

# **International Life Sciences Institute**

## **Audited Financial Statements**

*Years Ended December 31, 2022 and 2021  
with Report of Independent Auditors*

International Life Sciences Institute

Audited Financial Statements

Years ended December 31, 2022 and 2021

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## Report of Independent Auditors

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

### **Opinion**

We have audited the financial statements of the International Life Sciences Institute (ILSI), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ILSI as of December 31, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ILSI and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Adoption of New Accounting Standard**

As discussed in Note K to the financial statements, effective January 1, 2022, ILSI adopted Financial Accounting Standards Board Accounting Standards Update 2016-02 and subsequent amendments, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ILSI's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ILSI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ILSI's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia  
May 31, 2023

International Life Sciences Institute

Statements of Financial Position

As of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 528,879	\$ 670,922
Investments - Note E	6,258,061	8,310,873
Accounts receivable, net - Note B	42,185	216,933
Amounts due under NPO Services Agreement - Note G	103,727	103,425
Rent receivable under NPO Space Agreement - Note G	497,956	498,747
Prepaid expenses and other assets	570	1,020
Deposit for office lease	53,552	53,552
Property and equipment, net - Note F	688,036	786,987
ROU asset - operating lease - Note K	3,701,115	-
Total assets	<u>\$ 11,874,081</u>	<u>\$ 10,642,459</u>
<b>Liabilities and net assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 43,699	\$ 36,579
Accrued expenses	127,907	132,237
Deferred revenue - affiliated entity assessments - Note C	1,781	5,046
Deferred revenue - royalties - Note C	282,399	275,708
Deposits payable under NPO Services and Space Agreements - Note G	246,141	246,141
Deferred rent	-	1,703,975
Operating lease liability - Note K	5,262,906	-
Total liabilities	5,964,833	2,399,686
<b>Net assets:</b>		
Without donor restrictions:		
Undesignated	-	223,401
Board-designated	5,655,883	7,721,755
Total net assets without donor restrictions	5,655,883	7,945,156
With donor restrictions - Note H	253,365	297,617
Total net assets	<u>5,909,248</u>	<u>8,242,773</u>
Total liabilities and net assets	<u>\$ 11,874,081</u>	<u>\$ 10,642,459</u>

See accompanying notes to the financial statements.

# International Life Sciences Institute

## Statement of Activities

Year ended December 31, 2022

	Without donor restrictions	With donor restrictions	2022 Total
<b>Revenue:</b>			
Reimbursements under NPO Services Agreement, net - Note G	\$ 799,557	\$ -	\$ 799,557
Affiliated entity assessments	135,531	-	135,531
Royalties	314,885	-	314,885
Other income	18,487	-	18,487
Investment income, net - Note E	182,684	-	182,684
	1,451,144	-	1,451,144
Net assets released from restriction	44,252	(44,252)	-
Total revenue	1,495,396	(44,252)	1,451,144
<b>Expenses:</b>			
Program services:			
ILSI Global	406,227	-	406,227
Research program	538,812	-	538,812
Press	235,248	-	235,248
United States and Canada	103,610	-	103,610
Expenses under NPO Services Agreement	799,557	-	799,557
Total program services	2,083,454	-	2,083,454
Supporting services:			
General and administrative	351,574	-	351,574
Fundraising	107,145	-	107,145
Total expenses	2,542,173	-	2,542,173
Change in net assets from operations	(1,046,777)	(44,252)	(1,091,029)
Net change in fair value of investments - Note E	(1,242,496)	-	(1,242,496)
Change in net assets	(2,289,273)	(44,252)	(2,333,525)
Net assets, beginning of year	7,945,156	297,617	8,242,773
Net assets, end of year	\$ 5,655,883	\$ 253,365	\$ 5,909,248

