



## Alpha-1 Foundation, Inc.

### Consolidated Financial Statements Years Ended June 30, 2014 and 2013

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

---

	<u>Page</u>
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
Consolidated Statements of Cash Flows	9
Summary of Significant Accounting Policies	10
Notes to Consolidated Financial Statements	16
Supplemental Information	20



Tel: 305-381-8000  
Fax: 305-374-1135  
www.bdo.com

1111 Brickell Avenue, Suite 2801  
Sabadell Financial Center  
Miami, FL 33131

## 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, 2014 and 2013, and the related consolidated statements of activities and change 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, 2014 and 2013, and the changes in its net assets, its functional expenses, 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 included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report 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.

September 15, 2014

A handwritten signature in blue ink that reads "BDO USA, LLP". The signature is written in a cursive, professional style.

Certified Public Accountants

# Alpha-1 Foundation, Inc.

## Consolidated Statements of Financial Position

<i>June 30,</i>	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,928,101	\$ 3,161,943
Restricted certificate of deposit	-	131,161
Investment Securities (Note 1)	12,741,220	9,583,038
Accounts receivable, net of allowance for bad debts	847,799	790,923
Other assets	12,975	16,914
<b>Total current assets</b>	<b>16,260,095</b>	<b>13,683,979</b>
Investment securities - non-current (Note 1)	3,522,648	2,984,870
Property and equipment, net (Note 2)	235,396	49,468
Other assets	71,293	19,521
<b>Total assets</b>	<b>\$ 20,359,432</b>	<b>\$ 16,737,838</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 6)	\$ 924,851	\$ 698,297
Deferred revenue	152,000	-
<b>Total current liabilities</b>	<b>1,076,851</b>	<b>698,297</b>
<b>Commitments and Contingencies (Note 3)</b>		
<b>Net Assets</b>		
Unrestricted	16,396,229	13,252,076
Temporarily restricted (Note 4)	2,886,352	2,787,465
<b>Total net assets</b>	<b>19,282,581</b>	<b>16,039,541</b>
<b>Total liabilities and net assets</b>	<b>\$ 20,359,432</b>	<b>\$ 16,737,838</b>

*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>	2014	2013
<b>Changes in Unrestricted Net Assets</b>		
<b>Unrestricted Support and Revenue</b>		
Contributions, bequests and grant revenues	\$ 4,964,860	\$ 5,647,678
Investment income	2,485,813	1,049,120
Fund raising revenues	402,706	713,890
Donated shares	49,983	51,370
Other income, includes interest and dividends	534,696	888,717
Net assets released from restriction - satisfaction of program restrictions (Note 4)	1,441,512	4,439,923
<b>Total unrestricted support and revenue</b>	<b>9,879,570</b>	<b>12,790,698</b>
<b>Unrestricted Expenses</b>		
Program services		
COPD Foundation, Inc.	-	3,406,577
Alpha-1 Research Network	2,889,915	2,584,767
The Alpha-1 Project	733,530	543,770
Florida Detection Program	372,995	403,887
Alpha-1 Registry and ACT Trial	318,248	309,039
Alpha-1 Advocacy	317,522	193,095
Respiratory Logistics	-	9,829
Other Alpha-1 Services	835,290	782,585
<b>Total program services</b>	<b>5,467,500</b>	<b>8,233,549</b>
Supporting services		
Fund raising	694,754	943,677
Administration and general	573,163	749,154
<b>Total supporting services</b>	<b>1,267,917</b>	<b>1,692,831</b>
<b>Total unrestricted expenses</b>	<b>6,735,417</b>	<b>9,926,380</b>
Decrease in unrestricted net assets due to the deconsolidation	-	209,183
<b>Increase in unrestricted net assets</b>	<b>3,144,153</b>	<b>2,655,135</b>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions, bequests and grant revenues	1,540,399	2,218,065
Net assets released from restriction (Note 4)	(1,441,512)	(4,439,923)
Net assets released from restriction in deconsolidation	-	(3,517,736)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>98,887</b>	<b>(5,739,594)</b>
Increase (Decrease) in net assets	3,243,040	(3,084,459)
Net assets, beginning of year	16,039,541	19,124,000
<b>Net assets, end of year</b>	<b>\$ 19,282,581</b>	<b>\$ 16,039,541</b>

