising campaigns. Because there is no objective means of valuing such services, no amounts for such services are recorded in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments, which potentially subject the Foundation to significant concentrations of credit risk, consist principally of cash and cash equivalents, and investments. As of June 30, 2018 and 2017, the Foundation had cash and cash equivalent in excess of federally insured limits of \$258,331 and \$433,825.

The Foundation invests in a variety of publicly traded investment vehicles, including common stocks, government and money market funds totaling \$20,603,988 and \$19,033,010 as of June 30, 2018 and 2017, respectively. Management seeks to mitigate risks inherent in the Foundation's investment portfolio by investing primarily in highly-rated financial instruments and through regular monitoring of the Foundation's investment portfolio.

Fair Value Measurements

The Foundation adopted the provisions of ASC Topic 820 *Fair Value Measurements*, related to financial assets and financial liabilities.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for the specific asset or liability at the measurement date (the exit price). The fair value should be based on assumptions that market participants would use when pricing the asset or liability. ASC Topic 820 establishes a fair value hierarchy that prioritizes the information used in measuring fair value as follows:

- Level 1** Inputs include unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.
- Level 2** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3** Inputs that are significant to the measurement that are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk).

The Foundation measures fair value as an exit price using the procedures described below for all assets and liabilities measured at fair value. When available, the Foundation uses unadjusted quoted market prices to measure fair value and classifies such items within Level 1. If quoted market prices were not available, fair value would be based upon internally or third party developed

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

models that use, where possible, current market-based or independently-sourced market parameters such as interest rates and currency rates. Items valued using internally generated models would be classified according to the lowest level input or value driver that is significant to the valuation.

The Organization periodically reviews its investments and marketable securities for impairment. If it is concluded that any of these investments are impaired, it is then determined if the impairment is "other-than-temporary". Factors considered to make such determination include the duration and severity of the impairment, the reason for the decline in value and the Organization's intent to hold the investment. If the impairment is considered "other-than-temporary", the asset will be written down to its fair value and take a corresponding charge for the impairment.

During the year ended June 30, 2017, the Organization concluded the above factors existed which required assessment of impairment for certain of its level 3 investments. As a result, the Company reviewed these investments for impairment and deemed them impaired and recorded a \$1,100,000 charge within investments gain/(losses) in the consolidated statements of activities and changes in net assets.

The Foundation's investment securities are valued using level 1 inputs at June 30, 2018 and 2017.

Subsequent Events

The date to which events occurring after June 30, 2018, the date of the most recent consolidated statement of financial position, has been evaluated for possible adjustment to the financial statements or disclosure is October 9, 2018.

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Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

1. Investment Securities

At June 30, 2018 and 2017, investment securities consisted primarily of corporate equity and debt securities. For the years ended June 30, 2017 and 2016, net investment gains (losses) amounted to \$1,852,512 and \$564,440, respectively.

Investment securities consist of the following at June 30:

	2018	2017
Corporate equity securities	\$ 15,750,372	\$ 15,432,235
Corporate debt securities	4,853,616	3,600,775
Total investments	20,603,988	19,033,010
Current	(16,029,094)	(15,915,607)
Non-current	\$ 4,574,894	\$ 3,117,403

Net unrealized loss on the Foundation's investment portfolio for the year ended June 30, 2018 was \$117,669. Net unrealized gain on the Foundation's investment portfolio for the year ended June 30, 2017 was \$137,342.

The following summarizes the contractual scheduled maturities of the Foundation's investments in corporate debt securities at face value:

<i>Year ended June 30</i>	<i>Amount</i>
2019	\$ 375,000
2020	550,000
2021	175,000
2022	680,000
2023	650,000
Thereafter	2,450,000
	\$ 4,880,000

2. Property and Equipment, Net

Property and equipment, net, consists of the following at June 30:

	2018	2017
Furniture and equipment	\$ 192,679	\$ 184,194
Leasehold improvements	200,826	200,825
	393,505	385,019
Less: Accumulated depreciation and amortization	(324,127)	(263,248)
	\$ 69,378	\$ 121,771

Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

3. Commitments and Contingencies

Registry Agreement

In July 2001, Alpha-1 Foundation entered into an Agreement with the Medical University of South Carolina, Division of Pulmonary and Critical Care Medicine, Allergy and Clinical Immunology ("MUSC") whereby MUSC provides data input and management services, including administration for the Alpha-1 Foundation Research Registry and the ACT Trial. The agreement is for a period of one year and is renewable for additional one year periods. Data input and management services expense for each of the years ended June 30, 2018 and 2017 amounted to \$167,363 and \$163,401, respectively, which are included as Alpha-1 Registry and ACT Trial Program Services in the accompanying consolidated statements of activities and changes in net assets.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for time and purpose. The time restrictions will be met in future periods and the purpose restrictions will be met when net assets are used for the temporarily restricted net assets at June 30, 2018 and 2017 and consist of the following:

<u>Years ended June 30,</u>	<u>2018</u>	<u>2017</u>
Research Network	\$ 536,317	\$ 688,145
Alpha-1 Website	169,066	118,434
Alpha-1 Global	160,000	-
Education Materials	295,874	260,831
John W. Walsh Research Funds	1,450,000	1,465,916
Other Services	156,686	297,763
	<u>\$ 2,767,943</u>	<u>\$ 2,831,089</u>

5. Transactions with Related Parties

Service Agreement

During 2010, the Foundation entered into an annual agreement, automatically renewed for successive one year periods, with AlphaNet whereby AlphaNet conducts certain accounting, payroll, and human resources functions, manages information technology and telecommunication system services on behalf of Alpha-1 Foundation. Service fee expense for the years ended June 30, 2018 and 2017, was \$250,505 and \$242,515, respectively, which is classified as a component of contract services in the consolidated statements of functional expenses.

Lease Agreement

In November 2013, the Foundation entered into an office lease agreement with AlphaNet for a term of four years. For the years ended June 30, 2018 and 2017, AlphaNet did not require payments of the rental charges totaling \$173,750 and \$165,000, respectively, and treated the total amount as an in-kind contribution to the Foundation. Total charges related to this agreement are reflected as occupancy expense in the accompanying consolidated statement of functional expenses and as a component of contributions, bequest and grant revenues in the consolidated statements of activities and changes in net assets.

Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

Contributions

During the years ended June 30, 2018 and 2017, AlphaNet made contributions to Alpha-1 Foundation totaling \$3,200,000 and \$3,090,000, respectively.

During the years ended June 30, 2018 and 2017, the Foundation made various unsecured, non-interest bearing, due on demand, advances to related entities. These advances are offset against amounts owed to the related entities. In addition, the Foundation receives support services from its related entities on a cost reimbursement basis. At June 30, 2018, the related parties' receivables and (payables) of \$29,123 and (\$59,407), respectively, were reported as a component of the corresponding accounts receivable and accounts payable in the accompanying consolidated statement of financial position. At June 30, 2017, the related parties' receivables and (payables) of \$29,486 and (\$37,523), respectively, were reported as a component of the corresponding accounts receivable and accounts payable in the accompanying consolidated statement of financial position.

6. Grant Commitments

The Foundation provides resources to different institutions to conduct research related to Alpha-1. The projects include clinical research, screening, detection, education, in order to improve health and a cure for Alpha-1. Awards and grants expense for the years ended June 30, 2018 and 2017 was approximately \$4.5 million and \$4.3 million, respectively. As of June 30, 2018 and 2017, the Foundation accrued \$811,600 and \$442,813 as future grant commitments, respectively.