*See accompanying notes to the financial statements.*

International Life Sciences Institute

Statement of Activities

Year ended December 31, 2021

	Without donor restrictions	With donor restrictions	2021 Total
<b>Revenue:</b>			
Reimbursements under NPO Services Agreement, net - Note G	\$ 755,897	\$ -	\$ 755,897
Affiliated entity assessments	169,090	-	169,090
Royalties	369,879	-	369,879
Other income	15,659	-	15,659
Investment income, net - Note E	<u>301,282</u>	<u>-</u>	<u>301,282</u>
	1,611,807	-	1,611,807
Net assets released from restriction	<u>985</u>	<u>(985)</u>	<u>-</u>
Total revenue	1,612,792	(985)	1,611,807
<b>Expenses:</b>			
Program services:			
ILSI Global	299,405	-	299,405
Research program	269,611	-	269,611
Press	231,256	-	231,256
United States and Canada	47,339	-	47,339
Expenses under NPO Services Agreement	<u>755,897</u>	<u>-</u>	<u>755,897</u>
Total program services	1,603,508	-	1,603,508
Supporting services:			
General and administrative	204,453	-	204,453
Fundraising	<u>81,471</u>	<u>-</u>	<u>81,471</u>
Total expenses	<u>1,889,432</u>	<u>-</u>	<u>1,889,432</u>
Change in net assets from operations	(276,640)	(985)	(277,625)
Net change in fair value of investments - Note E	<u>89,504</u>	<u>-</u>	<u>89,504</u>
Change in net assets	(187,136)	(985)	(188,121)
Net assets, beginning of year	<u>8,132,292</u>	<u>298,602</u>	<u>8,430,894</u>
Net assets, end of year	<u>\$ 7,945,156</u>	<u>\$ 297,617</u>	<u>\$ 8,242,773</u>

See accompanying notes to the financial statements.

International Life Sciences Institute

Statement of Functional Expenses

Year ended December 31, 2022

	Program services						Supporting services			2022 Total
	ILSI Global	Research program	Press	United States and Canada	NPO Services	Total	General and administrative	Fundraising	Total	
Salaries and benefits	\$ 165,384	\$ 302,430	\$ 124,321	\$ 66,334	\$ 782,878	\$ 1,441,347	\$ 63,668	\$ 83,276	\$ 146,944	\$ 1,588,291
Travel and meetings	70,123	142,130	9,224	12,197	1,805	235,479	536	-	536	236,015
Grants and research awards	23,912	-	-	-	-	23,912	-	-	-	23,912
Occupancy and depreciation	35,200	64,368	26,460	14,118	493,301	633,447	14,501	17,725	32,226	665,673
Consultants	89,099	451	3,398	5,451	8,588	106,987	230	-	230	107,217
Equipment and supplies	3,130	1,930	300	-	45,076	50,436	4,914	-	4,914	55,350
Publications	29	73	61,312	146	-	61,560	-	-	-	61,560
Financial and professional services	-	796	-	-	45,142	45,938	31,335	-	31,335	77,273
Insurance	-	-	-	-	34,652	34,652	9,937	-	9,937	44,589
Other	105	4,188	260	-	3,878	8,431	117,483	-	117,483	125,914
Communications	7,044	134	801	470	37,917	46,366	147	-	147	46,513
ILSI allocation of NPO Services	<u>12,201</u>	<u>22,312</u>	<u>9,172</u>	<u>4,894</u>	<u>(163,546)</u>	<u>(114,967)</u>	<u>108,823</u>	<u>6,144</u>	<u>114,967</u>	<u>-</u>
Total expenses	406,227	538,812	235,248	103,610	1,289,691	2,573,588	351,574	107,145	458,719	3,032,307
<b>Revenue included with expenses on the statement of activities</b>										
Sublease rental income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(490,134)</u>	<u>(490,134)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(490,134)</u>
Total expenses included in the statement of activities	<u>\$ 406,227</u>	<u>\$ 538,812</u>	<u>\$ 235,248</u>	<u>\$ 103,610</u>	<u>\$ 799,557</u>	<u>\$ 2,083,454</u>	<u>\$ 351,574</u>	<u>\$ 107,145</u>	<u>\$ 458,719</u>	<u>\$ 2,542,173</u>

See accompanying notes to the financial statements.