*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, 2014

	Alpha-1 Research Network	The Alpha-1 Project	Florida Detection Program	Alpha-1 Registry and ACT Trial	Alpha-1 Advocacy	Other Alpha-1 Services	Total Program Services	Fund Raising	Administrative and General	Year ended June 30, 2014 Total
Awards and grants	\$ 2,217,067	\$ 430,999	\$ 159,600	\$ 254,233	\$ -	\$ 64,938	\$ 3,126,837	\$ -	\$ -	\$ 3,126,837
Management fees	33,000	-	-	6,875	33,000	22,000	94,875	26,125	16,500	137,500
Salaries	205,670	185,123	65,362	21,765	95,979	251,017	824,916	214,726	85,982	1,125,624
Payroll taxes	15,297	11,800	4,813	1,534	7,273	18,298	59,015	15,972	9,990	84,977
Medical insurance	31,848	-	4,804	2,935	10,204	38,482	88,273	27,249	6,665	122,187
Simple IRA	4,053	-	894	485	329	3,163	8,924	2,468	1,120	12,512
Other benefits	14,369	20,073	4,904	1,688	6,957	20,053	68,044	13,614	7,419	89,077
Contract services	13,766	11,417	25,896	2,168	98,360	78,680	230,287	49,620	73,572	353,479
Professional fees	7,367	21,126	655	1,048	-	728	30,924	-	83,061	113,985
Supplies	18,315	4,049	23,512	17,291	752	20,516	84,435	20,920	42,589	147,944
Telephones	6,538	2,030	1,629	-	3,689	6,815	20,701	9,780	1,875	32,356
Online services	2,978	-	990	-	1,787	7,748	13,503	3,355	1,093	17,951
Postage and shipping	6,772	-	3,222	1,492	1,734	62,969	76,189	22,203	5,599	103,991
Occupancy	50,530	-	18,473	-	16,739	53,160	138,902	45,140	14,241	198,283
Equipment rental	1,283	-	427	-	679	1,761	4,150	1,322	471	5,943
Equipment repair and maintenance	2,207	-	734	-	1,167	3,027	7,135	2,272	810	10,217
Printing and publication	3,625	-	7,782	5,862	-	94,129	111,398	14,693	5,647	131,738
Travel	90,415	33,403	8,020	199	17,718	31,109	180,864	21,146	41,865	243,875
Conferences and meetings	152,423	5,275	37,541	673	14,912	41,278	252,102	97,177	70,644	419,923
Dues and subscriptions	1,154	-	-	-	300	-	1,454	4,188	10,217	15,859
Licenses, fees and taxes	-	3,184	-	-	-	-	3,184	19,632	82,746	105,562
Utilities	2,049	-	682	-	1,084	2,812	6,627	2,110	753	9,490
Insurance	-	4,829	-	-	-	-	4,829	-	6,930	11,759
Special events	-	-	-	-	-	-	-	71,581	-	71,581
Total expenses before depreciation	2,880,726	733,308	369,940	318,248	312,663	822,683	5,437,568	685,293	569,789	6,692,650
Depreciation and amortization	9,189	222	3,055	-	4,859	12,607	29,932	9,461	3,374	42,767
Total expenses	\$ 2,889,915	\$ 733,530	\$ 372,995	\$ 318,248	\$ 317,522	\$ 835,290	\$ 5,467,500	\$ 694,754	\$ 573,163	\$ 6,735,417

