

# International Life Sciences Institute

## Audited Financial Statements

Years Ended December 31, 2018 and 2017  
*with Report of Independent Auditors*

International Life Sciences Institute

Audited Financial Statements

Years ended December 31, 2018 and 2017

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Statements of Financial Position .....	2
Statements of Activities.....	3 - 4
Statements of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 17

## Report of Independent Auditors

Board of Trustees  
International Life Sciences Institute  
Washington, D.C.

We have audited the accompanying financial statements of the International Life Sciences Institute (ILSI), which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities, functional expenses and cash flows for years then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 over financial reporting. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the International Life Sciences Institute as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Vienna, Virginia  
June 13, 2019

International Life Sciences Institute

Statements of Financial Position

	December 31,	
	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and cash equivalents (Note A)	\$ 278,550	\$ 265,281
Investments (Note C)	1,506,820	1,827,727
Accounts receivable (Note A)	7,040	49,673
Amounts due under shared services agreement (Note E)	357,195	140,092
Rent receivable under shared services agreement (Note E)	393,380	97,272
Prepaid expenses and other assets	28,140	91,059
Deposit for office lease	214,208	214,208
Property and equipment, net (Note D)	<u>1,136,861</u>	<u>271,534</u>
Total assets	<u>\$ 3,922,194</u>	<u>\$ 2,956,846</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable	\$ 111,555	\$ 42,327
Accrued expenses	79,136	86,768
Deferred revenue (Note A)	180,554	467,247
Deposits payable under shared services agreement (Note E)	440,539	440,539
Deferred rent	<u>1,623,964</u>	<u>308,977</u>
Total liabilities	2,435,748	1,345,858
Net assets:		
Without donor restrictions:		
Undesignated	572,631	484,743
Board-designated	<u>681,658</u>	<u>705,772</u>
Total net assets without donor restrictions	1,254,289	1,190,515
With donor restrictions (Note F)	<u>232,157</u>	<u>420,473</u>
Total net assets	<u>1,486,446</u>	<u>1,610,988</u>
Total liabilities and net assets	<u>\$ 3,922,194</u>	<u>\$ 2,956,846</u>

See accompanying notes to the financial statements.

# International Life Sciences Institute

## Statement of Activities

Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue:</b>			
Reimbursements under shared services agreement (Note E)	\$ 1,502,706	\$ -	\$ 1,502,706
Affiliated entity assessments (Note A)	712,713	-	712,713
Royalties	387,965	-	387,965
Contributions	-	88,742	88,742
Conference registration fees	27,500	-	27,500
Investment income, net (Note C)	34,516	-	34,516
	2,665,400	88,742	2,754,142
Net assets released from restriction	277,058	(277,058)	-
Total revenue	2,942,458	(188,316)	2,754,142
<b>Expenses:</b>			
<b>Program services:</b>			
Global coordination	116,573	-	116,573
Communications	175,969	-	175,969
Annual meeting	183,670	-	183,670
Press	264,496	-	264,496
Global initiatives for a healthier world	277,058	-	277,058
Expenses under shared services agreement	1,502,706	-	1,502,706
Total program services	2,520,472	-	2,520,472
General and administrative	302,789	-	302,789
Total expenses	2,823,261	-	2,823,261
Change in net assets from operations	119,197	(188,316)	(69,119)
Net change in fair value of investments (Note C)	(55,423)	-	(55,423)
Change in net assets	63,774	(188,316)	(124,542)
Net assets, beginning of year	1,190,515	420,473	1,610,988
Net assets, end of year	\$ 1,254,289	\$ 232,157	\$ 1,486,446