Supplementary Information

Alpha-1 Foundation, Inc.
Statement of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 628,449	\$ 732,804
Marketable securities	15,992,512	15,234,111
Accounts receivable	2,127,798	2,482,322
Due from TAP	3,724	2,523
Other current assets	24,026	19,687
Total current assets	18,776,509	18,471,447
Investments securities - non-current	4,469,734	3,009,329
Investment in TAP	4,238,200	4,238,200
Property and equipment, net	69,378	121,771
Other assets	128,102	25,135
Total assets	\$ 27,681,923	\$ 25,865,882
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,918,124	\$ 1,583,735
Due to TAP	-	2,302
Deferred revenue	160,000	158,000
Total current liabilities	2,078,124	1,744,037
Net Assets		
Unrestricted	22,835,856	21,290,756
Temporarily restricted	2,767,943	2,831,089
Total net assets	25,603,799	24,121,845
Total liabilities and net assets	\$ 27,681,923	\$ 25,865,882

See independent auditor's report.

Alpha-1 Foundation, Inc.

Statement of Activities and Changes in Net Assets

<i>Years ended June 30,</i>	2018	2017
Changes in Unrestricted Net Assets		
Unrestricted Support and Revenue		
Contributions, bequests and grant revenues	\$ 6,130,590	\$ 6,473,006
Donated shares	2,238	1,028
Fundraising revenues	336,725	328,420
Investment gains	1,786,207	433,285
Other income	820,868	840,190
Net assets released from restriction - satisfaction of program restrictions	1,805,502	2,217,177
Total unrestricted support and revenue	10,882,130	10,293,106
Unrestricted Expenses		
Program services		
Alpha-1 Research Network	3,792,907	3,752,642
Florida Detection Program	25,346	353,413
Alpha-1 National Conference	584,949	615,260
Alpha-1 Registry and ACT Trial	730,323	787,930
Alpha-1 Advocacy	334,536	341,989
Alpha-1 Education Days	308,959	345,526
Alpha-1 Patient Support Network	373,281	336,121
Alpha-1 Global	396,605	620,719
Other Alpha-1 Services	806,878	861,917
Total program services	7,353,784	8,015,517
Supporting services		
Administration and general	981,696	956,633
Fundraising	1,001,550	881,959
Total supporting services	1,983,246	1,838,592
Total unrestricted expenses	9,337,030	9,854,109
Increase in unrestricted net assets	1,545,100	438,997
Changes in Temporarily Restricted Net Assets		
Contributions, bequests and grant revenues	1,742,356	2,996,416
Net assets released from restriction	(1,805,502)	(2,217,177)
Changes in temporarily restricted net assets	(63,146)	779,239
Increase in net assets	1,481,954	1,218,236
Net assets, beginning of year	24,121,845	22,903,609
Net assets, end of year	\$ 25,603,799	\$ 24,121,845

See independent auditor's report.

Alpha-1 Foundation, Inc.

