



Alpha-1 Foundation, Inc.

Consolidated Financial Statements Years Ended June 30, 2017 and 2016

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



Alpha-1 Foundation, Inc.

Contents

Independent Auditor's Report	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities and Changes in Net Assets	6
Consolidated Statements of Functional Expenses	7 - 8
Consolidated Statements of Cash Flows	9
Summary of Significant Accounting Policies	10 - 14
Notes to Consolidated Financial Statements	15 - 18
Supplementary Information	19



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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, 2017 and 2016, 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 financial position of Alpha-1 Foundation, Inc. and its subsidiaries as of June 30, 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.

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.

BDO USA, LLP

Miami, Florida
October 11, 2017

Certified Public Accountants

Alpha-1 Foundation, Inc.

Consolidated Statements of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 813,592	\$ 1,492,800
Investment securities	15,915,607	15,068,884
Accounts receivable, net of allowance for bad debts	2,517,530	1,420,092
Other assets	23,273	38,223
Total current assets	19,270,002	18,019,999
Investment securities - non-current	3,117,403	3,547,903
Property and equipment, net	121,771	157,118
Other assets	25,135	25,135
Total assets	\$ 22,534,311	\$ 21,750,155
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,615,806	\$ 1,515,078
Deferred revenue	158,000	159,500
Total current liabilities	1,773,806	1,674,578
Commitments and Contingencies		
Net Assets		
Unrestricted	17,929,416	18,023,727
Temporarily restricted	2,831,089	2,051,850
Total net assets	20,760,505	20,075,577
Total liabilities and net assets	\$ 22,534,311	\$ 21,750,155

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>	2017	2016
Changes in Unrestricted Net Assets		
Unrestricted Support and Revenue		
Contributions, bequests and grant revenues	\$ 6,473,006	\$ 7,188,940
Investment gains (losses)	564,440	(191,008)
Fundraising revenues	328,420	298,921
Donated shares	1,028	-
Other income, includes interest and dividends	932,452	876,266
Net assets released from restriction - satisfaction of program restrictions	2,217,177	2,877,640
Total unrestricted support and revenue	10,516,523	11,050,759
Unrestricted Expenses		
Program services		
Alpha-1 Research Network	3,743,424	3,855,927
Florida Detection Program	353,413	340,313
Alpha-1 National Conference	615,260	835,103
Alpha-1 Registry and ACT Trial	787,930	752,063
Alpha-1 Advocacy	341,989	329,753
Alpha-1 Education Days	345,526	259,208
Alpha-1 Patient Support Network	336,121	330,454
Alpha-1 Global	620,719	343,421
The Alpha-1 Project	765,943	633,603
Other Alpha-1 Services	861,917	830,663
Total program services	8,772,242	8,510,508
Supporting services		
Fundraising	956,633	881,309
Administration and general	881,959	840,838
Total supporting services	1,838,592	1,722,148
Total unrestricted expenses	10,610,834	10,232,655
(Decrease) increase in unrestricted net assets	(94,311)	818,104
Changes in Temporarily Restricted Net Assets		
Contributions, bequests and grant revenues	2,996,416	1,575,000
Net assets released from restriction	(2,217,177)	(2,877,640)
Increase (decrease) in temporarily restricted net assets	779,239	(1,302,640)
Increase (decrease) in net assets	684,928	(484,536)
Net assets, beginning of year	20,075,577	20,560,113
Net assets, end of year	\$ 20,760,505	\$ 20,075,577

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 Statement of Functional Expenses for the Year Ended June 30, 2016