International Life Sciences Institute

Statement of Functional Expenses

Year ended December 31, 2021

	Program services						Supporting services			2021 Total
	ILSI Global	Research program	Press	United States and Canada	NPO Services	Total	General and administrative	Fundraising	Total	
Salaries and benefits	\$ 162,932	\$ 189,321	\$ 118,119	\$ 32,880	\$ 749,004	\$ 1,252,256	\$ 61,661	\$ 56,648	\$ 118,309	\$ 1,370,565
Travel and meetings	-	1,644	-	-	1,496	3,140	1,733	-	1,733	4,873
Grants and research awards	20,985	-	-	-	-	20,985	-	-	-	20,985
Occupancy and depreciation	55,669	61,276	40,358	11,234	479,130	647,667	22,020	19,355	41,375	689,042
Consultants	34,298	-	-	-	2,110	36,408	-	-	-	36,408
Equipment and supplies	2,538	-	277	-	37,476	40,291	1,945	-	1,945	42,236
Publications	1,240	-	60,490	-	-	61,730	-	-	-	61,730
Financial and professional services	-	60	-	-	47,545	47,605	609	-	609	48,214
Insurance	-	-	-	-	36,272	36,272	4,867	-	4,867	41,139
Other	50	-	-	-	1,902	1,952	5,433	-	5,433	7,385
Communications	5,967	-	611	51	35,136	41,765	1,053	-	1,053	42,818
ILSI allocation of NPO Services	15,726	17,310	11,401	3,174	(158,211)	(110,600)	105,132	5,468	110,600	-
Total expenses	299,405	269,611	231,256	47,339	1,231,860	2,079,471	204,453	81,471	285,924	2,365,395
<b>Revenue included with expenses on the statement of activities</b>										
Sublease rental income	-	-	-	-	(475,963)	(475,963)	-	-	-	(475,963)
Total expenses included in the statement of activities	<u>\$ 299,405</u>	<u>\$ 269,611</u>	<u>\$ 231,256</u>	<u>\$ 47,339</u>	<u>\$ 755,897</u>	<u>\$ 1,603,508</u>	<u>\$ 204,453</u>	<u>\$ 81,471</u>	<u>\$ 285,924</u>	<u>\$ 1,889,432</u>

See accompanying notes to the financial statements.

International Life Sciences Institute

Statements of Cash Flows

Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (2,333,525)	\$ (188,121)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	98,951	98,951
Net change in fair value of investments	1,242,496	(89,504)
Noncash lease expense	467,385	-
Changes in operating assets and liabilities:		
Accounts receivable	174,748	(123,046)
Amounts due under NPO Services Agreement	(302)	52,326
Rent receivable under NPO Space Agreement	791	176,032
Prepaid expenses and other assets	450	5,910
Deposit for office lease	-	107,104
Accounts payable and accrued expenses	2,790	(228,387)
Deferred revenue	3,426	259,662
Deferred rent	-	(124,951)
Deposits payable under NPO Services and Space Agreements	-	(156,596)
Operating lease liability	<u>(609,569)</u>	<u>-</u>
Total adjustments	<u>1,381,166</u>	<u>(22,499)</u>
Net cash flows from operating activities	(952,359)	(210,620)
<b>Cash flows from investing activities</b>		
Proceeds from sales or maturities of investments	2,064,501	2,027,948
Purchases and reinvestments of investments	<u>(1,254,185)</u>	<u>(1,428,999)</u>
Net cash flows from investing activities	<u>810,316</u>	<u>598,949</u>
Net change in cash and cash equivalents	(142,043)	388,329
Cash and cash equivalents, beginning of year	<u>670,922</u>	<u>282,593</u>
Cash and cash equivalents, end of year	<u>\$ 528,879</u>	<u>\$ 670,922</u>

See accompanying notes to the financial statements.

