



## Alpha-1 Foundation, Inc.

### Consolidated Financial Statements Years Ended June 30, 2015 and 2014

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.

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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, 2015 and 2014, 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, 2015 and 2014, 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.

A handwritten signature in black ink that reads "BDO USA, LLP". The signature is written in a cursive, stylized font.

September 14, 2015

Certified Public Accountants

# Alpha-1 Foundation, Inc.

## Consolidated Statements of Financial Position

<i>June 30,</i>	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,528,842	\$ 2,928,101
Investment Securities (Note 1)	15,155,799	12,741,220
Accounts receivable, net of allowance for bad debts	703,070	847,799
Other assets	257,015	12,975
<b>Total current assets</b>	<b>17,644,726</b>	<b>16,530,095</b>
Investment securities - non-current (Note 1)	4,102,370	3,522,648
Property and equipment, net (Note 2)	190,469	235,396
Other assets	30,135	71,293
<b>Total assets</b>	<b>\$ 21,967,700</b>	<b>\$ 20,359,432</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 6)	\$ 1,324,087	\$ 924,851
Deferred revenue	83,500	152,000
<b>Total current liabilities</b>	<b>1,407,587</b>	<b>1,076,851</b>
<b>Commitments and Contingencies (Note 3)</b>		
<b>Net Assets</b>		
Unrestricted	17,205,623	16,396,229
Temporarily restricted (Note 4)	3,354,490	2,886,352
<b>Total net assets</b>	<b>20,560,113</b>	<b>19,282,581</b>
<b>Total liabilities and net assets</b>	<b>\$ 21,967,700</b>	<b>\$ 20,359,432</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>	2015	2014
<b>Changes in Unrestricted Net Assets</b>		
<b>Unrestricted Support and Revenue</b>		
Contributions, bequests and grant revenues	\$ 5,631,266	\$ 4,964,860
Investment gains	277,822	2,485,813
Fundraising revenues	603,590	402,706
Donated shares	8,070	49,983
Other income, includes interest and dividends	853,935	534,696
Net assets released from restriction - satisfaction of program restrictions (Note 4)	3,020,017	1,441,512
<b>Total unrestricted support and revenue</b>	<b>10,394,700</b>	<b>9,879,570</b>
<b>Unrestricted Expenses</b>		
Program services		
Alpha-1 Research Network	4,045,588	2,889,915
Florida Detection Program	372,843	372,995
Alpha-1 Registry and ACT Trial	608,001	318,248
Alpha-1 Advocacy	433,249	317,522
Alpha-1 Education Days	300,115	-
Alpha-1 Patient Support Network	302,472	-
The Alpha-1 Project	916,966	733,530
Other Alpha-1 Services	999,013	835,290
<b>Total program services</b>	<b>7,978,247</b>	<b>5,467,500</b>
Supporting services		
Fundraising	852,606	694,754
Administration and general	754,453	573,163
<b>Total supporting services</b>	<b>1,607,059</b>	<b>1,267,917</b>
<b>Total unrestricted expenses</b>	<b>9,585,306</b>	<b>6,735,417</b>
<b>Increase in unrestricted net assets</b>	<b>809,394</b>	<b>3,144,153</b>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions, bequests and grant revenues	3,488,155	1,540,399
Net assets released from restriction (Note 4)	(3,020,017)	(1,441,512)
<b>Increase in temporarily restricted net assets</b>	<b>468,138</b>	<b>98,887</b>
<b>Increase in net assets</b>	<b>1,277,532</b>	<b>3,243,040</b>
<b>Net assets, beginning of year</b>	<b>19,282,581</b>	<b>16,039,541</b>
<b>Net assets, end of year</b>	<b>\$ 20,560,113</b>	<b>\$ 19,282,581</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, 2015