*See accompanying notes to the financial statements.*

# International Life Sciences Institute

## Statement of Activities

Year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue:</b>			
Reimbursements under shared services agreement (Note E)	\$ 1,320,332	\$ -	\$ 1,320,332
Affiliated entity assessments (Note A)	672,863	-	672,863
Royalties	375,656	-	375,656
Contributions	-	249,747	249,747
Conference registration fees	44,893	-	44,893
Investment income, net (Note C)	<u>26,663</u>	<u>-</u>	<u>26,663</u>
	2,440,407	249,747	2,690,154
Net assets released from restriction	<u>416,327</u>	<u>(416,327)</u>	<u>-</u>
Total revenue	2,856,734	(166,580)	2,690,154
<b>Expenses:</b>			
<b>Program services:</b>			
Global coordination	61,279	-	61,279
Communications	277,422	-	277,422
Annual meeting	186,249	-	186,249
Press	246,764	-	246,764
Global initiatives for a healthier world	488,357	-	488,357
Expenses under shared services agreement	<u>1,320,332</u>	<u>-</u>	<u>1,320,332</u>
Total program services	2,580,403	-	2,580,403
General and administrative	<u>355,597</u>	<u>-</u>	<u>355,597</u>
Total expenses	<u>2,936,000</u>	<u>-</u>	<u>2,936,000</u>
Change in net assets from operations	(79,266)	(166,580)	(245,846)
Net change in fair value of investments (Note C)	<u>55,445</u>	<u>-</u>	<u>55,445</u>
Change in net assets	(23,821)	(166,580)	(190,401)
Net assets, beginning of year	<u>1,214,336</u>	<u>587,053</u>	<u>1,801,389</u>
Net assets, end of year	<u>\$ 1,190,515</u>	<u>\$ 420,473</u>	<u>\$ 1,610,988</u>

*See accompanying notes to the financial statements.*

# International Life Sciences Institute

## Statements of Functional Expenses

Years ended December 31, 2018 and 2017

	Program Services						Supporting Services		
	Global Coordination	Communica-tions	Annual Meeting	Press	Global Initiatives	Shared Services	Total	General and Administrative	2018 Total
Salaries and benefits	\$ 63,450	\$ 73,761	\$ 7,050	\$ 130,209	\$ -	\$ 1,092,685	\$ 1,367,155	\$ 70,499	\$ 1,437,654
Travel and meetings	6,014	5,610	123,946	16,014	48,661	14,639	214,884	5,700	220,584
Grants and research awards	27,347	-	-	-	213,387	-	240,734	-	240,734
Rent	18,573	21,591	2,064	38,113	-	289,523	369,864	20,636	390,500
Consultants	-	31,924	40,816	380	15,010	2,631	90,761	20,964	111,725
Depreciation	-	26,904	-	-	-	13,809	40,713	476	41,189
Equipment and supplies	-	1,240	1,474	40	-	50,056	52,810	4,183	56,993
Publications	-	4,700	3,794	78,514	-	210	87,218	-	87,218
Financial and professional services	-	-	1,084	-	-	58,942	60,026	943	60,969
Insurance	-	-	-	-	-	62,364	62,364	-	62,364
Other	16	2,070	-	-	-	30,512	32,598	4,356	36,954
Communications	1,173	8,169	3,442	1,226	-	33,451	47,461	2,085	49,546
Moving expenses	-	-	-	-	-	26,831	26,831	-	26,831
ILSI allocation of shared services	-	-	-	-	-	(172,947)	(172,947)	172,947	-
<b>Total</b>	<b>\$ 116,573</b>	<b>\$ 175,969</b>	<b>\$ 183,670</b>	<b>\$ 264,496</b>	<b>\$ 277,058</b>	<b>\$ 1,502,706</b>	<b>\$ 2,520,472</b>	<b>\$ 302,789</b>	<b>\$ 2,823,261</b>

  