	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 Support Network	Alpha-1 Global	The Alpha-1 Project	Other Alpha-1 Services	Total Program Services	Administrative Fund Raising	and General	Year ended June 30, 2016 Total
Awards and grants	\$ 2,986,337	\$ 160,400	\$ 17,386	\$ 691,424	\$ -	\$ -	\$ 44,589	\$ -	\$ 325,000	\$ 74,603	\$ 4,299,739	\$ -	\$ -	\$ 4,299,739
Management fees	33,000	-	-	6,875	33,000	5,500	-	-	-	16,500	94,875	26,125	16,500	137,500
Salaries	277,824	69,177	86,039	24,224	80,151	89,135	114,644	141,752	185,421	283,244	1,351,611	321,325	153,800	1,826,736
Payroll taxes	20,699	5,161	6,260	1,639	5,734	6,624	8,150	10,244	11,984	20,058	96,553	24,038	14,438	135,029
Medical insurance	44,743	3,854	14,551	3,331	12,868	16,181	27,649	20,488	-	51,287	194,952	49,079	11,063	255,094
Simple IRA	6,722	687	1,157	569	512	1,008	709	3,497	-	3,238	18,099	2,579	2,199	22,877
Other benefits	20,594	4,094	6,125	1,964	8,223	7,252	14,235	8,078	25,553	25,932	122,050	25,536	9,437	157,023
Contract services	29,291	17,574	35,885	1,800	137,140	-	-	40,454	11,193	67,162	340,499	7,690	149,751	497,940
Professional fees	1,415	2,205	-	-	-	-	-	578	20,547	-	24,745	4,338	96,418	125,501
Supplies	16,318	10,084	15,862	5,656	807	601	4,807	1,296	5,522	4,470	65,423	23,071	28,890	117,384
Telephones	5,229	478	1,317	478	1,385	1,253	11,669	2,962	1,789	4,062	30,622	8,816	2,389	41,827
Online services	4,275	466	1,376	466	1,772	1,312	1,937	3,795	-	7,920	23,319	5,023	2,930	31,272
Postage and shipping	7,260	3,787	6,691	2,460	1,383	9,525	3,680	2,628	-	60,261	97,675	13,448	6,395	117,518
Occupancy	37,660	11,666	10,978	-	15,362	11,795	16,603	13,644	-	36,884	154,592	40,863	23,757	219,212
Equipment rental	1,284	143	357	143	357	357	499	713	-	1,213	5,066	1,355	713	7,134
Equipment repair and maintenance	4,654	517	1,293	517	1,292	1,293	1,810	2,586	-	4,396	18,358	14,948	2,586	35,892
Printing and publication	56,653	4,358	19,225	3,320	116	10,769	2,454	-	-	116,406	213,301	21,993	3,284	238,578
Travel	102,274	7,827	40,741	4,111	10,927	12,713	6,004	43,751	24,460	7,169	259,977	16,271	47,721	323,969
Conferences and meetings	164,731	36,543	566,630	1,794	7,430	80,660	66,492	37,605	12,827	23,943	998,655	123,485	93,271	1,215,411
Dues and subscriptions	23,333	-	-	-	8,063	-	-	2,888	600	10,932	45,816	1,649	11,281	58,746
Licenses, fees and taxes	-	-	-	-	-	-	-	-	3,255	-	3,255	37,516	147,391	188,162
Utilities	1,751	194	486	194	487	486	681	973	-	1,654	6,906	1,849	973	9,728
Insurance	-	-	-	-	-	-	-	-	5,230	-	5,230	-	10,162	15,392
Special events	-	-	-	-	-	-	-	-	-	-	-	99,883	-	99,883
Total expenses before depreciation	3,846,047	339,215	832,359	750,965	327,009	256,464	326,612	337,932	633,381	821,332	8,471,316	870,880	835,349	10,177,545
Depreciation and amortization	9,880	1,098	2,744	1,098	2,744	2,744	3,842	5,489	222	9,331	39,192	10,429	5,489	55,110
Total expenses	\$ 3,855,927	\$ 340,313	\$ 835,103	\$ 752,063	\$ 329,753	\$ 259,208	\$ 330,454	\$ 343,421	\$ 633,603	\$ 830,663	\$ 8,510,508	\$ 881,309	\$ 840,838	\$ 10,232,655

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>	2017	2016
Operating Activities		
Increase (decrease) in net assets	\$ 684,928	\$ (484,536)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	58,696	55,110
Investments gain/(losses)	(564,440)	191,008
Donated shares	(1,028)	-
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(1,097,438)	(717,022)
Decrease in other assets	14,950	223,792
Increase in accounts payable and accrued expenses	100,728	190,991
Decrease (increase) in deferred revenue	(1,500)	76,000
Net cash used in operating activities	(805,104)	(464,657)
Investing Activities		
Purchase of investment securities	(3,793,116)	(6,016,723)
Proceeds from redemption of investment securities	3,942,361	6,467,097
Purchase of property and equipment	(23,349)	(21,759)
Net cash provided by investing activities	125,896	428,615
Net decrease in cash	(679,208)	(36,042)
Cash and cash equivalents, at beginning of year	1,492,800	1,528,842
Cash and cash equivalents, at end of year	\$ 813,592	\$ 1,492,800
Supplemental Cash Flow Disclosures		
Cash paid for taxes	\$ 38,975	\$ 75,909

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”) 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, 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 The Alpha-1 Project, Inc. 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 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, 2017 and 2016, temporarily restricted contributions and bequests include state grant revenues totaling \$364,180 and \$330,160, respectively. The Foundation had temporarily restricted net assets of \$2,831,089 and \$2,051,850 as of June 30, 2017 and 2016, respectively.

