



Alpha-1 Foundation, Inc.

Consolidated Financial Statements Years Ended June 30, 2017 and 2016

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



Alpha-1 Foundation, Inc.

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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, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alpha-1 Foundation, Inc. and its subsidiaries as of June 30, 2017 and 2016, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report on Supplementary Information

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

BDO USA, LLP

Miami, Florida
October 11, 2017

Certified Public Accountants

Alpha-1 Foundation, Inc.

Consolidated Statements of Financial Position

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

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

Alpha-1 Foundation, Inc.

Consolidated Statements of Activities and Changes in Net Assets

| <i>Years ended June 30,</i> | 2017 | 2016 |
|---|----------------------|----------------------|
| Changes in Unrestricted Net Assets | | |
| Unrestricted Support and Revenue | | |
| Contributions, bequests and grant revenues | \$ 6,473,006 | \$ 7,188,940 |
| Investment gains (losses) | 564,440 | (191,008) |
| Fundraising revenues | 328,420 | 298,921 |
| Donated shares | 1,028 | - |
| Other income, includes interest and dividends | 932,452 | 876,266 |
| Net assets released from restriction - satisfaction of program restrictions | 2,217,177 | 2,877,640 |
| Total unrestricted support and revenue | 10,516,523 | 11,050,759 |
| Unrestricted Expenses | | |
| Program services | | |
| Alpha-1 Research Network | 3,743,424 | 3,855,927 |
| Florida Detection Program | 353,413 | 340,313 |
| Alpha-1 National Conference | 615,260 | 835,103 |
| Alpha-1 Registry and ACT Trial | 787,930 | 752,063 |
| Alpha-1 Advocacy | 341,989 | 329,753 |
| Alpha-1 Education Days | 345,526 | 259,208 |
| Alpha-1 Patient Support Network | 336,121 | 330,454 |
| Alpha-1 Global | 620,719 | 343,421 |
| The Alpha-1 Project | 765,943 | 633,603 |
| Other Alpha-1 Services | 861,917 | 830,663 |
| Total program services | 8,772,242 | 8,510,508 |
| Supporting services | | |
| Fundraising | 956,633 | 881,309 |
| Administration and general | 881,959 | 840,838 |
| Total supporting services | 1,838,592 | 1,722,148 |
| Total unrestricted expenses | 10,610,834 | 10,232,655 |
| (Decrease) increase in unrestricted net assets | (94,311) | 818,104 |
| Changes in Temporarily Restricted Net Assets | | |
| Contributions, bequests and grant revenues | 2,996,416 | 1,575,000 |
| Net assets released from restriction | (2,217,177) | (2,877,640) |
| Increase (decrease) in temporarily restricted net assets | 779,239 | (1,302,640) |
| Increase (decrease) in net assets | 684,928 | (484,536) |
| Net assets, beginning of year | 20,075,577 | 20,560,113 |
| Net assets, end of year | \$ 20,760,505 | \$ 20,075,577 |

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

Alpha-1 Foundation, Inc.

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

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

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

Alpha-1 Foundation, Inc.

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

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

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

Alpha-1 Foundation, Inc.

Consolidated Statements of Cash Flows

| <i>Years ended June 30,</i> | 2017 | 2016 |
|--|-------------------|---------------------|
| Operating Activities | | |
| Increase (decrease) in net assets | \$ 684,928 | \$ (484,536) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation and amortization | 58,696 | 55,110 |
| Investments gain/(losses) | (564,440) | 191,008 |
| Donated shares | (1,028) | - |
| Changes in operating assets and liabilities: | | |
| (Increase) in accounts receivable | (1,097,438) | (717,022) |
| Decrease in other assets | 14,950 | 223,792 |
| Increase in accounts payable and accrued expenses | 100,728 | 190,991 |
| Decrease (increase) in deferred revenue | (1,500) | 76,000 |
| Net cash used in operating activities | (805,104) | (464,657) |
| Investing Activities | | |
| Purchase of investment securities | (3,793,116) | (6,016,723) |
| Proceeds from redemption of investment securities | 3,942,361 | 6,467,097 |
| Purchase of property and equipment | (23,349) | (21,759) |
| Net cash provided by investing activities | 125,896 | 428,615 |
| Net decrease in cash | (679,208) | (36,042) |
| Cash and cash equivalents, at beginning of year | 1,492,800 | 1,528,842 |
| Cash and cash equivalents, at end of year | \$ 813,592 | \$ 1,492,800 |
| Supplemental Cash Flow Disclosures | | |
| Cash paid for taxes | \$ 38,975 | \$ 75,909 |