	Program Services						Supporting Services		
	Global Coordination	Communica-tions	Annual Meeting	Press	Global Initiatives	Shared Services	Total	General and Administrative	2017 Total
Salaries and benefits	\$ 25,516	\$ 176,406	\$ 4,252	\$ 130,905	\$ 63,186	\$ 1,037,151	\$ 1,437,416	\$ 184,131	\$ 1,621,547
Travel and meetings	32,245	12,130	165,370	12,221	141,111	12,692	375,769	13,469	389,238
Grants and research awards	-	-	-	-	236,912	-	236,912	-	236,912
Rent	1,884	13,028	314	9,668	4,666	171,811	201,371	13,600	214,971
Consultants	-	31,981	6,520	23,400	35,424	1,813	99,138	400	99,538
Depreciation	-	26,904	-	-	-	19,232	46,136	-	46,136
Equipment and supplies	-	2,441	1,030	-	591	40,186	44,248	643	44,891
Publications	-	5,817	1,011	64,323	-	-	71,151	-	71,151
Financial and professional services	-	-	1,488	-	40	50,344	51,872	24,210	76,082
Insurance	-	-	-	-	-	63,860	63,860	-	63,860
Other	25	-	-	5,000	4,074	15,550	24,649	2,359	27,008
Communications	1,609	8,715	6,264	1,247	2,353	21,589	41,777	2,889	44,666
ILSI allocation of shared services	-	-	-	-	-	(113,896)	(113,896)	113,896	-
<b>Total</b>	<b>\$ 61,279</b>	<b>\$ 277,422</b>	<b>\$ 186,249</b>	<b>\$ 246,764</b>	<b>\$ 488,357</b>	<b>\$ 1,320,332</b>	<b>\$ 2,580,403</b>	<b>\$ 355,597</b>	<b>\$ 2,936,000</b>

See accompanying notes to the financial statements.

# International Life Sciences Institute

## Statements of Cash Flows

	Years ended December 31,	
	2018	2017
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (124,542)	\$ (190,401)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	187,790	113,711
Net change in fair value of investments	55,423	(55,445)
Changes in operating assets and liabilities:		
Accounts receivable	42,633	4,089
Amounts due under shared services agreement	(217,103)	48,045
Rent receivable under shared services agreement	(296,108)	92,210
Prepaid expenses and other assets	62,919	3,107
Deposit for office lease	-	(214,208)
Accounts payable and accrued expenses	61,598	(98,510)
Deferred revenue	(286,693)	(7,496)
Deferred rent	354,183	(160,455)
Deposits under shared services agreement	-	194,539
Total adjustments	(35,358)	(80,413)
Net cash used in operating activities	(159,900)	(270,814)
<b>Cash flows from investing activities</b>		
Proceeds from sales or maturities of investments	1,179,312	101,847
Purchases and reinvestments of investments	(913,829)	(28,510)
Purchases of property and equipment	(92,314)	(7,325)
Net cash provided by investing activities	173,169	66,012
Net change in cash and cash equivalents	13,269	(204,802)
Cash and cash equivalents, beginning of year	265,281	470,083
Cash and cash equivalents, end of year	\$ 278,550	\$ 265,281
<b>Supplemental disclosures of cash flow information</b>		
Non-cash portion - abatement of leasehold improvements for new office space	\$ 1,032,506	\$ 105,474

*See accompanying notes to the financial statements.*



# International Life Sciences Institute

## Notes to the Financial Statements

Years ended December 31, 2018 and 2017

### **Note A - Organization and Summary of Significant Accounting Policies**

#### *Organization*

International Life Sciences Institute ("ILSI") was incorporated under the laws of the District of Columbia in July 1978 in order to promote an understanding and resolution of nutrition, food safety, toxicology, risk assessment, and environmental issues worldwide. Through ILSI, scientific experts from the academic, government, industrial, and public sectors throughout the world collaborate on research and education programs at national and international levels.

ILSI has also established and chartered multiple affiliated entities located throughout the world. ILSI does not maintain a majority voting interest in the governing bodies of these entities; accordingly, these financial statements do not reflect the financial position, changes in net assets, and cash flows of ILSI's affiliated entities.

#### *Income taxes*

ILSI is exempt from the payment of income taxes on their exempt activities under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service ("IRS") as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code. ILSI does not have any uncertain tax positions that are material to the financial statements as of December 31, 2018.