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

- **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, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016 consolidated statements of activities and changes in net assets.

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

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

During the year ended June 30, 2016, the following fundraising special events were sponsored by the Foundation:

	Revenues	Direct Expenses	Net
Celebration of Life Dinner	\$ 298,291	\$ (99,883)	\$ 198,408
	\$ 298,291	\$ (99,883)	\$ 198,408

Income Taxes

Alpha-1 Foundation is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, the 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. The adoption of ASC 740 had no impact on the Foundation's consolidated financial statements. 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 2013. However, the Foundation is still open to examination by taxing authorities from fiscal year 2013 forward. For the years ended June 30, 2017 and 2016, 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, 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. For the year ended June 30, 2016, Alpha-1 Foundation reported a taxable income of \$133,443 from its publication activities and a tax expense of \$39,042 recorded in administration and general supporting services. TAP is a for-profit entity that pays federal income tax. For the year ended June 30, 2017 and 2016, TAP recorded net operating losses of \$533,308 and \$614,830, 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, 2017 and 2016, the Foundation had cash and cash equivalent in excess of federally insured limits of \$433,825 and \$1,299,027.

The Foundation invests in a variety of publicly traded investment vehicles, including common stocks, government and money market funds totaling \$19,033,010 and \$18,616,787 as of June 30, 2017 and 2016, 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 Foundation's investment securities are valued as follows:

The table below presents a reconciliation of investment securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended June 30, 2017 and 2016.

Balance of recurring Level 3 assets at June 30, 2015	\$	100,000
Investment		1,000,000
Sale of securities		-
Balance of recurring Level 3 assets at June 30, 2016		<u>1,100,000</u>
Investment		20,000
Sale of securities		-
Investments write-off		<u>(1,100,000)</u>
Balance of recurring Level 3 assets at June 30, 2017	\$	<u>20,000</u>

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.

Subsequent Events

The date to which events occurring after June 30, 2017, 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 11, 2017.

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Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

1. Investment Securities

At June 30, 2017 and 2016, investment securities consisted primarily of corporate equity and debt securities. For the years ended June 30, 2016 and 2015, net investment gains (losses) amounted to \$564,440 and (\$191,008), respectively.

Investment securities consist of the following at June 30:

	2017		2016	
Corporate equity securities	\$	15,432,235	\$	14,455,505
Corporate debt securities		3,600,775		4,161,282
Total investments		19,033,010		18,616,787
Current		(15,915,607)		(15,068,884)
Non-current	\$	3,117,403	\$	3,547,903

Net unrealized gain on the Foundation's investment portfolio for the year ended June 30, 2017 was \$137,342. Net unrealized gain for the year ended June 30, 2016 was \$441,660.

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>	
2018	\$	450,000
2019		375,000
2020		550,000
2021		475,000
2022		930,000
Thereafter		500,000
	\$	3,280,000

As of June 30, 2017, yields on the Foundation's corporate debt securities investments maturing through the year 2024 ranged from approximately 2.45% to 6.63%.

2. Property and Equipment, Net

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

	2017		2016	
Furniture and equipment	\$	184,194	\$	160,844
Leasehold improvements		200,825		200,825
		385,019		361,669
Less: Accumulated depreciation and amortization		(263,248)		(204,551)
	\$	121,771	\$	157,118

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, 2017 and 2016 amounted to \$163,401 and \$164,955, 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.

Healthcare Legislation

Certain healthcare-related legislation has been approved and legislation is expected to continue to be introduced in the U.S. Congress and the State of Florida Legislature. Such legislation may address, among other things, benefits provided, insurance coverage and provider reimbursement. It is possible that such legislation could result in a reduction in Medicare and Medicaid spending over the next several years.