# International Life Sciences Institute

## Notes to the Financial Statements

Years ended December 31, 2022 and 2021

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

#### *Organization*

The 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, 2022 and 2021.

#### *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.

#### *Adoption of Accounting Standard*

ILSI adopted Accounting Standards Codification (ASC) Topic 842, *Leases* on January 1, 2022, including concurrent early adoption of the ASU 2023-01, *Common Control Arrangements*. Among other requirements, lessees are required to identify leases as either operating or finance and to recognize the following for all leases (with the exception of short-term leases) as of the date of adoption: 1) a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use (ROU) asset, which is an asset that represents the lessee's ROU, or control the use of a specified asset for the lease term. The accounting for lessors does not fundamentally change. Conforming changes such as the definition of lease term and minimum lease payments may potentially result in certain lease arrangements being classified differently. On adoption, ILSI elected to utilize the year of adoption modified retrospective approach.

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

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

##### *Adoption of Accounting Standard (continued)*

ILSI, as a lessee, elected to apply all practical expedients applicable to ILSI in the updated guidance for transition for leases in effect at adoption, including the option to not reassess whether an existing contract is a lease or contains a lease and whether the lease is an operating or finance lease. As a result of adopting, ILSI recognized a ROU asset of \$4,168,500 and a lease liability of \$5,872,475 on January 1, 2022. ILSI, as a lessor, elected the practical expedient package that allowed ILSI: (a) to not reassess whether any expired or existing contracts entered into prior to January 1, 2022 are or contain leases; (b) to not reassess the lease classification for any expired or existing leases entered into prior to January 1, 2022 (including assessing sale-leaseback transactions); and (c) to not reassess initial direct costs for any expired or existing leases entered into prior to January 1, 2022.

##### *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.

##### *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).

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

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

##### *Investments and fair value measurement (continued)*

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.

##### *Market value risk*

ILSI 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, 2022 and 2021.

##### *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.

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

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

##### *Leases*

ILSI determines if an arrangement is a lease or contains a lease at inception of a contract and classifies each lease as an operating or finance lease. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. ILSI records a ROU asset for the right to use an underlying asset for the lease term and a lease liability, on a discounted basis, for the obligation to make lease payments arising from the lease. ILSI has elected the risk free rate as the discount rate for all its underlying leased assets. The lease term includes options to extend or to terminate the lease that ILSI is reasonably certain to exercise. ILSI has elected for all classes of underlying assets the practical expedient to not separate lease and nonlease components and account for them as a single lease component. ROU assets are subject to review for impairment.

For operating leases, lease expense relating to fixed payments is recognized on a straight-line basis over the lease term and lease expense relating to variable payments is expensed as incurred. For finance leases, the amortization of the ROU asset is recognized over the shorter of the lease term or useful life of the underlying asset and interest expense is recorded using the effective interest rate method. ILSI has elected as an accounting policy not to record ROU assets and lease liabilities that arise from short-term leases for any class of underlying asset.

##### *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 and research 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)**

##### *Reimbursement under NPO Services Agreement*

ILSI operates and participates in the NPO Services Agreement with a group of non-profit organizations co-located in office space leased by ILSI in Washington, D.C. The non-profit organizations include the Institute for the Advancement of Food and Nutrition Sciences (IAFNS) and the Health and Environmental Sciences Institute (HESI), as disclosed in Note G. Under the NPO Services Agreement, expenses for accounting, legal, information technology, human resources, and business services, which are bundled for financial reporting purposes, are allocated monthly to each organization. These expenses appear under the NPO Services program within the statements of functional expenses. NPO Services revenue is recognized monthly as the services are performed and is nonrefundable, except for deposits held by ILSI (see Note G). Payment is due when invoiced on a monthly basis and there are no significant financing components.