	Alpha-1 Research Network	Florida Detection Program	Alpha-1 Registry and ACT Trial	Alpha-1 Advocacy	Alpha-1 Education Days	Alpha-1 Support Network	The Alpha-1 Project	Other Alpha-1 Services	Total Program Services	Fund Raising	Administrative and General	Year ended June 30, 2015 Total
Awards and grants	\$ 2,979,087	\$ 163,100	\$ 531,349	\$ -	\$ -	\$ 24,177	\$ 630,000	\$ 124,785	\$ 4,452,498	\$ -	\$ -	\$ 4,452,498
Management fees	33,000	-	6,875	33,000	5,500	-	-	16,500	94,875	26,125	16,500	137,500
Salaries	245,739	73,720	21,342	133,866	76,555	132,775	178,901	348,334	1,211,232	259,875	143,207	1,614,314
Payroll taxes	18,048	5,519	1,438	10,326	5,806	9,634	11,813	25,423	88,007	19,297	13,431	120,735
Medical insurance	37,016	4,213	2,675	18,392	13,989	27,053	-	56,181	159,519	35,094	8,907	203,520
Simple IRA	6,137	800	561	1,684	675	840	-	4,248	14,945	2,123	(282)	16,786
Other benefits	18,428	14,549	1,482	9,396	6,173	14,596	27,173	26,846	118,643	19,726	8,959	147,328
Contract services	31,967	17,610	3,890	133,571	-	-	7,159	53,850	248,047	22,265	91,635	361,947
Professional fees	9,250	-	-	-	-	-	15,082	276	24,608	3,476	101,567	129,651
Supplies	28,220	27,909	21,477	1,943	1,054	1,160	9,930	17,227	108,920	25,702	41,822	176,444
Telephones	5,955	788	333	2,986	1,444	11,316	2,111	5,830	30,763	10,203	2,782	43,748
Online services	4,037	645	272	2,601	1,101	1,977	-	11,795	22,428	4,797	2,276	29,501
Postage and shipping	10,336	2,150	1,357	2,178	14,812	2,471	-	50,192	83,496	18,337	5,764	107,597
Occupancy	38,759	9,759	2,615	21,319	10,575	18,981	-	45,414	147,422	41,494	21,847	210,763
Equipment rental	1,193	190	80	656	325	584	-	1,697	4,725	1,277	672	6,674
Equipment repair and maintenance	4,998	798	337	2,750	1,364	2,448	-	5,475	18,170	6,947	3,199	28,316
Printing and publication	5,691	2,587	6,142	909	14,556	-	-	129,319	159,204	4,619	7,158	170,981
Travel	210,418	6,781	4,086	23,951	19,711	6,105	23,442	31,486	325,980	20,209	28,416	374,605
Conferences and meetings	341,199	39,724	845	18,820	123,059	42,223	5,628	28,939	600,437	68,619	56,931	725,987
Dues and subscriptions	3,588	-	-	8,013	-	-	-	525	12,126	12,435	10,658	35,219
Licenses, fees and taxes	-	-	-	-	-	-	-	-	-	38,500	176,592	215,092
Utilities	1,914	306	129	1,053	522	937	-	2,242	7,103	2,049	1,079	10,231
Insurance	-	-	-	-	-	-	5,504	-	5,504	-	5,354	10,858
Special events	-	-	-	-	-	-	-	-	-	198,081	-	198,081
<b>Total expenses before depreciation</b>	<b>4,034,980</b>	<b>371,148</b>	<b>607,285</b>	<b>427,414</b>	<b>297,221</b>	<b>297,277</b>	<b>916,743</b>	<b>986,584</b>	<b>7,938,652</b>	<b>841,250</b>	<b>748,474</b>	<b>9,528,376</b>
Depreciation and amortization	10,608	1,695	716	5,835	2,894	5,195	223	12,429	39,595	11,356	5,979	56,930
<b>Total expenses</b>	<b>\$ 4,045,588</b>	<b>\$ 372,843</b>	<b>\$ 608,001</b>	<b>\$ 433,249</b>	<b>\$ 300,115</b>	<b>\$ 302,472</b>	<b>\$ 916,966</b>	<b>\$ 999,013</b>	<b>\$ 7,978,247</b>	<b>\$ 852,606</b>	<b>\$ 754,453</b>	<b>\$ 9,585,306</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	Florida Detection Program	Alpha-1 Registry and ACT Trial	Alpha-1 Advocacy	Alpha-1 Education Days	Alpha-1 Support Network	The Alpha-1 Project	Other Alpha-1 Services	Total Program Services	Fund Raising	Administrative and General	Year ended June 30, 2014 Total
Awards and grants	\$ 2,217,067	\$ 159,600	\$ 254,233	\$ -	\$ -	\$ -	\$ 430,999	\$ 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	65,362	21,765	95,979	-	-	185,123	251,017	824,916	214,726	85,982	1,125,624
Payroll taxes	15,297	4,813	1,534	7,273	-	-	11,800	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	4,904	1,688	6,957	-	-	20,073	20,053	68,044	13,614	7,419	89,077
Contract services	13,766	25,896	2,168	98,360	-	-	11,417	78,680	230,287	49,620	73,572	353,479
Professional fees	7,367	655	1,048	-	-	-	21,126	728	30,924	-	83,061	113,985
Supplies	18,315	23,512	17,291	752	-	-	4,049	20,516	84,435	20,920	42,589	147,944
Telephones	6,538	1,629	-	3,689	-	-	2,030	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	8,020	199	17,718	-	-	33,403	31,109	180,864	21,146	41,865	243,875
Conferences and meetings	152,423	37,541	673	14,912	-	-	5,275	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
<b>Total expenses before depreciation</b>	<b>2,880,726</b>	<b>369,940</b>	<b>318,248</b>	<b>312,663</b>	<b>-</b>	<b>-</b>	<b>733,308</b>	<b>822,683</b>	<b>5,437,568</b>	<b>685,293</b>	<b>569,789</b>	<b>6,692,650</b>
Depreciation and amortization	9,189	3,055	-	4,859	-	-	222	12,607	29,932	9,461	3,374	42,767
<b>Total expenses</b>	<b>\$ 2,889,915</b>	<b>\$ 372,995</b>	<b>\$ 318,248</b>	<b>\$ 317,522</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 733,530</b>	<b>\$ 835,290</b>	<b>\$ 5,467,500</b>	<b>\$ 694,754</b>	<b>\$ 573,163</b>	<b>\$ 6,735,417</b>