At this time, it is not possible to determine the impact on the Foundation of any national or state healthcare-related legislation that might be enacted. However, any spending reductions in healthcare coverage or services would likely have an adverse impact on operating results and cash flows. Should such spending reductions be imposed, management believes it can make changes to the Foundation's cost structures to reduce the adverse impact. However, there is no assurance that such changes will be sufficient.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

<u>Years ended June 30,</u>	<u>2017</u>		<u>2016</u>	
Research Network	\$	718,145	\$	1,128,141
Other Services		2,112,944		923,709
	\$	2,831,089	\$	2,051,850

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

<u>Years ended June 30,</u>	<u>2017</u>		<u>2016</u>	
Research Network	\$	893,497	\$	994,983
Other Services		1,323,680		1,882,657
Total restrictions released	\$	2,217,177	\$	2,877,640

Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

5. Transactions with Related Parties

Management Agreement

In July 2004, Alpha-1 Foundation and COPD Foundation, a related party, entered into a management agreement with AlphaNet to receive management services from certain AlphaNet employees for an annual fee of \$250,000, which would be allocated between the Foundations. AlphaNet provides disease management services to individuals diagnosed with Alpha-1, operates a wholesale pharmacy, conducts clinical trials and provides clinical research-related services to pharmaceutical companies.

This agreement was for a one-year period and automatically renews itself at the end of the current term for additional one-year periods. This agreement was terminated as of June 30, 2016. Management fee expense for the year ended June 30, 2016 amounted to \$137,500. For the year ended June 30, 2016, Alpha-1 Foundation also made payments to AlphaNet on behalf of COPD for their portion of management fees amounting to \$112,500, which is classified as a component of awards and grants expense in the consolidated statements of functional expenses.

Service Agreement

During 2010, Alpha-1 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, 2017 and 2016, was \$242,515 and \$110,181, 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, Inc. for a term of four years. For the years ended June 30, 2017 and 2016, AlphaNet did not require payments of the rental charges totaling \$165,000 and \$162,500, 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.

Contributions

During the years ended June 30, 2017 and 2016, AlphaNet made contributions to Alpha-1 Foundation totaling \$3,090,000 and \$3,700,000, respectively.

During the years ended June 30, 2017 and 2016, the Foundation made various unsecured, non-interest bearing, due on demand, advances to related entities. These advances are offset against amount owed to the related entities. In addition, the Foundation receives support services from its related entities on a cost reimbursement basis. 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. At June 30, 2016, the related parties' receivables and payables of \$23,391 and \$26,923, respectively, were reported as a component of the corresponding accounts receivable and accounts payable in the accompanying consolidated statement of financial position.

Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

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, 2017 and 2016 was approximately \$4.3 million and \$4.3 million, respectively. As of June 30, 2017 and 2016, the Foundation accrued \$442,813 and \$672,272 as future grant commitments, respectively.

Supplementary Information

Alpha-1 Foundation, Inc.
Statement of Financial Position

<i>June 30,</i>	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 732,804	\$ 1,134,854
Marketable securities	15,234,111	14,131,370
Accounts receivable	2,482,322	1,389,884
Due from TAP	2,523	7,010
Other current assets	19,687	34,637
Total current assets	18,471,447	16,697,755
Investments securities - non-current	3,009,329	3,437,005
Investment in TAP	4,238,200	4,238,200
Property and equipment, net	121,771	157,118
Other assets	25,135	25,135
Total assets	\$ 25,865,882	\$ 24,555,213
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,583,735	\$ 1,489,525
Due to TAP	2,302	-
Due to COPD Foundation	-	2,579
Deferred revenue	158,000	159,500
Total current liabilities	1,744,037	1,651,604
Net Assets		
Unrestricted	21,290,756	20,851,759
Temporarily restricted	2,831,089	2,051,850
Total net assets	24,121,845	22,903,609
Total liabilities and net assets	\$ 25,865,882	\$ 24,555,213

See independent auditor's report.

Alpha-1 Foundation, Inc.

Statement of Activities and Changes in Net Assets

<i>Years ended June 30,</i>	2017	2016
Changes in Unrestricted Net Assets		
Unrestricted Support and Revenue		
Contributions, bequests and grant revenues	\$ 6,473,006	\$ 7,188,940
Donated shares	1,028	-
Fundraising revenues	328,420	298,921
Investment gains/(losses)	433,285	(157,055)
Other income	840,190	826,438
Net assets released from restriction - satisfaction of program restrictions	2,217,177	2,877,640
Total unrestricted support and revenue	10,293,106	11,034,884
Unrestricted Expenses		
Program services		
Alpha-1 Research Network	3,752,642	3,858,825
Florida Detection Program	353,413	340,313
Alpha-1 National Conference	615,260	835,104
Alpha-1 Registry and ACT Trial	787,930	329,753
Alpha-1 Advocacy	341,989	673,174
Alpha-1 Education Days	345,526	259,208
Alpha-1 Patient Support Network	336,121	330,453
Alpha-1 Global	620,719	343,421
Other Alpha-1 Services	861,917	830,663
Total program services	8,015,517	7,879,802
Supporting services		
Fundraising	956,633	881,310
Administration and general	881,959	840,838
Total supporting services	1,838,592	1,722,148
Total unrestricted expenses	9,854,109	9,601,950
Increase in unrestricted net assets	438,997	1,432,934
Changes in Temporarily Restricted Net Assets		
Contributions, bequests and grant revenues	2,996,416	1,575,000
Net assets released from restriction	(2,217,177)	(2,877,640)
Increase (decrease) in temporarily restricted net assets	779,239	(1,302,640)
Increase in net assets	1,218,236	130,294
Net assets, beginning of year	22,903,609	22,773,315
Net assets, end of year	\$ 24,121,845	\$ 22,903,609