##### *Affiliated entity assessments*

ILSI collects an annual assessment fee from the scientific entities affiliated with ILSI through its charter agreement. The agreement gives the entities the right to utilize the name of ILSI in the name of the entity, and to acknowledge affiliation in the ILSI federation. The assessments are based on a percentage of the affiliate's revenue in the prior calendar year and are assessed annually. ILSI recognizes revenue from the assessments over the 12-month period commencing on January 1. Amounts received in advance of the 12-month period are recorded as deferred revenue. Payment is due when invoiced on an annual basis and there are no significant financing components.

##### *Royalties*

Royalties and the editorial stipend from ILSI's journal, *Nutrition Reviews*, and other publications are recognized as revenue over the 12-month publishing period commencing on January 1, as the journals are published, which is the performance obligation for financial statement purposes. Amounts received in advance of the publishing period are recorded as deferred revenue when received and recognized as revenue when the journals are published. Royalties are not refundable. Payment is due when invoiced on a monthly basis and there are no significant financing components.

##### *Contributions*

ILSI recognizes contributions when an unconditional promise to give is received. Conditional promises to give, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Contributions received prior to meeting the conditions are reported as refundable advances in the statements of financial position. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor-imposed restrictions. ILSI did not receive any conditional promises to give for the years ended December 31, 2022 and 2021. Donated securities are received as contributions and are recognized as contribution revenue at the fair value of the securities at the time of receipt by the ILSI.

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

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

##### *Other income*

Other income primarily consists of conference registration fees. Registration fees are recognized as revenue in the period the conference or meeting takes place, or when goods, services or benefits related to the conference or meeting are provided. Amounts received in advance of the conference or meeting are recorded as deferred revenue. In the event a conference or meeting is cancelled, registration fees may be refunded in full or part within a certain timeframe before each event.

##### *Sublease rental income*

ILSI subleases office space to IAFNS and HESI, as disclosed in Note G, and records rental income under the operating lease agreement on a straight-line basis over the lease term. The lease term runs from February, 2018 through February, 2030 (see Note K). The sublease rental income is reported net with rent expense within Expenses under NPO Services Agreement in the statements of activities.

##### *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, rent, and the legal and information technology expenses under the NPO Services Agreement are allocated on the basis of estimates of time and effort. All other natural expenses are direct costs of the functional activity.

##### *Subsequent events*

ILSI has performed an evaluation of subsequent events through May 31, 2023, 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 B - Accounts Receivable**

Accounts receivable consists of the following at December 31, 2022 and 2021:

	2022		2021	
	Opening Balance	Closing Balance	Opening Balance	Closing Balance
Royalties	\$ 104,000	\$ 42,185	\$ 89,391	\$ 104,000
NPO Services	103,425	103,727	155,741	103,425
Other	112,933	-	4,496	112,933
	\$ 320,358	\$ 145,912	\$ 249,628	\$ 320,358

**Note C - Deferred Revenue**

Deferred revenue consists of the following at December 31, 2022 and 2021:

	2022		2021	
	Opening Balance	Closing Balance	Opening Balance	Closing Balance
Royalties	\$ 275,708	\$ 282,399	\$ -	\$ 275,708
Affiliated entity assessments	5,046	1,781	21,092	5,046
	\$ 280,754	\$ 284,180	\$ 21,092	\$ 280,754

**Note D - 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 statements of financial position, comprise the following:

	2022	2021
Cash and cash equivalents	\$ 528,879	\$ 670,922
Accounts receivable	42,185	216,933
Short-term investments	-	193,851
Amount due under shared services agreement	103,727	103,425
Net assets with donor restrictions	(253,365)	(297,617)
Financial assets available to meet cash needs for general expenditures within one year	\$ 421,426	\$ 887,514

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

#### **Note D - Liquidity and Availability of Resources (Continued)**

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 two organizations co-located in the Washington, DC office (see Note G). 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. The financial assets above are sufficient to meet the cash needs for general expenditures within one year of the statements of financial position 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. ILSI is establishing a research program and launched a new division dedicated to scientific research in the United States and Canada. During the growth phase of these two initiatives, the Board Designated Reserve is being used for general operations and to fund these initiatives.