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

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

Organization and Principles of Consolidation

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

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

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

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

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

Basis of Accounting and Presentation

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

- **Unrestricted** - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets.
- **Temporarily Restricted** - Net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Foundation pursuant to those stipulations. For the years ended June 30, 2017 and 2016, temporarily restricted contributions and bequests include state grant revenues totaling \$364,180 and \$330,160, respectively. The Foundation had temporarily restricted net assets of \$2,831,089 and \$2,051,850 as of June 30, 2017 and 2016, respectively.

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

- **Permanently Restricted** - Net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation did not have any permanently restricted net assets as of June 30, 2017 and 2016.

Cash and Cash Equivalents

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

Investment Securities

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

Accounts Receivable

Accounts receivable represent pledges from donors. Management periodically performs a review of its accounts receivable balances to determine if they are impaired based on factors affecting the collectability of those balances. Management's estimate of collectability of these receivables requires management to exercise significant judgment about the timing, frequency and severity of collection losses, if any, which may affect recoverability of such receivables. Management believes that no allowance was required as of June 30, 2017 and 2016.

Property and Equipment, Net

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

Fundraising

Revenues from special fundraising events and the related expenses incurred in generating such revenues are included in "Fundraising revenues" and "Unrestricted Expenses - Fundraising," respectively in the accompanying June 30, 2017 and 2016 consolidated statements of activities and changes in net assets.

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

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

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

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

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

Income Taxes

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

Alpha-1 Foundation has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") No. 740 Income Taxes. Under ASC 740, the Foundation must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The adoption of ASC 740 had no impact on the Foundation's consolidated financial statements. Management of the Foundation does not believe there are any material uncertain tax positions and accordingly has not recognized any liability for unrecognized tax benefits. The Foundation has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, The Foundation has filed Internal Revenue Service Form 990 tax returns as required and all other applicable returns in those jurisdictions where it is required. The Foundation believes that it is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2013. However, the Foundation is still open to examination by taxing authorities from fiscal year 2013 forward. For the years ended June 30, 2017 and 2016, there was no interest or penalties recorded or included in the consolidated statements of activities and changes in net assets.

For the year ended June 30, 2017, Alpha-1 Foundation reported a taxable income of \$133,030 from its publication activities and a tax expense of \$39,975 recorded in administration and general supporting services. For the year ended June 30, 2016, Alpha-1 Foundation reported a taxable income of \$133,443 from its publication activities and a tax expense of \$39,042 recorded in administration and general supporting services. TAP is a for-profit entity that pays federal income tax. For the year ended June 30, 2017 and 2016, TAP recorded net operating losses of \$533,308 and \$614,830, respectively, which will be used to offset taxes relating to the future years' income. Deferred taxes are not material to the consolidated financial statements and a full valuation allowance was recorded against such assets as a result of the uncertainty of generating future taxable income in this subsidiary.

Allocation of Functional Expenses

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

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

Volunteer Services

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments, which potentially subject the Foundation to significant concentrations of credit risk, consist principally of cash and cash equivalents, and investments. As of June 30, 2017 and 2016, the Foundation had cash and cash equivalent in excess of federally insured limits of \$433,825 and \$1,299,027.

The Foundation invests in a variety of publicly traded investment vehicles, including common stocks, government and money market funds totaling \$19,033,010 and \$18,616,787 as of June 30, 2017 and 2016, respectively. Management seeks to mitigate risks inherent in the Foundation's investment portfolio by investing primarily in highly-rated financial instruments and through regular monitoring of the Foundation's investment portfolio.

Fair Value Measurements

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

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

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

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

Alpha-1 Foundation, Inc.