*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>	2015	2014
<b>Operating Activities</b>		
Increase in net assets	\$ 1,277,532	\$ 3,243,040
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	56,707	42,767
Net realized/unrealized (gain) on investments	(277,822)	(2,485,813)
Donated shares	(8,070)	(49,983)
Loss on disposal of fixed assets	-	9,444
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	144,729	(56,876)
Increase in other assets	(202,882)	(47,833)
Increase in accounts payable and accrued expenses	399,236	226,554
(Decrease) increase in deferred revenue	(68,500)	152,000
<b>Net cash provided by operating activities</b>	<b>1,320,930</b>	<b>1,033,300</b>
<b>Investing Activities</b>		
Purchase of investment securities	(6,578,963)	(3,232,130)
Proceeds from redemption of investment securities	3,870,554	2,071,966
Purchase of property and equipment	(11,780)	(238,139)
Decrease in restricted cash	-	131,161
<b>Net cash used in investing activities</b>	<b>(2,720,189)</b>	<b>(1,267,142)</b>
Net decrease in cash	(1,399,259)	(233,842)
Cash and cash equivalent, at beginning of year	2,928,101	3,161,943
<b>Cash and cash equivalent, at end of year</b>	<b>\$ 1,528,842</b>	<b>\$ 2,928,101</b>
<b>Supplemental Cash Flow Disclosures</b>		
Cash paid for taxes	\$ 4,327	\$ 22,594

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

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

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### 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 effective date of the merger. After the merger, the board of directors was comprised of 17 board members, of which 4 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 during the year ended June 30, 2015. The following table summarizes the fair value at acquisition date of the assumed assets and liabilities:

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Assets:		
Cash	\$	514,853
Accounts receivable		41,749
Contributions receivable		211,600
Fixed assets		7,838
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Total Assets		776,040
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Liabilities		
Accounts payable and accrued expenses		229,507
Deferred revenue		7,500
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Total Liabilities		237,007
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Net Assets		
Unrestricted		123,121
Temporarily restricted		415,912
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Total Net Assets	\$	539,033

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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.