*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, 2013

	COPD Foundation	Alpha-1 Research Network	The Alpha-1 Project	Florida Detection Program	Alpha-1 Registry and ACT Trial	Alpha-1 Advocacy	Respiratory Logistics	Other Alpha-1 Services	Total Program Services	Fund Raising	Administrative and General	Year ended June 30, 2013 Total
Awards and grants	\$ 100,235	\$ 1,521,268	\$ 260,000	\$ 203,700	\$ 274,483	\$ -	\$ -	\$ 143,867	\$ 2,503,553	\$ -	\$ -	\$ 2,503,553
Management fees	-	30,000	-	-	6,250	30,000	-	20,002	86,252	23,749	83,750	193,751
Salaries	503,939	226,055	187,839	62,243	16,217	35,731	-	176,781	1,208,805	279,135	104,940	1,592,880
Payroll taxes	35,692	16,482	11,279	4,588	1,041	2,528	-	12,083	83,693	20,392	11,493	115,578
Medical insurance	-	26,888	-	8,776	1,919	3,768	-	26,553	67,904	24,378	3,523	95,805
Simple IRA	-	3,691	-	686	480	673	-	3,226	8,756	2,745	1,738	13,239
Other benefits	54,298	17,214	20,297	3,515	1,569	1,905	-	17,065	115,863	30,799	6,456	153,118
Contract services	1,982,914	44,817	12,862	5,735	200	96,560	-	62,630	2,205,718	12,973	96,621	2,315,312
Professional fees	15,884	15,320	15,543	-	-	-	275	6,425	53,447	2,138	114,372	169,957
Supplies	21,592	26,744	1,057	37,885	-	1,828	39	30,974	120,119	33,533	8,389	162,041
Telephones	13,137	6,937	2,348	1,447	-	1,313	-	4,713	29,895	10,102	6,860	46,857
Online services	9,817	1,178	-	168	-	532	-	3,042	14,737	4,829	735	20,301
Postage and shipping	103,708	9,165	-	5,124	1,085	495	-	52,767	172,344	23,347	4,687	200,378
Occupancy	20,277	54,114	-	17,019	-	4,665	9,500	37,929	143,504	39,186	62,777	245,467
Equipment rental	-	1,914	-	273	-	273	-	1,868	4,328	2,119	547	6,994
Equipment repair and maintenance	-	2,381	-	340	-	340	-	3,346	6,407	11,533	2,572	20,512
Printing and publication	175,563	9,567	-	3,258	4,984	-	-	148,072	341,444	33,127	8,466	383,037
Travel	299,409	196,481	19,797	7,579	635	6,268	-	12,303	542,472	38,382	47,336	628,190
Conferences and meetings	65,188	364,592	5,167	40,332	176	4,646	-	11,322	491,423	57,912	56,266	605,601
Dues and subscriptions	4,924	2,120	-	-	-	350	-	-	7,394	14,226	13,196	34,816
Licenses, fees and taxes	-	-	2,821	-	-	-	15	-	2,836	26,944	93,482	123,262
Utilities	-	1,245	-	277	-	277	-	1,729	3,528	2,142	554	6,224
Insurance	-	2,286	4,538	326	-	327	-	2,041	9,518	2,531	15,611	27,660
Special events	-	-	-	-	-	-	-	-	-	242,685	-	242,685
Total expenses before depreciation	3,406,577	2,580,459	543,548	403,271	309,039	192,479	9,829	778,738	8,223,940	938,907	744,371	9,907,218
Depreciation and amortization	-	4,308	222	616	-	616	-	3,847	9,609	4,770	4,783	19,162
Total expenses	\$ 3,406,577	\$ 2,584,767	\$ 543,770	\$ 403,887	\$ 309,039	\$ 193,095	\$ 9,829	\$ 782,585	\$ 8,233,549	\$ 943,677	\$ 749,154	\$ 9,926,380

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>	2014	2013
<b>Operating Activities</b>		
Increase (decrease) in net assets	\$ 3,243,040	\$ (3,084,459)
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	42,767	19,162
Net realized/unrealized (gain) on investments	(2,485,813)	(1,049,120)
Donated shares	(49,983)	(51,370)
Loss on disposal of fixed assets	9,444	-
Deconsolidation of COPD Foundation	-	3,726,919
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(56,876)	(54,096)
(Increase) decrease in other assets	(47,833)	7,608
Increase in accounts payable and accrued expenses	226,554	294,870
Increase in deferred revenue	152,000	-
<b>Net cash provided by (used in) operating activities</b>	<b>1,033,300</b>	<b>(190,486)</b>
<b>Investing Activities</b>		
Purchase of investment securities	(3,232,130)	(3,906,353)
Proceeds from redemption of investment securities	2,071,966	2,801,070
Purchase of property and equipment	(238,139)	(22,996)
Decrease (Increase) in restricted cash	131,161	(98)
Deconsolidation of COPD Foundation Cash	-	(2,195,676)
<b>Net cash used in investing activities</b>	<b>(1,267,142)</b>	<b>(3,324,053)</b>
<b>Net decrease in cash</b>	<b>(233,842)</b>	<b>(3,514,539)</b>
<b>Cash and cash equivalent, at beginning of year</b>	<b>3,161,943</b>	<b>6,676,482</b>
<b>Cash and cash equivalent, at end of year</b>	<b>\$ 2,928,101</b>	<b>\$ 3,161,943</b>

*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.