Summary of Significant Accounting Policies

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

The Foundation's investment securities are valued as follows:

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

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

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

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

Subsequent Events

The date to which events occurring after June 30, 2017, the date of the most recent consolidated statement of financial position, has been evaluated for possible adjustment to the financial statements or disclosure is October 11, 2017.

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Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

1. Investment Securities

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

Investment securities consist of the following at June 30:

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

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

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

| <i>Year ended June 30</i> | <i>Amount</i> | |
|---------------------------|---------------|------------------|
| 2018 | \$ | 450,000 |
| 2019 | | 375,000 |
| 2020 | | 550,000 |
| 2021 | | 475,000 |
| 2022 | | 930,000 |
| Thereafter | | 500,000 |
| | \$ | 3,280,000 |

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

2. Property and Equipment, Net

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

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

Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

3. Commitments and Contingencies

Registry Agreement

In July 2001, Alpha-1 Foundation entered into an Agreement with the Medical University of South Carolina, Division of Pulmonary and Critical Care Medicine, Allergy and Clinical Immunology ("MUSC") whereby MUSC provides data input and management services, including administration for the Alpha-1 Foundation Research Registry and the ACT Trial. The agreement is for a period of one year and is renewable for additional one year periods. Data input and management services expense for each of the years ended June 30, 2017 and 2016 amounted to \$163,401 and \$164,955, respectively, which are included as Alpha-1 Registry and ACT Trial Program Services in the accompanying consolidated statements of activities and changes in net assets.

Healthcare Legislation

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

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

4. Temporarily Restricted Net Assets

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

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

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

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

Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

5. Transactions with Related Parties

Management Agreement

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

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

Service Agreement

During 2010, Alpha-1 Foundation entered into an annual agreement, automatically renewed for successive one year periods, with AlphaNet whereby AlphaNet conducts certain accounting, payroll, and human resources functions, manages information technology and telecommunication system services on behalf of Alpha-1 Foundation. Service fee expense for the years ended June 30, 2017 and 2016, was \$242,515 and \$110,181, respectively, which is classified as a component of contract services in the consolidated statements of functional expenses.

Lease Agreement

In November 2013, the Foundation entered into an office lease agreement with AlphaNet, Inc. for a term of four years. For the years ended June 30, 2017 and 2016, AlphaNet did not require payments of the rental charges totaling \$165,000 and \$162,500, respectively, and treated the total amount as an in-kind contribution to the Foundation. Total charges related to this agreement are reflected as occupancy expense in the accompanying consolidated statement of functional expenses and as a component of contributions, bequest and grant revenues in the consolidated statements of activities and changes in net assets.

Contributions

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

During the years ended June 30, 2017 and 2016, the Foundation made various unsecured, non-interest bearing, due on demand, advances to related entities. These advances are offset against amount owed to the related entities. In addition, the Foundation receives support services from its related entities on a cost reimbursement basis. At June 30, 2017, the related parties' receivables and payables of \$29,486 and \$37,523, respectively, were reported as a component of the corresponding accounts receivable and accounts payable in the accompanying consolidated statement of financial position. At June 30, 2016, the related parties' receivables and payables of \$23,391 and \$26,923, respectively, were reported as a component of the corresponding accounts receivable and accounts payable in the accompanying consolidated statement of financial position.

Alpha-1 Foundation, Inc.

Notes to Consolidated Financial Statements

6. Grant Commitments

The Foundation provides resources to different institutions to conduct research related to Alpha-1. The projects include clinical research, screening, detection, education, in order to improve health and a cure for Alpha-1. Awards and grants expense for the years ended June 30, 2017 and 2016 was approximately \$4.3 million and \$4.3 million, respectively. As of June 30, 2017 and 2016, the Foundation accrued \$442,813 and \$672,272 as future grant commitments, respectively.