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

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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 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, 2015 and 2014, temporarily restricted contributions and bequests include state grant revenues totaling \$333,707 and \$345,169, respectively. The Foundation had temporarily restricted net assets of \$3,354,490 and \$2,886,352 as of June 30, 2015 and 2014, 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, 2015 and 2014.

### Cash and Cash Equivalents

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

### 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 believe that no allowance were required as of June 30, 2015 and 2014.

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

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### 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.

### 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, 2015 and 2014 statements of activities and changes in net assets.

During the year ended June 30, 2015, the following fundraising special events were sponsored by the Foundation:

	Revenues	Direct Expenses	Net
Celebration of Life Dinner	\$ 360,405	\$ (75,273)	\$ 285,132
Other fundraising special events	243,185	(122,808)	120,377
	<u>\$ 603,590</u>	<u>\$ (198,081)</u>	<u>\$ 405,509</u>

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

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

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

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### 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 2012. However, the Foundation is still open to examination by taxing authorities from fiscal year 2012 forward. For the years ended June 30, 2015 and 2014, 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, 2015, Alpha-1 Foundation reported a taxable income of \$237,531 from its publication activities and a tax expense of \$75,909 recorded in administration and general supporting services. For the year ended June 30, 2014, Alpha-1 Foundation reported a taxable income of \$25,337 and a tax expense of \$4,000. TAP is a for-profit entity that pays federal income tax. For the year ended June 30, 2015 and 2014, TAP recorded net operating losses of \$825,281 and \$295,022, 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 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 fundraising 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

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### 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, 2015 and 2014, the Foundation had cash and cash equivalent in excess of federally insured limits of \$1,116,679 and \$2,361,770.

The Foundation invests in a variety of publicly traded investment vehicles, including common stocks, government and money market funds totaling \$19,258,169 and \$16,263,868 as of June 30, 2015 and 2014, 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.

# Alpha-1 Foundation, Inc.

## Summary of Significant Accounting Policies

The Foundation's investment securities are valued as follows:

	Fair Value Measurements at June 30, using:	
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<b>2015</b>		
Investment Securities		
Corporate equity securities	\$ 14,829,619	\$ 100,000
Corporate debt securities	4,328,551	-
Total investment securities	\$ 19,158,169	\$ 100,000
<b>2014</b>		
Investment Securities		
Corporate equity securities	\$ 12,741,219	\$ 100,000
Corporate debt securities	3,422,649	-
Total investment securities	\$ 16,163,868	\$ 100,000

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, 2015.

	2015
Balance of recurring Level 3 assets at July 1	\$ 100,000
Purchase of Securities	-
Sale of Securities	-
Balance of recurring Level 3 assets at June 30	\$ 100,000

### Subsequent Events

The date to which events occurring after June 30, 2015, the date of the most recent statement of financial position, has been evaluated for possible adjustment to the financial statements or disclosure is September 14, 2015.

# Alpha-1 Foundation, Inc.

## Notes to Consolidated Financial Statements

### 1. Investment Securities

At June 30, 2015 and 2014, investment securities consisted primarily of corporate equity and debt securities. For the years ended June 30, 2015 and 2014, net investment income amounted to \$277,822 and \$2,485,813, respectively.