#### *Basis of accounting*

ILSI prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Accordingly, revenues are recognized when earned and expenses are recognized when the underlying obligations are incurred.

#### *Measure of Operations*

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to ILSI's ongoing program services. Nonoperating activities are limited to the net change in fair value of investments.

#### *Use of estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from estimates.

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

#### **Note A - Organization and Summary of Significant Accounting Policies (Continued)**

##### *Cash and cash equivalents*

For financial statement purposes, ILSI considers all demand deposit accounts and highly liquid instruments which are held for current operations to be cash and cash equivalents. All other highly liquid instruments, which are included within ILSI's investment portfolio are set aside for investment purposes.

##### *Investments and fair value measurement*

Investments in money market funds, mutual funds and exchange traded funds are carried at fair value in accordance with U.S. GAAP. Investment income, net consists of interest and dividends earned from cash, cash equivalents and investments, net of related investment management expenses. Realized and unrealized gains and losses are recorded as change in fair value in the statement of activities. Gains and losses arising from the sale, maturity and other dispositions are accounted for on a specific identification basis calculated as of the trade date.

U.S. GAAP establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that ILSI has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, for substantially the entire period, and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

##### *Credit risk*

ILSI maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. As such, the failure of an underlying institution could result in financial loss to ILSI.

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

#### **Note A - Organization and Summary of Significant Accounting Policies (Continued)**

##### *Market value risk*

ILSI also invests funds in professionally managed portfolios containing various types of equity securities. Such investments are exposed to market and credit risks. Therefore, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

##### *Accounts receivable*

Accounts receivable primarily consist of amounts due for royalties and affiliated entity assessments. Accounts receivable are presented net of an allowance for doubtful accounts, if any. ILSI's management periodically reviews the status of all accounts receivable balances for collectibility based on its knowledge of and relationship with the customer and the age of the receivable balance. As a result of these reviews, ILSI does not believe an allowance for doubtful accounts is necessary as of December 31, 2018 and 2017.

##### *Deferred revenue*

Deferred revenue primarily consists of annual meeting revenue, affiliated entity assessments and royalties received in advance of the year to which they apply.

##### *Property and equipment*

Acquisitions of property and equipment greater than \$5,000 are capitalized at cost and depreciated, using the straight-line method, over the following estimated useful lives: furniture and equipment – four to ten years; computer software and equipment – three to five years; and leasehold improvements – over the term of the office lease or remaining portion thereof, unless the asset's useful life is estimated to be shorter.

##### *Net Assets*

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions. Board-designated net assets represent the funds that ILSI's Board of Trustees has determined should be reserved for long-term investment purposes. The Board has the right to approve expenditures from this fund at any time.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

#### **Note A - Organization and Summary of Significant Accounting Policies (Continued)**

##### *Contributions*

Contributions are recognized as revenue when received or unconditionally promised. Contributions are recorded as with donor restriction, or without donor restriction depending upon the existence and/or nature of donor restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restriction when the contribution is recognized. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), the amounts are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restriction. ILSI has not received any support that is perpetual in nature.

##### *Affiliated entity assessments*

Assessments are charged to the affiliated entities based on a percentage of their revenue. Assessments received in advance of the period to which they apply are recorded as deferred revenue until that period occurs.

##### *Functional allocation of expenses*

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function, and therefore, require allocation on a reasonable basis that is consistently applied. Salaries and benefits and rent are allocated on the basis of estimates of time and effort. All other natural expenses are direct costs of the functional activity.

ILSI operates the Shared Services program for a group of non-profit organizations co-located in office space in Washington, DC leased by ILSI, as disclosed in Note E. These expenses appear under the Shared Services program within the statements of functional expenses. The portion of Shared Services expenses directly related to ILSI are allocated under general and administrative expenses within the statements of functional expenses.