COPD Foundation, Inc. (“COPD Foundation”) was incorporated as a not-for-profit organization under the laws of the State of Florida in 2004. The mission of the COPD Foundation is to support charitable, educational and scientific programs, and to identify and serve persons throughout the United States whose lives are impacted by a diagnosis of chronic obstructive pulmonary disease (“COPD”), which includes those with Alpha-1. Prior to January 1, 2013 Alpha-1 Foundation had the ability to appoint a majority of the members of the COPD Foundation’s Executive Committee. As a result of an Alpha-1 Foundation board resolution on December 31, 2012, there can be no overlap of the majority of Executive Committee members between Alpha-1 Foundation and COPD Foundation. Additionally, Alpha-1 Foundation no longer has the ability to appoint the majority of the members of the COPD Foundation’s Executive Committee. As a result of this change in control, the financial statements of COPD Foundation have not been consolidated with the Alpha-1 Foundation for the six months ended June 30, 2013, and was presented separately for the six-month period ended June 30, 2013 and the year ended June 30, 2014. The deconsolidation of COPD Foundation occurred on January 1, 2013.

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.

Respiratory Logistics, Inc. (“RLI”) is a for-profit entity incorporated under the laws of the State of Delaware in 2009. RLI mission is to develop and manage commercial activities that are consistent with the overall goals and objectives of the COPD Foundation and to generate recurring sources of revenue to support the activities of the COPD Foundation. COPD Foundation is the sole shareholder of Respiratory Logistics, Inc.

Accordingly, the four entities, collectively referred to as the “Foundation”, have been consolidated herein, for all periods presented, except for COPD Foundation and RLI, for which consolidation ceased on January 1, 2013. All significant inter-company transactions have been eliminated in consolidation.

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

---

### Basis of Accounting and Presentation

The 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, 2014 and 2013, temporarily restricted contributions and bequests include state grant revenues totaling \$345,169 and \$345,169, respectively. The Foundation had temporarily restricted net assets of \$2,886,352 and \$2,787,465 as of June 30, 2014 and 2013, 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, 2014 and 2013.

### Cash and Cash Equivalents

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

### Restricted Certificate of Deposit

The restricted certificate of deposit represents funds maintained with a financial institution to secure a letter of credit associated with its office lease for the year ended June 30, 2013. The certificate of deposit matured during the year ended June 30, 2014, and was not renewed as the Foundation's new office lease does not require restricted funds. For the year ended June 30, 2013, the certificate of deposit carried an interest rate of 0.1%.

### 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 amounts due in the normal course of business. 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

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

---

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 did not believe an allowance was required as of June 30, 2014 and 2013, respectively.

### Property and Equipment

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.

### Fund Raising

Revenues from special fund raising events, and the related expenses incurred in generating such revenues are included in "Fund raising revenues" and "Unrestricted expenses - Fund raising," respectively in the accompanying June 30, 2014 and 2013 statements of activities and changes in net assets.

During the year ended June 30, 2014, the following fund raising special events were sponsored by the Foundation:

	Revenues	Direct Expenses	Net
Celebration of Life Dinner	\$ 383,760	\$ (59,880)	\$ 323,880
Other fund raising special events	18,946	(11,701)	7,245
	<u>\$ 402,706</u>	<u>\$ (71,581)</u>	<u>\$ 331,125</u>

During the year ended June 30, 2013, the following fund raising special events were sponsored by the Foundation:

	Revenues	Direct Expenses	Net
Celebration of Life Dinner	\$ 231,396	\$ (110,300)	\$ 121,096
Other fund raising special events	285,639	(43,887)	241,752
COPD Foundation Awards Benefit Reception	196,855	(88,498)	108,357
	<u>\$ 713,890</u>	<u>\$ (242,685)</u>	<u>\$ 471,205</u>

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

---

### Income Taxes

Alpha-1 Foundation and COPD Foundation are 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.

The 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 adaptation 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 2011. However, the Foundation is still open to examination by taxing authorities from fiscal year 2011 forward. For the years ended June 30, 2014 and 2013, there was no interest or penalties recorded or included in the statements of activities and changes in net assets.