Investment securities consist of the following at June 30:

	2015	2014
Corporate equity securities	\$ 14,929,618	\$ 12,841,220
Corporate debt securities	4,328,551	3,422,649
Total investments	19,258,169	16,263,868
Current	(15,155,799)	(12,741,220)
Non-current	\$ 4,102,370	\$ 3,522,648

Net unrealized loss on the Foundation's investment portfolio for the year ended June 30, 2015 was \$469,969. Net unrealized gain for the year ended June 30, 2014 was \$2,097,543.

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	575,000
2020	750,000
Thereafter	1,330,000
	\$ 3,977,000

As of June 30, 2015, yields on the Foundation's corporate debt securities investments maturing through the year 2022 ranged from approximately 2.5% to 7.0%.

### 2. Property and Equipment

Property and equipment consists of the following at June 30:

	2015	2014
Furniture and equipment	\$ 140,198	\$ 113,646
Leasehold improvements	200,825	200,825
	341,023	314,471
Less: Accumulated depreciation and amortization	(150,554)	(79,075)
	\$ 190,469	\$ 235,396

# Alpha-1 Foundation, Inc.

## Notes to Consolidated Financial Statements

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### 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, 2015 and 2014 amounted to \$260,341 and \$254,233, 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:

	2015		2014	
Research Network	\$	1,339,816	\$	1,917,935
Other Services		2,014,674		968,417
	\$	3,354,490	\$	2,886,352

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

<i>Years ended June 30,</i>	2015		2014	
Research Network	\$	1,163,741	\$	1,037,125
Other Services		1,856,276		404,387
Total restrictions released	\$	3,020,017	\$	1,441,512

# Alpha-1 Foundation, Inc.

## Notes to Consolidated Financial Statements

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### 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. 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 years ended June 30, 2015 and 2014 amounted to \$137,500. Alpha-1 Foundation also made payments to AlphaNet on behalf of COPD for their portion of management fees, \$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, 2015, and 2014, was \$127,333 and \$100,658, 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 year ended June 30, 2015, AlphaNet did not require payments of the rental charges totaling \$155,000 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, 2015 and 2014, AlphaNet made contributions to Alpha-1 Foundation totaling \$3,600,000 and \$3,300,000, respectively.

During the years ended June 30, 2015 and 2014, 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, 2015, the related parties' receivables and payables of \$46,812 and 15,171, 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, 2014, the related parties' receivables and payables of \$50,375 and 36,867, respectively, were reported as a component of the corresponding accounts receivable and accounts payable in the accompanying consolidated statement of financial position.

### 6. Grant Commitments

The Foundation provides resources to different institutions to conduct research related to Alpha-1. The projects include clinical research, screening, detection, education, in order to improve health and a cure for Alpha-1. Awards and grants expense for the years ended June 30, 2015 and 2014 was approximately \$4.4 million and \$3.1 million, respectively. As of June 30, 2015 and 2014, the Foundation accrued \$220,795 and \$156,819 as future grant commitments, respectively.

## Supplemental Information

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

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<i>June 30,</i>	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,473,152	\$ 2,891,211
Investment securities	13,770,534	10,766,425
Accounts receivable	703,070	847,591
Due from TAP	5,431	4,056
Other current assets	253,257	9,140
<b>Total current assets</b>	<b>16,205,444</b>	<b>14,518,423</b>
Investments securities - non-current	3,994,136	3,414,687
Investment in TAP	3,738,200	3,488,200
Property and equipment, net	190,246	234,951
Other assets	30,135	71,293
<b>Total assets</b>	<b>\$ 24,158,161</b>	<b>\$ 21,727,554</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,294,236	\$ 900,811
Due to TAP	2,692	1,504
Due to COPD Foundation	4,418	2,737
Deferred revenue	83,500	152,000
<b>Total current liabilities</b>	<b>1,384,846</b>	<b>1,057,052</b>
<b>Net Assets</b>		
Unrestricted	19,418,825	17,784,150
Temporarily restricted	3,354,490	2,886,352
<b>Total net assets</b>	<b>22,773,315</b>	<b>20,670,502</b>
<b>Total liabilities and net assets</b>	<b>\$ 24,158,161</b>	<b>\$ 21,727,554</b>