Statements of Functional Expenses for the Year Ended June 30, 2018

	Alpha-1 Research Network	Florida Detection Program	Alpha-1 National Conference	Alpha-1 Registry and ACT Trial	Alpha-1 Alpha-1 Advocacy	Alpha-1 Education Days	Patient Support Network	Alpha-1 Global	Other Alpha-1 Services	Total Program Services	Administrative and General	Fund Raising	Year ended June 30, 2018 Total
Awards and grants	\$ 3,030,340	\$ 16,500	\$ 19,457	\$ 662,353	\$ -	\$ -	\$ 50,500	\$ -	\$ 88,693	\$ 3,867,843	\$ -	\$ -	\$ 3,867,843
Salaries	341,626	1,457	111,822	33,118	117,433	113,740	135,413	207,720	305,493	1,367,822	192,674	402,693	1,963,189
Payroll taxes	23,978	112	7,933	1,991	8,041	8,319	9,431	15,270	21,640	96,715	15,634	28,945	141,294
Medical insurance	52,623	-	20,704	3,870	13,935	20,842	33,586	28,178	45,816	219,554	18,860	58,193	296,607
Simple IRA	8,516	-	2,417	812	2,292	2,456	3,373	4,819	5,700	30,385	3,751	6,872	41,008
Other benefits	12,823	(648)	7,542	487	7,608	9,564	15,470	9,469	6,247	68,562	10,053	22,291	100,906
Contract services	19,136	-	81,365	1,000	126,915	-	389	41,734	49,892	320,431	249,470	7,343	577,244
Professional fees	242	-	-	-	-	-	-	8,736	6,005	14,983	86,085	2,881	103,949
Supplies	13,014	-	9,001	13,429	4,237	988	9,913	1,767	6,696	59,045	39,256	33,461	131,762
Telephones	5,179	-	1,443	-	1,694	1,362	13,337	2,350	3,650	29,015	2,977	7,643	39,635
Online services	4,485	-	1,363	-	1,626	1,259	2,054	13,352	8,793	32,932	2,174	5,204	40,310
Postage and shipping	6,830	231	4,248	2,009	169	10,727	13,596	460	59,195	97,465	3,988	9,074	110,527
Occupancy	40,835	7,055	12,828	-	10,262	12,828	14,966	21,379	34,635	154,788	29,150	39,766	223,704
Equipment rental	1,991	-	604	-	669	615	725	1,110	1,847	7,561	1,062	2,244	10,867
Equipment repair and maintenance	4,760	-	1,445	-	1,600	1,471	1,733	2,653	4,417	18,079	2,538	5,365	25,982
Printing and publication	36,216	639	7,459	2,945	62	9,818	1,405	1,868	87,166	147,578	1,921	13,945	163,444
Travel	70,812	-	13,997	5,609	11,260	15,178	7,552	16,467	9,026	149,901	53,516	15,034	218,451
Conferences and meetings	94,843	-	277,403	2,700	17,342	95,804	55,138	8,757	49,853	601,840	76,855	132,447	811,142
Dues and subscriptions	11,749	-	-	-	5,051	-	-	3,322	137	20,259	4,663	26,729	51,651
Licenses, fees and taxes	-	-	-	-	-	-	-	-	-	-	163,512	32,827	196,339
Utilities	1,756	-	533	-	590	542	639	978	1,628	6,666	936	1,979	9,581
Insurance	-	-	-	-	-	-	-	-	-	-	16,673	-	16,673
Special events	-	-	-	-	-	-	-	-	-	-	-	134,043	134,043
Total expenses before depreciation	3,781,754	25,346	581,564	730,323	330,786	305,513	369,220	390,389	796,529	7,311,424	975,748	988,979	9,276,151
Depreciation and amortization	11,153	-	3,385	-	3,750	3,446	4,061	6,216	10,349	42,360	5,948	12,571	60,879
Total expenses	\$ 3,792,907	\$ 25,346	\$ 584,949	\$ 730,323	\$ 334,536	\$ 308,959	\$ 373,281	\$ 396,605	\$ 806,878	\$ 7,353,784	\$ 981,696	\$ 1,001,550	\$ 9,337,030

The Alpha-1 Project, Inc.

Balance Sheets

<i>June 30,</i>	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 146,724	\$ 80,788
Investment securities	36,582	681,496
Other assets	3,979	41,096
Total current assets	187,285	803,380
Marketable securities - non-current	105,160	108,074
Total assets	\$ 292,445	\$ 911,454
Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$ 273,870	\$ 32,071
Due to Alpha-1 Foundation	3,724	2,523
Total current liabilities	277,594	34,594
Stockholder's equity		
Common stock \$1.00 par value authorized shares- 1,000 issued and outstanding	1,000	1,000
Additional paid in capital	4,237,200	4,237,200
Accumulated deficit	(4,223,349)	(3,361,340)
Total stockholder's equity	14,851	876,860
Total liabilities and stockholder's equity	\$ 292,445	\$ 911,454

See independent auditor's report.

The Alpha-1 Project, Inc.
Statements of Operations

<i>Years ended June 30,</i>	2018	2017
Revenues	\$ 79,480	\$ 227,391
Expenses		
Salaries and benefits	236,483	222,397
Contract and professional fees	658,692	497,287
Management fees	1,302	3,974
Travel, conferences and meetings	30,524	23,219
Office expenses	14,488	13,822
Total expenses	941,489	760,699
Net loss	(862,009)	(533,308)
Stockholder's equity, beginning of year	876,860	1,410,168
Stockholder's equity, end of year	\$ 14,851	\$ 876,860

See independent auditor's report.