#### **Note E - 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:

	2022	2021	Fair Value Level
Money market funds	\$ 138,760	\$ 2,602	Level 1
Fixed income mutual funds	3,714,644	4,902,230	Level 1
Equity mutual funds	1,604,415	2,294,339	Level 1
Equity exchange traded funds	<u>800,242</u>	<u>1,111,702</u>	Level 1
Total investments, at fair value	<u>\$ 6,258,061</u>	<u>\$ 8,310,873</u>	

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

	2022	2021
Interest and dividend income	\$ 184,776	\$ 303,228
Investment fees	<u>(2,092)</u>	<u>(1,946)</u>
Investment income, net	182,684	301,282
Net change in fair value of investments	<u>(1,242,496)</u>	<u>89,504</u>
Total (loss) return on investments	<u>\$ (1,059,812)</u>	<u>\$ 390,786</u>

International Life Sciences Institute

Notes to the Financial Statements (Continued)

**Note F - Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Computer software and equipment	\$ 181,981	\$ 181,981
Leasehold improvements	<u>1,149,092</u>	<u>1,149,092</u>
	1,331,073	1,331,073
Less accumulated depreciation	<u>(643,037)</u>	<u>(544,086)</u>
Property and equipment, net	<u><u>\$ 688,036</u></u>	<u><u>\$ 786,987</u></u>

**Note G - NPO Services and Space Agreements**

*NPO Services Agreement*

Under the NPO Services Agreement, which is discussed in Note A, expenses for accounting, legal, information technology, human resources, and business services are allocated monthly to each organization that is a participant in the agreement based on their total number of full-time equivalents. During the years ended December 31, 2022 and 2021, ILSI allocated the cost of these shared services as follows:

	<u>2022</u>	<u>2021</u>
IAFNS	\$ 308,920	\$ 298,843
HESI	<u>490,637</u>	<u>457,054</u>
	<u><u>\$ 799,557</u></u>	<u><u>\$ 755,897</u></u>

*Due under NPO Services Agreement*

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

	<u>2022</u>	<u>2021</u>
Due from IAFNS	\$ 37,686	\$ 41,020
Due from HESI	<u>66,041</u>	<u>62,405</u>
Total due under NPO Services agreement	<u><u>\$ 103,727</u></u>	<u><u>\$ 103,425</u></u>

*NPO Space Agreement*

Under the NPO Space Agreement, ILSI leases office space in Washington, D.C. and subleases a portion of its leased office space to IAFNS and HESI (see Note K). Each organization under the NPO Space Agreement pays the landlord directly for its share of the rent, based on the terms of the agreement.

International Life Sciences Institute

Notes to the Financial Statements (Continued)

**Note G - NPO Services Agreement (Continued)**

Prior to the adoption of ASC 842, ILSI allocated a portion of its deferred rent liability to each organization participating in the NPO Space Agreement based on the terms of the agreement. As of December 31, 2021, ILSI allocated deferred rent of \$228,194 to IAFNS, and \$270,553 to HESI.

*Deposits under NPO Services and Space Agreements*

As part of the NPO Services Agreement, ILSI charged each organization a deposit to cover the period of time between when ILSI pays the NPO Services cost and when it is reimbursed. Additionally, as part of the office space lease agreement, ILSI paid a lease deposit in the amount of \$228,194, and allocated a portion of this amount to IAFNS and HESI based on the number of full-time equivalents. During 2021, a portion of the lease deposit was returned under the agreement with the landlord. Total deposits held by ILSI on behalf of each organization were as follows as of December 31:

	<u>2022</u>	<u>2021</u>
IAFNS	\$ 138,127	\$ 138,127
HESI	<u>108,014</u>	<u>108,014</u>
	<u>\$ 246,141</u>	<u>\$ 246,141</u>