*See Independent Auditor's Report*

# Alpha-1 Foundation, Inc.

## Statement of Activities and Changes in Net Assets

<i>Years ended June 30,</i>	2015	2014
<b>Changes in Unrestricted Net Assets</b>		
<b>Unrestricted Support and Revenue</b>		
Contributions, bequests and grant revenues	\$ 5,631,266	\$ 4,964,860
Donated shares	8,070	49,983
Fundraising revenues	603,590	402,706
Investment income	218,476	2,080,611
Other income	824,288	501,390
Net assets released from restriction - satisfaction of program restrictions	3,020,017	1,441,512
<b>Total unrestricted support and revenue</b>	<b>10,305,707</b>	<b>9,441,062</b>
<b>Unrestricted Expenses</b>		
Program services		
Alpha-1 Research Network	4,048,280	2,889,915
Florida Detection Program	372,843	372,995
Alpha-1 Registry and ACT Trial	608,001	318,248
Alpha-1 Education Days	300,115	-
Alpha-1 Patient Support Network	302,472	-
Alpha-1 Advocacy	433,249	317,522
Other Alpha-1 Services	999,013	835,290
<b>Total program services</b>	<b>7,063,973</b>	<b>4,733,970</b>
Supporting services		
Fundraising	852,606	694,754
Administration and general	754,453	573,163
<b>Total supporting services</b>	<b>1,607,059</b>	<b>1,267,917</b>
<b>Total unrestricted expenses</b>	<b>8,671,032</b>	<b>6,001,887</b>
<b>Increase in unrestricted net assets</b>	<b>1,634,675</b>	<b>3,439,175</b>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions, bequests and grant revenues	3,488,155	1,540,399
Net assets released from restriction	(3,020,017)	(1,441,512)
<b>Increase in temporarily restricted net assets</b>	<b>468,138</b>	<b>98,887</b>
<b>Increase in net assets</b>	<b>2,102,813</b>	<b>3,538,062</b>
<b>Net assets, beginning of year</b>	<b>20,670,502</b>	<b>17,132,440</b>
<b>Net assets, end of year</b>	<b>\$ 22,773,315</b>	<b>\$ 20,670,502</b>