For the year ended June 30, 2014, Alpha-1 Foundation reported a taxable income of \$25,337 and a tax expense of \$4,000 recorded in administration and general supporting services. For the year ended June 30, 2013 Alpha-1 Foundation reported a taxable income of \$63,647 and a tax expense of \$21,439. TAP and RLI are for-profit entities which pay federal income tax. For the year ended June 30, 2014 and 2013, TAP recorded net operating losses of \$295,022 and \$435,967, respectively, which will be used to offset taxes relating to the future years' income. RLI reported a net operating loss of \$10,198 for the year ended June 30, 2013. 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 these subsidiaries.

### 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 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.

### Volunteer Services

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

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

---

### 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, 2014 and 2013, the Foundation had cash and cash equivalent in excess of federally insured limits of \$2,361,770 and \$2,211,036.

The Foundation invests in a variety of publicly traded investment vehicles, including common stocks, government and money market funds totaling \$16,263,868 and \$12,567,908 as of June 30, 2014 and 2013, 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 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:

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

	Fair Value Measurements at June 30, using:	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<b>2013</b>		
Investment Securities		
Corporate equity securities	\$ 12,741,219	\$ 100,000
Corporate debt securities	3,422,649	-
Total investment securities	\$ 16,163,868.00	\$ 100,000
<b>2012</b>		
Investment Securities		
Corporate Bonds	\$ 9,583,038	\$ -
Equity Securities	2,984,870	-
Total investment securities	\$ 12,567,908	\$ -

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 period ended June 30, 2014.

	2014
Balance of recurring Level 3 assets at January 1	\$ -
Purchase of Securities (level 3)	100,000
Sale of Securities (level 3)	-
Balance of recurring Level 3 assets at December 31	\$ 100,000

### Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

### Subsequent Events

The date to which events occurring after June 30, 2014, the date of the most recent statement of financial position, has been evaluated for possible adjustment to the financial statements or disclosure is September 15, 2014.

On July 1, 2014, the Foundation merged with the Alpha-1 Antitrypsin Deficiency Association (the "Association") and the Foundation remained as the surviving legal entity. At the time of the merger, total assets and liabilities transferred from the Association amounted to \$776,041 and \$220,076, respectively. The restricted portion of net assets amounted to \$416,370.

# Alpha-1 Foundation, Inc.

## Notes to Consolidated Financial Statements

### 1. Investment Securities

At June 30, 2014 and 2013, investment securities consisted primarily of corporate equity and debt securities, and index traded funds. For the years ended June 30, 2014 and 2012, net investment income amounted to \$2,485,813 and \$1,049,120, respectively.

Investment securities consist of the following at June 30:

	2014	2013
Corporate equity securities	\$ 12,841,220	\$ 9,583,038
Corporate debt securities	3,422,649	2,984,870
Total investments	16,263,868	12,567,908
Current	(12,741,220)	(9,583,038)
Non-current	\$ 3,522,648	\$ 2,984,870

Net unrealized gain on the Foundation's investment portfolio for the year ended June 30, 2014 was \$2,097,543. Net unrealized gain for the year ended June 30, 2013 was \$968,938.

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>
2016	\$ 297,000
2017	575,000
2018	450,000
2019	375,000
2020	750,000
Thereafter	550,000
	<u>\$ 2,997,000</u>

As of June 30, 2014, yields on the Foundation's corporate debt securities investments maturing through the year 2022 ranged from approximately 3.7% to 7.0%.

### 2. Property and Equipment

Property and equipment consists of the following at June 30:

	2014	2013
Furniture and equipment	\$ 113,646	\$ 247,238
Leasehold improvements	200,825	51,842
	314,471	299,080
Less: Accumulated depreciation and amortization	(79,075)	(249,612)
	<u>\$ 235,396</u>	<u>\$ 49,468</u>

# 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, 2014 and 2013 amounted to \$254,233 and \$274,483, 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.

#### NASCAR Sponsorship Agreement

In January 2012, COPD Foundation entered into a Sponsorship Agreement with the National Association for Stock Car Auto Racing, Inc. ("NASCAR") whereby NASCAR provides advertising services. The agreement is for a period of three years ending in 2014. Annual Rights Fee for the six month period ended December 31, 2012 amounted to \$1,000,000, and the Annual Commitment Fee amounted to \$250,000 for a total expense of \$1,250,000, which is included as COPD Foundation Expenses 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.