Supplementary Information

Alpha-1 Foundation, Inc.
Statement of Financial Position

| <i>June 30,</i> | 2017 | 2016 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 732,804 | \$ 1,134,854 |
| Marketable securities | 15,234,111 | 14,131,370 |
| Accounts receivable | 2,482,322 | 1,389,884 |
| Due from TAP | 2,523 | 7,010 |
| Other current assets | 19,687 | 34,637 |
| Total current assets | 18,471,447 | 16,697,755 |
| Investments securities - non-current | 3,009,329 | 3,437,005 |
| Investment in TAP | 4,238,200 | 4,238,200 |
| Property and equipment, net | 121,771 | 157,118 |
| Other assets | 25,315 | 25,135 |
| Total assets | \$ 25,865,882 | \$ 24,555,213 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,583,735 | \$ 1,489,525 |
| Due to TAP | 2,302 | - |
| Due to COPD Foundation | - | 2,579 |
| Deferred revenue | 158,000 | 159,500 |
| Total current liabilities | 1,744,037 | 1,651,604 |
| Net Assets | | |
| Unrestricted | 21,290,756 | 20,851,759 |
| Temporarily restricted | 2,831,089 | 2,051,850 |
| Total net assets | 24,121,845 | 22,903,609 |
| Total liabilities and net assets | \$ 25,865,882 | \$ 24,555,213 |

See independent auditor's report.

Alpha-1 Foundation, Inc.

Statement of Activities and Changes in Net Assets

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

See independent auditor's report.

Alpha-1 Foundation, Inc.

Statements of Functional Expenses for the Year Ended June 30, 2017

| | Alpha-1 Research Network | Florida Detection Program | Alpha-1 National Conference | Alpha-1 Registry and ACT Trial | Alpha-1 Advocacy | Alpha-1 Education Days | Alpha-1 Patient Support Network | Alpha-1 Global | Other Alpha-1 Services | Total Program Services | Administrative and General | Fund Raising | Year ended June 30, 2017 Total |
|-------------------------------------|--------------------------------|---------------------------------|-----------------------------------|--------------------------------------|---------------------|------------------------------|--|-------------------|------------------------------|------------------------------|----------------------------------|-----------------|--------------------------------------|
| Awards and grants | \$ 2,828,481 | \$ 139,500 | \$ 17,401 | \$ 717,126 | \$ - | \$ - | \$ 40,000 | \$ - | \$ 79,802 | \$ 3,822,310 | \$ - | \$ - | \$ 3,822,310 |
| Salaries | 311,267 | 85,524 | 109,129 | 38,262 | 104,201 | 114,519 | 132,266 | 199,757 | 317,513 | 1,412,438 | 177,332 | 379,535 | 1,969,305 |
| Payroll taxes | 21,904 | 6,002 | 7,615 | 2,308 | 6,829 | 8,224 | 9,202 | 14,250 | 21,829 | 98,163 | 17,482 | 26,950 | 142,595 |
| Medical insurance | 49,371 | 13,974 | 20,096 | 4,969 | 16,596 | 20,903 | 31,830 | 32,298 | 54,578 | 244,615 | 11,499 | 58,003 | 314,117 |
| Simple IRA | 8,179 | 1,171 | 2,142 | 1,172 | 2,080 | 1,975 | 2,108 | 4,187 | 6,450 | 29,464 | 4,402 | 6,042 | 39,908 |
| Other benefits | 23,890 | 6,529 | 7,195 | 2,317 | 7,090 | 7,596 | 11,769 | 12,632 | 15,692 | 94,710 | 13,406 | 34,742 | 142,858 |
| Contract services | 32,215 | 12,596 | 56,961 | 2,500 | 144,360 | 660 | 360 | 69,593 | 61,476 | 380,721 | 195,450 | 400 | 576,571 |
| Professional fees | 3,417 | - | - | - | - | - | - | 14,732 | 2,573 | 20,722 | 92,129 | 3,668 | 116,519 |
| Supplies | 6,886 | 17,383 | 18,932 | 10,201 | 3,521 | 605 | 1,035 | 1,388 | 12,926 | 72,877 | 25,050 | 44,097 | 142,024 |
| Telephones | 4,195 | 299 | 1,227 | - | 1,234 | 1,111 | 13,027 | 1,800 | 2,728 | 25,621 | 1,509 | 7,572 | 34,702 |
| Online services | 5,345 | 1,681 | 1,576 | - | 1,983 | 1,601 | 1,789 | 9,938 | 8,292 | 32,205 | 2,430 | 5,931 | 40,566 |
| Postage and shipping | 2,271 | 5,461 | 5,945 | 1,647 | 138 | 10,913 | 11,257 | 27 | 57,168 | 94,827 | 6,740 | 13,594 | 115,161 |
| Occupancy | 42,778 | 6,523 | 12,833 | - | 10,694 | 12,833 | 14,972 | 21,389 | 34,222 | 156,244 | 25,205 | 40,639 | 222,088 |
| Equipment rental | 2,446 | 220 | 673 | - | 660 | 709 | 1,403 | 1,260 | 1,957 | 9,328 | 1,113 | 2,373 | 12,814 |
| Equipment repair and maintenance | 6,299 | 567 | 1,732 | - | 1,701 | 1,827 | 2,110 | 3,244 | 5,039 | 22,519 | 2,866 | 6,110 | 31,495 |
| Printing and publication | 6,879 | 6,021 | 5,130 | 2,867 | 288 | 9,374 | 1,089 | 4,511 | 112,857 | 149,016 | 11,096 | 20,752 | 180,864 |
| Travel | 155,512 | 14,466 | 15,944 | 2,818 | 12,876 | 17,322 | 2,482 | 55,195 | 7,879 | 284,494 | 51,723 | 16,446 | 352,663 |
| Conferences and meetings | 221,892 | 34,257 | 326,945 | 1,743 | 15,845 | 131,363 | 54,812 | 166,734 | 47,860 | 1,001,451 | 51,494 | 144,262 | 1,197,207 |
| Dues and subscriptions | 5,656 | - | - | - | 8,179 | - | - | 697 | 69 | 14,601 | 7,189 | 4,635 | 26,425 |
| Licenses, fees and taxes | - | - | - | - | - | - | - | - | - | - | 163,128 | 31,263 | 194,391 |
| Utilities | 2,020 | 182 | 556 | - | 545 | 586 | 677 | 1,041 | 1,616 | 7,223 | 919 | 1,960 | 10,102 |
| Insurance | - | - | - | - | - | - | - | - | - | - | 14,456 | - | 14,456 |
| Special events | - | - | - | - | - | - | - | - | - | - | - | 96,272 | 96,272 |
| Total expenses before depreciation | 3,740,903 | 352,356 | 612,032 | 787,930 | 338,820 | 342,121 | 332,188 | 614,673 | 852,526 | 7,973,549 | 876,618 | 945,246 | 9,795,413 |
| Depreciation and amortization | 11,739 | 1,057 | 3,228 | - | 3,169 | 3,405 | 3,933 | 6,046 | 9,391 | 41,968 | 5,341 | 11,387 | 58,696 |
| Total expenses | \$ 3,752,642 | \$ 353,413 | \$ 615,260 | \$ 787,930 | \$ 341,989 | \$ 345,526 | \$ 336,121 | \$ 620,719 | \$ 861,917 | \$ 8,015,517 | \$ 881,959 | \$ 956,633 | \$ 9,854,109 |