*See Independent Auditor's Report*

## Alpha-1 Foundation, Inc.

### Statements of Functional Expenses for the Year Ended June 30, 2015

	Alpha-1 Research Network	Florida Detection Program	Alpha-1 Registry and ACT Trial	Alpha-1 Education Days	Alpha-1 Support Network	Alpha-1 Advocacy	Other Alpha-1 Services	Total Program Services	Fund Raising	Administrative and General	Year ended June 30, 2015 Total
Awards and grants	\$ 2,979,087	\$ 163,100	\$ 531,349	\$ -	\$ 24,177	\$ -	\$ 124,785	\$ 3,822,498	\$ -	\$ -	\$ 3,822,498
Management fees	33,000	-	6,875	5,500		33,000	16,500	94,875	26,125	16,500	137,500
Salaries	245,739	73,720	21,342	76,555	132,775	133,866	348,334	1,032,331	259,875	143,207	1,435,413
Payroll taxes	18,048	5,519	1,438	5,806	9,634	10,326	25,423	76,194	19,297	13,431	108,922
Medical insurance	37,016	4,213	2,675	13,989	27,053	18,392	56,181	159,519	35,094	8,907	203,520
Simple IRA	6,137	800	561	675	840	1,684	4,248	14,945	2,123	(282)	16,786
Other benefits	18,428	14,549	1,482	6,173	14,596	9,396	26,846	91,470	19,726	8,959	120,155
Contract services	34,659	17,610	3,890	-		133,571	53,850	243,580	22,265	91,635	357,480
Professional fees	9,250	-	-	-		-	276	9,526	3,476	101,567	114,569
Supplies	28,220	27,909	21,477	1,054	1,160	1,943	17,227	98,990	25,702	41,822	166,514
Telephones	5,955	788	333	1,444	11,316	2,986	5,830	28,652	10,203	2,782	41,637
Online services	4,037	645	272	1,101	1,977	2,601	11,795	22,428	4,797	2,276	29,501
Postage and shipping	10,336	2,150	1,357	14,812	2,471	2,178	50,192	83,496	18,337	5,764	107,597
Occupancy	38,759	9,759	2,615	10,575	18,981	21,319	45,414	147,422	41,494	21,847	210,763
Equipment rental	1,193	190	80	325	584	656	1,697	4,725	1,277	672	6,674
Equipment repair and maintenance	4,998	798	337	1,364	2,448	2,750	5,475	18,170	6,947	3,199	28,316
Printing and publication	5,691	2,587	6,142	14,556	-	909	129,319	159,204	4,619	7,158	170,981
Travel	210,418	6,781	4,086	19,711	6,105	23,951	31,486	302,538	20,209	28,416	351,163
Conferences and meetings	341,199	39,724	845	123,059	42,223	18,820	28,939	594,809	68,619	56,931	720,359
Dues and subscriptions	3,588	-	-	-	-	8,013	525	12,126	12,435	10,658	35,219
Licenses, fees and taxes	-	-	-	-	-	-	-	-	38,500	176,592	215,092
Utilities	1,914	306	129	522	937	1,053	2,242	7,103	2,049	1,079	10,231
Insurance	-	-	-	-	-	-	-	-	-	5,354	5,354
Special events	-	-	-	-	-	-	-	-	198,081	-	198,081
<b>Total expenses before depreciation</b>	<b>4,037,672</b>	<b>371,148</b>	<b>607,285</b>	<b>297,221</b>	<b>297,277</b>	<b>427,414</b>	<b>986,584</b>	<b>7,024,601</b>	<b>841,250</b>	<b>748,474</b>	<b>8,614,325</b>
Depreciation and amortization	10,608	1,695	716	2,894	5,195	5,835	12,429	39,372	11,356	5,979	56,707
<b>Total expenses</b>	<b>\$ 4,048,280</b>	<b>\$ 372,843</b>	<b>\$ 608,001</b>	<b>\$ 300,115</b>	<b>\$ 302,472</b>	<b>\$ 433,249</b>	<b>\$ 999,013</b>	<b>\$ 7,063,973</b>	<b>\$ 852,606</b>	<b>\$ 754,453</b>	<b>\$ 8,671,032</b>

*See Independent Auditor's Report*

# The Alpha-1 Project, Inc.

## Balance Sheets

<i>June 30,</i>	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 55,690	\$ 36,890
Investment Securities	1,493,499	2,082,756
Other assets	6,450	5,547
<b>Total current assets</b>	<b>1,555,639</b>	<b>2,125,193</b>
Property and equipment, net	223	445
<b>Total assets</b>	<b>\$ 1,555,862</b>	<b>\$ 2,125,638</b>
<b>Liabilities and Stockholder's Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 25,433	\$ 21,303
Due to Alpha-1 Foundation	5,431	4,056
<b>Total current liabilities</b>	<b>30,864</b>	<b>25,359</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	3,737,200	3,487,200
Accumulated deficit	(2,213,202)	(1,387,921)
<b>Total stockholder's equity</b>	<b>1,524,998</b>	<b>2,100,279</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 1,555,862</b>	<b>\$ 2,125,638</b>

*See Independent Auditor's Report*

# The Alpha-1 Project, Inc.

## Statements of Operations

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<i>Years ended June 30,</i>		2015		2014
Revenues	\$	94,424	\$	441,528
Expenses				
Salaries and benefits		215,195		216,996
Contract and professional fees		652,241		466,562
Management fees		5,432		-
Travel, conferences and meetings		29,070		38,678
Office expenses		17,767		14,314
Total expenses		919,705		736,550
Net loss	\$	(825,281)	\$	(295,022)

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