##### *Subsequent events*

ILSI has performed an evaluation of subsequent events through June 13, 2019, which is the date the financial statements were available to be issued and has considered any relevant matters in preparation of the financial statements and footnotes.

##### *Reclassifications*

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

# International Life Sciences Institute

## Notes to the Financial Statements (Continued)

### **Note A - Organization and Summary of Significant Accounting Policies (Continued)**

#### *Change in Accounting Principle*

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14 Not for Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit-Entities. The amendments in this update are designed to improve the net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The amendments in the ASU are effective for annual periods beginning after December 15, 2017. Management adopted the provisions of this ASU as of and for the year ended December 31, 2018, and applied it retrospectively to the periods presented except for liquidity disclosures.

### **Note B - Liquidity and Availability of Resources**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	<u>2018</u>
Cash and cash equivalents	\$ 278,550
Accounts receivable	7,040
Short term investments	831,948
Amount due under shared services agreement	<u>357,195</u>
Total	<u>\$ 1,474,733</u>

ILSI is substantially supported by revenue without donor restriction, including assessments from entities affiliated through charter agreements and royalties from its journal. ILSI also receives reimbursements for the Shared Services provided by ILSI to the three organizations co-located in the Washington, DC office (see Note E). ILSI holds a deposit from each of the organizations to cover the period of time between when ILSI pays for and is reimbursed for the Shared Services. ILSI has \$1,474,733 in cash, accounts receivable, short-term investments, and reimbursements due for the Shared Services as of December 31, 2018. These financial assets are sufficient to meet the cash needs for general expenditures within one year of the balance sheet date. ILSI also has a Board-Designated Reserve fund, which is without donor restriction, that may be drawn upon with Board approval in the event of financial distress or to fund initiatives outside of the normal course of operations. As the purpose of this fund is for long-term growth, ILSI does not consider this available for general expenditure.

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

#### **Note C - Investments and Fair Value Measurements**

Investments, recorded at fair value in accordance with the U.S. GAAP hierarchy, consist of the following at December 31:

	<u>2018</u>	<u>2017</u>	Fair Value Level
Money market funds	\$ 4,872	\$ 11,889	Level 1
Fixed income exchange traded funds	418,558	566,092	Level 1
Fixed income mutual funds	833,807	940,709	Level 1
Equity mutual funds	214,899	268,349	Level 1
Equity exchange traded funds	<u>34,684</u>	<u>40,688</u>	Level 1
Total investments, at fair value	<u>\$ 1,506,820</u>	<u>\$ 1,827,727</u>	

ILSI recognizes transfers between levels of the fair value hierarchy at the end of the period in which circumstances occur causing changes in availability of the fair value inputs. There were no transfers between levels during the years ended December 31, 2018 and 2017.

Investment (loss) return consists of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 36,386	\$ 28,510
Investment fees	<u>(1,870)</u>	<u>(1,847)</u>
Investment income, net	34,516	26,663
Net change in fair value of investments	<u>(55,423)</u>	<u>55,445</u>
Total (loss) return on investments	<u>\$ (20,907)</u>	<u>\$ 82,108</u>

#### **Note D - Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Computer software and equipment	\$ 241,190	\$ 231,690
Furniture and equipment	-	114,075
Leasehold improvements	<u>1,872,853</u>	<u>829,235</u>
	2,114,043	1,175,000
Less accumulated depreciation	<u>(977,182)</u>	<u>(903,466)</u>
Property and equipment, net	<u>\$ 1,136,861</u>	<u>\$ 271,534</u>

# International Life Sciences Institute

## Notes to the Financial Statements (Continued)

### Note E - Related Party Transactions

ILSI is part of an affiliated group of non-profit organizations through charter agreements, which includes ILSI North America ("ILSI N.A."), ILSI Research Foundation ("ILSI RF") and Health and Environmental Sciences Institute ("HESI"), located in Washington, DC, as well as multiple international affiliated entities. In the ordinary course of doing business, ILSI has a variety of financial transactions with the affiliates located in Washington, DC. HESI terminated its charter agreement with ILSI effective December 31, 2018 and is no longer part of the affiliated group.