See independent auditor's report.

The Alpha-1 Project, Inc.

Balance Sheets

| <i>June 30,</i> | 2017 | 2016 |
|--|-------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 80,788 | \$ 357,946 |
| Marketable securities | 681,496 | 937,514 |
| Other assets | 41,096 | 33,794 |
| Total current assets | 803,380 | 1,329,254 |
| Marketable securities - non-current | 108,074 | 110,898 |
| Total assets | \$ 911,454 | \$ 1,440,152 |
| Liabilities and Stockholder's Equity | | |
| Current Liabilities | | |
| Accounts payable | \$ 32,071 | \$ 22,974 |
| Due to Alpha-1 Foundation | 2,523 | 7,010 |
| Total current liabilities | 34,594 | 29,984 |
| Stockholder's equity | | |
| Common stock \$1.00 par value authorized shares- 1,000 issued and outstanding | 1,000 | 1,000 |
| Additional paid in capital | 4,237,200 | 4,237,200 |
| Accumulated deficit | (3,361,340) | (2,828,032) |
| Total stockholder's equity | 876,860 | 1,410,168 |
| Total liabilities and stockholder's equity | \$ 911,454 | \$ 1,440,152 |

See independent auditor's report.

The Alpha-1 Project, Inc.
Statements of Operations

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

See independent auditor's report.