See independent auditor's report.

Alpha-1 Foundation, Inc.

Statements 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	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	\$ -	\$ 79,802	\$ 3,822,310	\$ -	\$ -	\$ 3,822,310
Salaries	311,267	85,524	109,129	38,262	104,201	114,519	132,266	199,757	317,513	1,412,438	177,332	379,535	1,969,305
Payroll taxes	21,904	6,002	7,615	2,308	6,829	8,224	9,202	14,250	21,829	98,163	17,482	26,950	142,595
Medical insurance	49,371	13,974	20,096	4,969	16,596	20,903	31,830	32,298	54,578	244,615	11,499	58,003	314,117
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	32,215	12,596	56,961	2,500	144,360	660	360	69,593	61,476	380,721	195,450	400	576,571
Professional fees	3,417	-	-	-	-	-	-	14,732	2,573	20,722	92,129	3,668	116,519
Supplies	6,886	17,383	18,932	10,201	3,521	605	1,035	1,388	12,926	72,877	25,050	44,097	142,024
Telephones	4,195	299	1,227	-	1,234	1,111	13,027	1,800	2,728	25,621	1,509	7,572	34,702
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	7,879	284,494	51,723	16,446	352,663
Conferences and meetings	221,892	34,257	326,945	1,743	15,845	131,363	54,812	166,734	47,860	1,001,451	51,494	144,262	1,197,207
Dues and subscriptions	5,656	-	-	-	8,179	-	-	697	69	14,601	7,189	4,635	26,425
Licenses, fees and taxes	-	-	-	-	-	-	-	-	-	-	163,128	31,263	194,391
Utilities	2,020	182	556	-	545	586	677	1,041	1,616	7,223	919	1,960	10,102
Insurance	-	-	-	-	-	-	-	-	-	-	14,456	-	14,456
Special events	-	-	-	-	-	-	-	-	-	-	-	96,272	96,272
Total expenses before depreciation	3,740,903	352,356	612,032	787,930	338,820	342,121	332,188	614,673	852,526	7,973,549	876,618	945,246	9,795,413
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	\$ 3,752,642	\$ 353,413	\$ 615,260	\$ 787,930	\$ 341,989	\$ 345,526	\$ 336,121	\$ 620,719	\$ 861,917	\$ 8,015,517	\$ 881,959	\$ 956,633	\$ 9,854,109

See independent auditor's report.

The Alpha-1 Project, Inc.

Balance Sheets

<i>June 30,</i>	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 80,788	\$ 357,946
Marketable securities	681,496	937,514
Other assets	41,096	33,794
Total current assets	803,380	1,329,254
Marketable securities - non-current	108,074	110,898
Total assets	\$ 911,454	\$ 1,440,152
Liabilities and Stockholder's Equity		
Current Liabilities		
Accounts payable	\$ 32,071	\$ 22,974
Due to Alpha-1 Foundation	2,523	7,010
Total current liabilities	34,594	29,984
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	(3,361,340)	(2,828,032)
Total stockholder's equity	876,860	1,410,168
Total liabilities and stockholder's equity	\$ 911,454	\$ 1,440,152

See independent auditor's report.

The Alpha-1 Project, Inc.
Statements of Operations

<i>Years ended June 30,</i>	2017	2016
Revenues	\$ 227,391	\$ 21,929
Expenses		
Salaries and benefits	222,397	220,060
Contract and professional fees	497,287	356,739
Management fees	3,974	6,054
Travel, conferences and meetings	23,219	37,287
Office expenses	13,822	16,619
Total expenses	760,699	636,759
Net loss	\$ (533,308)	\$ (614,830)

See independent auditor's report.