Outside of ILSI's affiliation with entities through charter agreements, ILSI also shares office space and participates in a shared services agreement with ILSI N.A., ILSI RF, and HESI. Under the shared services agreement, administrative expenses for accounting, legal, information technology, human resources, and business services are allocated monthly to each organization based on their total number of full-time equivalents. During the years ended December 31, 2018 and 2017, ILSI allocated the cost of these shared services as follows:

	2018	2017
ILSI N.A.	\$ 522,681	\$ 432,958
ILSI RF	345,892	339,500
HESI	634,133	547,874
	<u>\$ 1,502,706</u>	<u>\$ 1,320,332</u>

Each organization under the shared services agreement pays the landlord directly for its share of the rent, using the same allocation as under the shared services agreement.

ILSI affiliated entity assessments: As specified in its charter agreements, all members of ILSI's affiliated entities are automatically members of ILSI. Since ILSI does not collect its own dues from these members, ILSI instead charges an annual assessment to its affiliates in order to provide support for ILSI's governance and communication activities. During the years ended December 31, 2018 and 2017, ILSI charged \$150,000 for each of the years to ILSI N.A., and HESI. The organization charged ILSI RF \$134,227 and \$92,010 for the years ended December 31, 2018 and 2017, respectively.

During 2018, HESI voted to terminate its charter agreement with ILSI, and accordingly, will no longer be subject to ILSI's entity assessment in 2019 and beyond.

# International Life Sciences Institute

## Notes to the Financial Statements (Continued)

### Note E - Related Party Transactions (Continued)

Joint annual meeting: ILSI, ILSI N.A., ILSI RF and HESI participate in a joint annual meeting, and each organization holds their own board meetings and scientific sessions in conjunction with the meeting. ILSI collects all the annual meeting income and pays in advance for the joint expenses of the meeting.

ILSI N.A. reimbursed ILSI a net of \$97,520 and \$121,192, respectively, for its share of annual meeting activity for the years ended December 31, 2018 and 2017. ILSI RF reimbursed ILSI a net of \$17,175 and \$49,630, respectively, for its share of annual meeting activity for the years ended December 31, 2018 and 2017. HESI reimbursed ILSI a net of \$45,853 and \$56,472 for its share of annual meeting activity for the years ended December 31, 2018 and 2017.

Professional service fees: From time to time, ILSI will utilize staff or other resources from another affiliate in carrying out its projects, or conversely, another affiliate will utilize staff or other resources of ILSI. The extent and use of these services is agreed to by the two affiliates in advance, and the affiliate requesting the resources is charged a professional fee as compensation. During the years ended December 31, 2018 and 2017, ILSI paid professional services fees of \$0 and \$3,209, respectively, to ILSI N.A., and \$47,013 and \$14,383 to ILSI RF, respectively, for their communications and annual meeting support.

Due under shared services agreement: Net amounts due to ILSI for shared services cost allocations under shared services agreement consisted of the following as of December 31:

	2018	2017
Due from ILSI N.A.	\$ 135,120	\$ 50,255
Due from HESI	133,648	59,162
Due from ILSI RF	88,427	30,675
Total due under shared services agreement	<u>\$ 357,195</u>	<u>\$ 140,092</u>

Rent receivable under shared services agreement: During 2008 and 2018, ILSI entered into a lease for office space in Washington, D.C. (see Note H). Since ILSI N.A., ILSI RF and HESI share the same office space with ILSI, ILSI allocated a portion of its deferred rent liability to each organization based on the number of full-time equivalents. As such, \$136,797 was allocated to ILSI N.A., \$90,559 to ILSI RF and \$166,024 to HESI as of December 31, 2018. For the year ended December 31, 2017, ILSI allocated deferred rent of \$45,669 to ILSI N.A., \$20,845 to ILSI RF and \$30,759 to HESI.