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

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

	<u>2022</u>	<u>2021</u>
Subject to specified purpose:		
Platform in International Partnerships	\$ 61,612	\$ 61,612
ILSI Presence in Africa	74,316	74,316
Staff Global Travel Fund	27,123	27,123
Latin American Coordination	-	1,544
Scholars Travel Award	7,388	21,852
ILSI Asia	<u>82,926</u>	<u>111,170</u>
	<u>\$ 253,365</u>	<u>\$ 297,617</u>

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

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Latin American Coordination	\$ 1,544	\$ -
Scholars Travel Award	14,464	-
ILSI Asia	<u>28,244</u>	<u>985</u>
	<u>\$ 44,252</u>	<u>\$ 985</u>

## International Life Sciences Institute

### Notes to the Financial Statements (Continued)

#### **Note I - 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, 2022 and 2021, pension contribution expense totaled \$80,417 and \$68,867, respectively.

#### **Note J - Contingency**

During 2022 there was an ongoing dispute with a third party regarding a receivable held by ILSI. Arbitration for this matter began in 2022 but was not concluded as of December 31, 2022. Reference is made to Note L for a subsequent event related to the arbitration.

#### **Note K - Leases**

ILSI entered into an operating lease for office space in Washington, D.C. which runs from February, 2018 through February, 2030. The lease also contains yearly rental increases based on the terms of the lease agreement. At the end of the initial lease term, ILSI has the option to renew the lease for one renewal term of 5 years.

ILSI subleases a portion of its leased office space located in Washington, D.C. to IAFNS and HESI, which commenced in July 2018 and expires in February 2030. The sublease arrangement would extend by a period of 5 years if ILSI elects the renewal option on the underlying lease agreement and all three parties agree to renew the sublease arrangement.

Sublease rental income is recorded on a straight-line basis over the lease term. The difference between sublease rental income recognized and cash consideration paid by IAFNS and HESI to the landlord is recorded as rent receivable under NPO Space Agreement in the statements of financial position as of December 31, 2022 and 2021.

ILSI has no plans to exercise the renewal option as of the year ended December 31, 2022.

International Life Sciences Institute

Notes to the Financial Statements (Continued)

**Note K - Leases (Continued)**

*ILSI as a lessee*

ILSI's lease costs, terms and discount rates are as follows for the year ending December 31, 2022:

	<u>2022</u>
Operating lease cost:	
Lease cost	\$ <u>564,271</u>
Total lease cost	\$ <u><u>564,271</u></u>

Other Information

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 706,453
ROU assets obtained in exchange for new operating lease liabilities	4,168,500

Weighted-average remaining lease term - operating leases 7 years

Weighted-average discount rate - operating leases 1.75 %

Future minimum lease payments and reconciliation to the balance sheet as of December 31, 2022 are as follows:

	<u>Operating</u>
2023	\$ 724,115
2024	742,217
2025	760,773
2026	779,792
2027	799,287
Thereafter	<u>1,799,550</u>
Total undiscounted future lease payments	5,605,734
Less: present value adjustment	<u>(342,828)</u>
Lease liability	<u><u>\$ 5,262,906</u></u>

International Life Sciences Institute

Notes to the Financial Statements (Continued)

**Note K - Leases (Continued)**

*ILSI as a lessor*

Lease income was as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Operating lease income	\$ 490,134	\$ 475,963
Total lease income	<u>\$ 490,134</u>	<u>\$ 475,963</u>

Maturity schedule of operating lease payments to be received as of December 31, 2022 are as follows:

2023	\$ 503,198
2024	515,778
2025	528,673
2026	541,889
2027	555,437
Thereafter	<u>1,250,535</u>
Total lease payments to be received	<u>\$ 3,895,510</u>

**Note L - Subsequent Events**

In March 2023, the arbitration for the receivable held by ILSI from a third party was concluded. The arbitration ruled in favor of the third party and because the circumstances existed as of December 31, 2022, ILSI has recorded bad debt expense of approximately \$113,000 within general and administrative expenses for the year ended December 31, 2022.