#### Operating Leases

Future minimum annual commitments under an operating lease agreement to rent office space, are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2015	\$ 155,000
2016	162,500
2017	55,000
<u>Total lease commitments</u>	<u>\$ 372,500</u>

For the years ended June 30, 2014 and 2013 Alpha-1 Foundation incurred rent expense of \$198,283 and \$245,467, respectively.

# Alpha-1 Foundation, Inc.

## Notes to Consolidated Financial Statements

---

### 4. Temporarily Restricted Net Assets

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

	2014		2013	
Research Network	\$	1,917,935	\$	1,885,260
Other Services		968,417		902,205
	\$	2,886,352	\$	2,787,465

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

<i>Years ended June 30,</i>	2014		2013	
Research Network	\$	1,037,125	\$	2,511,606
Other Services		404,387		1,928,317
Total restrictions released	\$	1,441,512	\$	4,439,923

### 5. Transactions with Related Parties

During the years ended June 30, 2014 and 2013, AlphaNet, Inc. ("AlphaNet"), a sister organization, made contributions to Alpha-1 Foundation, totaling \$3,300,000 and \$3,100,000, respectively.

#### Management Agreement

In July 2004, Alpha-1 Foundation and COPD Foundation 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. This agreement is for a one-year period and automatically renews itself at the end of the current term for additional one-year periods. Management fee expense for the year ended June 30, 2014 amounted to \$137,500. Management fee expense for the year ended June 30, 2013 amounted to \$193,751, considering the COPD Foundation portion after January 1, 2013 in the amount of \$56,249. The COPD Foundation is not consolidated after January 1<sup>st</sup>, 2013.

#### Service Agreement

During 2012, 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, 2014, and 2013, was \$100,658 and \$102,725, respectively, which is classified as 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 (Note 3). For the year ended June 30, 2014, AlphaNet did not require payments of the rental charges totaling \$101,500 and treated the total amount as an unrestricted contribution to the Foundation. Total charges related to this agreement are reflected as occupancy expense in the accompanying statement of functional expenses and as an unrestricted contribution in the statements of activities and changes in net assets.

# 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, 2014 and 2013 was approximately \$3.1 million and \$2.5 million, respectively. As of June 30, 2014 and 2013, the Foundation accrued \$156,819 and \$77,021 as future grant commitments, respectively.

## Supplemental Information

---

**Alpha-1 Foundation, Inc.**  
**Statement of Financial Position**

---

<i>June 30,</i>	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,891,211	\$ 2,556,090
Restricted certificate of deposit	-	131,161
Investment securities	10,766,425	7,986,622
Accounts receivable	847,591	790,743
Due from TAP	4,056	2,072
Other assets	9,140	13,579
<b>Total current assets</b>	<b>14,518,423</b>	<b>11,480,267</b>
Investments securities - non-current	3,414,687	2,879,646
Investment in TAP	3,488,200	3,363,200
Property and equipment, net	234,951	48,801
Other assets	71,293	19,521
<b>Total assets</b>	<b>\$ 21,727,554</b>	<b>\$ 17,791,435</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 900,811	\$ 657,687
Due to TAP	1,504	-
Due to COPD Foundation	2,737	1,308
Deferred revenue	152,000	-
<b>Total current liabilities</b>	<b>1,057,052</b>	<b>658,995</b>
<b>Net Assets</b>		
Unrestricted	17,784,150	14,344,975
Temporarily restricted	2,886,352	2,787,465
<b>Total net assets</b>	<b>20,670,502</b>	<b>17,132,440</b>
<b>Total liabilities and net assets</b>	<b>\$ 21,727,554</b>	<b>\$ 17,791,435</b>