International Life Sciences Institute

Notes to the Financial Statements (Continued)

**Note E - Related Party Transactions (Continued)**

Deposits under shared services agreement: As part of the shared services agreement, ILSI charged each organization a deposit to cover the period of time between when ILSI pays the shared service cost and when it is reimbursed. Additionally, as part of the 2017 office space lease agreement (see Note H), ILSI paid a lease deposit in the amount of \$214,208, and allocated a portion of this amount to ILSI N,A, HESI, and ILSI RF based on the number of full-time equivalents. Total deposits held by ILSI on behalf of each organization were as follows as of December 31:

	<u>2018</u>	<u>2017</u>
ILSI North America	\$ 178,816	\$ 178,816
Health and Environmental Sciences Institute	170,963	170,963
ILSI Research Foundation	<u>90,760</u>	<u>90,760</u>
	<u>\$ 440,539</u>	<u>\$ 440,539</u>

**Note F - Net Assets With Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Subject to specified purpose:		
Platform in International Partnerships	\$ 61,612	\$ 61,603
ILSI Presence in Africa	74,316	83,762
Indonesian Food Safety Program	-	35,801
Staff Global Travel Fund	27,123	28,032
LA Coordination	2,541	2,540
Malaspina Travel Award	-	96,148
ILSI Focal Point in China	<u>66,565</u>	<u>112,587</u>
	<u>\$ 232,157</u>	<u>\$ 420,473</u>

International Life Sciences Institute

Notes to the Financial Statements (Continued)

**Note F - Net Assets With Donor Restrictions (Continued)**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions:		
Platform in International Partnerships	\$ -	\$ 123,586
ILSI Presence in Africa	59,446	110,623
Indonesian Food Safety Program	35,801	49,501
Staff Global Travel Fund	909	3,811
LA Coordination	-	7,797
Malaspina Travel Award	96,148	24,729
Restricted	-	30,000
ILSI Focal Point in China	<u>84,754</u>	<u>66,280</u>
	<u>\$ 277,058</u>	<u>416,327</u>

**Note G - Defined Contribution Pension Plan**

ILSI has a Section 403(b) defined contribution retirement plan, which covers substantially all of its employees. Employer contributions to the plan are calculated at 7% of each eligible participant's salary. Participants may also make voluntary elective deferrals to the plan. For the years ended December 31, 2018 and 2017, pension contribution expense totaled \$64,557 and \$86,531, respectively.

**Note H - Commitments and Contingencies**

*Office Lease*

In May 2008, ILSI entered into an operating lease for office space in Washington, DC, which commenced in September 2008 and expires in January 2019. ILSI received certain concessions from the lease agreement, which have been amortized over the lease term on a straightline basis. The unamortized portion of these incentives is reported as deferred rent in the statements of financial position.

In February 2017, ILSI executed a new lease for office space in Washington, DC. This new lease commenced on February 20, 2018 and expires 12 years after the date of commencement. ILSI received certain concessions from the lease agreement, which will be amortized over the lease term on a straightline basis. Rent expenses will be allocated to the affiliates (see Note E).

Rent expense, net of amortized rent abatements and amounts allocated to affiliates that share space (see Note E), under the office space lease agreement totaled \$390,500 and \$214,971 for the years ended December 31, 2018 and 2017, respectively.

International Life Sciences Institute

Notes to the Financial Statements (Continued)

**Note H - Commitments and Contingencies (Continued)**

Future annual minimum lease payments, subject to an annual operating expense increase, under various leases are as follows:

Year ending December 31,	
2019	\$ 305,607
2020	672,412
2021	689,223
2022	706,453
2023	724,115
2023 and thereafter	<u>4,881,619</u>
	<u>\$ 7,979,429</u>

*Hotel Commitments*

As of December 31, 2018, ILSI has entered into a contract with a hotel pertaining to future events. In the event that ILSI cancels or reduces its contracted provisions, it may be liable for certain penalties or liquidated damages, depending upon the date of cancellation.