*See Independent Auditor's Report*

# Alpha-1 Foundation, Inc.

## Statement of Activities and Changes in Net Assets

<i>Years ended June 30,</i>	2014	2013
<b>Changes in Unrestricted Net Assets</b>		
<b>Unrestricted Support and Revenue</b>		
Contributions, bequests and grant revenues	\$ 4,964,860	\$ 5,183,709
Donated shares	49,983	51,370
Fund raising revenues	402,706	481,196
Investment income	2,080,611	948,859
Other income	501,390	514,070
Net assets released from restriction - satisfaction of program restrictions	1,441,512	1,737,892
<b>Total unrestricted support and revenue</b>	<b>9,441,062</b>	<b>8,917,096</b>
<b>Unrestricted Expenses</b>		
Program services		
Alpha-1 Research Network	2,889,915	2,647,267
Florida Detection Program	372,995	404,387
Alpha-1 Registry and ACT Trial	318,248	309,039
Alpha-1 Advocacy	317,522	193,095
Other Alpha-1 Services	835,290	785,085
<b>Total program services</b>	<b>4,733,970</b>	<b>4,338,873</b>
Supporting services		
Fund raising	694,754	661,155
Administration and general	573,163	511,380
<b>Total supporting services</b>	<b>1,267,917</b>	<b>1,172,535</b>
<b>Total unrestricted expenses</b>	<b>6,001,887</b>	<b>5,511,408</b>
<b>Increase in unrestricted net assets</b>	<b>3,439,175</b>	<b>3,405,688</b>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions, bequests and grant revenues	1,540,399	1,069,800
Net assets released from restriction	(1,441,512)	(1,737,892)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>98,887</b>	<b>(668,092)</b>
<b>Increase in net assets</b>	<b>3,538,062</b>	<b>2,737,596</b>
<b>Net assets, beginning of year</b>	<b>17,132,440</b>	<b>14,394,844</b>
<b>Net assets, end of year</b>	<b>\$ 20,670,502</b>	<b>\$ 17,132,440</b>

*See Independent Auditor's Report*

## Alpha-1 Foundation, Inc.

### Statements of Functional Expenses for the Year Ended June 30, 2014

	Alpha-1 Research Network	Florida Detection Program	Alpha-1 Registry and ACT Trial	Alpha-1 Advocacy	Other Alpha-1 Services	Total Program Services	Fund Raising	Administrative and General	Total
Awards and grants	\$ 2,217,067	\$ 159,600	\$ 254,233	\$ -	\$ 64,938	\$ 2,695,838	\$ -	\$ -	\$ 2,695,838
Management fees	33,000	-	6,875	33,000	22,000	94,875	26,125	16,500	137,500
Salaries	205,670	65,362	21,765	95,979	251,017	639,793	214,726	85,982	940,501
Payroll taxes	15,297	4,813	1,534	7,273	18,298	47,215	15,972	9,990	73,177
Medical insurance	31,848	4,804	2,935	10,204	38,482	88,273	27,249	6,665	122,187
Simple IRA	4,053	894	485	329	3,163	8,924	2,468	1,120	12,512
Other benefits	14,369	4,904	1,688	6,957	20,053	47,971	13,614	7,419	69,004
Contract services	13,766	25,896	2,168	98,360	78,680	218,870	49,620	73,572	342,062
Professional fees	7,367	655	1,048	-	728	9,798	-	83,061	92,859
Supplies	18,315	23,512	17,291	752	20,516	80,386	20,920	42,589	143,895
Telephones	6,538	1,629	-	3,689	6,815	18,671	9,780	1,875	30,326
Online services	2,978	990	-	1,787	7,748	13,503	3,355	1,093	17,951
Postage and shipping	6,772	3,222	1,492	1,734	62,969	76,189	22,203	5,599	103,991
Occupancy	50,530	18,473	-	16,739	53,160	138,902	45,140	14,241	198,283
Equipment rental	1,283	427	-	679	1,761	4,150	1,322	471	5,943
Equipment repair and maintenance	2,207	734	-	1,167	3,027	7,135	2,272	810	10,217
Printing and publication	3,625	7,782	5,862	-	94,129	111,398	14,693	5,647	131,738
Travel	90,415	8,020	199	17,718	31,109	147,461	21,146	41,865	210,472
Conferences and meetings	152,423	37,541	673	14,912	41,278	246,827	97,177	70,644	414,648
Dues and subscriptions	1,154	-	-	300	-	1,454	4,188	10,217	15,859
Licenses, fees and taxes	-	-	-	-	-	-	19,632	82,746	102,378
Utilities	2,049	682	-	1,084	2,812	6,627	2,110	753	9,490
Insurance	-	-	-	-	-	-	-	6,930	6,930
Special events	-	-	-	-	-	-	71,581	-	71,581
<b>Total expenses before depreciation</b>	<b>2,880,726</b>	<b>369,940</b>	<b>318,248</b>	<b>312,663</b>	<b>822,683</b>	<b>4,704,260</b>	<b>685,293</b>	<b>569,789</b>	<b>5,959,342</b>
Depreciation and amortization	9,189	3,055	-	4,859	12,607	29,710	9,461	3,374	42,545
<b>Total expenses</b>	<b>\$ 2,889,915</b>	<b>\$ 372,995</b>	<b>\$ 318,248</b>	<b>\$ 317,522</b>	<b>\$ 835,290</b>	<b>\$ 4,733,970</b>	<b>\$ 694,754</b>	<b>\$ 573,163</b>	<b>\$ 6,001,887</b>

*See Independent Auditor's Report*

# The Alpha-1 Project, Inc.

## Balance Sheets

<i>June 30,</i>	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 36,890	\$ 605,853
Investment Securities	2,082,756	1,701,640
Other assets	5,547	3,870
<b>Total current assets</b>	<b>2,125,193</b>	<b>2,311,363</b>
Property and equipment, net	445	667
<b>Total assets</b>	<b>\$ 2,125,638</b>	<b>\$ 2,312,030</b>
<b>Liabilities and Stockholder's Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 21,303	\$ 39,657
Due to Alpha-1 Foundation	4,056	2,072
<b>Total current liabilities</b>	<b>25,359</b>	<b>41,729</b>
<b>Stockholder's equity</b>		
Common stock \$1.00 par value authorized shares- 1,000 issued and outstanding	1,000	1,000
Additional paid in capital	3,487,200	3,362,200
Accumulated deficit	(1,387,921)	(1,092,899)
<b>Total stockholder's equity</b>	<b>2,100,279</b>	<b>2,270,301</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 2,125,638</b>	<b>\$ 2,312,030</b>

*See Independent Auditor's Report*

# The Alpha-1 Project, Inc.

## Statements of Operations

---

<i>Years ended June 30,</i>		2014		2013
Revenues	\$	441,528	\$	113,176
Expenses				
Salaries and benefits		216,996		219,414
Contract and professional fees		466,562		288,404
Management fees		-		5,373
Travel, conferences and meetings		38,678		24,965
Office expenses		14,314		10,987
Net loss	\$	(295,022)	\$	(435,967)

---

*See Independent Auditor's Report*

## COPD Foundation, Inc.

### Statements of Activities and Changes in Net Assets (See Summary of Significant Accounting Policies)

	Period ended December 31, 2013 (activity through the deconsolidation date)
<b>Changes in Unrestricted Net Assets</b>	
<b>Unrestricted Support and Revenue</b>	
Contributions, bequests and grant revenues	\$ 528,969
Investment income	7,247
Publications, special events, and other income	593,052
Net assets released from restriction - satisfaction of program restrictions	2,702,031
Total unrestricted support and revenue	3,831,299
<b>Unrestricted Expenses</b>	
Program services	
DRIVE4COPD	1,083,743
COPD Biomarkers Qualification Consortium	857,953
COPD Patient Education	479,614
COPD Gene Study	256,118
COPD Publications	233,806
COPD Information Line	193,453
COPD Research Network	114,893
COPD Public Policy	112,286
Mobile Spirometry Unit	74,711
Total program services	3,406,577
Supporting Services	
Fund raising	282,522
Administration and general	237,774
Total administration and general	520,296
Total unrestricted expenses	3,926,873
(Decrease) in unrestricted net assets	(95,574)
<b>Changes in Temporarily Restricted Net Assets</b>	
Contributions, bequests and grant revenues	1,148,265
Net assets released from restriction	(2,702,031)
(Decrease) in temporarily restricted net assets	(1,553,766)
(Decrease) in net assets	(1,649,340)
Net assets, beginning of period	5,618,785
Net assets, end of period	\$ 3,969,445

*See Independent Auditor's Report*

# Respiratory Logistics, Inc.

## Statements of Operations (See Summary of Significant Accounting Policies)

---

	Period ended December 31, 2013 (activity through the deconsolidation date)
Revenues	\$ -
Expenses	
Rent	9,500
Contract and professional fees	275
Travel, conferences and meetings	-
Office expenses	54
Net (Loss)	\$ (9,829)

---

*See Independent Auditor's Report*