

eLife Sciences Publications, Ltd

Financial Statements

December 31, 2017 and December 31, 2016

(With Independent Auditor's Report Thereon)

eLife Sciences Publications, Ltd
Financial Statements
December 31, 2017 and December 31, 2016

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Independent Auditor's Report

The Board of Directors
eLife Sciences Publications, Ltd:

Report on the Financial Statements

We have audited the accompanying financial statements of eLife Sciences Publications, Ltd, which comprise the balance sheets as of December 31, 2017 and December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the 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 U.S. generally accepted accounting principles; 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. 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.

Independent Auditor's Report *(continued)*

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of eLife Sciences Publications Ltd as of December 31, 2017 and December 31, 2016, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Justin Shakespeare, Certified Public Accountant, licensed auditor State of California
for and on behalf of KPMG LLP
Cambridge, United Kingdom

17 August 2018

eLife Sciences Publications, Ltd

Balance Sheets

December 31, 2017 and December 31, 2016

(In thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	£ 1,908	1,971
Trade and other receivables	374	198
Total current assets	2,282	2,169
Property, plant, and equipment:		
Machinery and equipment	111	99
Leasehold improvements	87	87
	198	186
Less accumulated depreciation and amortization	(181)	(169)
Net property, plant, and equipment	17	17
Total assets	£ 2,299	2,186
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	£ 277	128
Accrued expenses	790	1,034
Contract liabilities	1,050	593
Other liabilities	67	59
Total current liabilities	2,184	1,814
Net assets:		
Unrestricted net assets	115	372
Total net assets	115	372
Total liabilities and net assets	£ 2,299	2,186

None of the net assets of the Company are either temporarily or permanently restricted.

See accompanying notes to the financial statements.

eLife Sciences Publications, Ltd

Statements of Activities

Years ended December 31, 2017 and December 31, 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Revenues:		
Publication fees	1,233	-
Contributions	3,832	4,641
Total revenues	5,065	4,641
Expenses:		
Program services:		
Journal expenses	4,830	4,578
Supporting services:		
Management and general	492	236
Total services expenses	5,322	4,814
Change in net assets	(257)	(173)
Net assets, beginning of year	372	545
Net assets, end of year	<u>115</u>	<u>372</u>

All activities relate to changes in unrestricted net assets.

See accompanying notes to the financial statements.

eLife Sciences Publications, Ltd

Statements of Functional Expenses

Year ended December 31, 2017

(In thousands)

	Program services	Supporting services	Total functional expenses
	Journal expenses	Management and general	
Salaries	£ 1,521	89	1,610
Payroll taxes	162	10	172
Employee benefits	89	7	96
Occupancy	150	10	160
Editorial costs	1,613	-	1,613
Professional fees	58	227	285
Marketing expenses	315	-	315
Other expenses	911	148	1,059
Depreciation and amortisation	11	1	12
Total functional expenses	£ <u>4,830</u>	<u>492</u>	<u>5,322</u>

Year ended December 31, 2016

(In thousands)

	Program services	Supporting services	Total functional expenses
	Journal expenses	Management and general	
Salaries	£ 1,386	88	1,474
Payroll taxes	147	10	157
Employee benefits	74	8	82
Occupancy	142	10	152
Editorial costs	1,489	-	1,489
Professional fees	61	214	275
Marketing expenses	271	-	271
Other expenses	968	(97)	871
Depreciation and amortisation	40	3	43
Total functional expenses	£ <u>4,578</u>	<u>236</u>	<u>4,814</u>

See accompanying notes to the financial statements.

eLife Sciences Publications, Ltd

Statements of Cash Flows

Years ended December 31, 2017 and December 31, 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows provided by operating activities:		
Change in net assets	£ (257)	(173)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortisation	12	43
Changes in operating assets and liabilities		
(Increase) in trade and other receivables	(176)	(66)
Increase in trade accounts payable	149	46
(Decrease) / increase in accrued expenses	(244)	308
Increase / (decrease) in contract liabilities	457	(223)
Increase in other liabilities	8	6
Net cash (used in) operating activities	<u>(51)</u>	<u>(59)</u>
Cash flows from investing activities:		
Purchases of fixed assets	<u>(12)</u>	<u>(8)</u>
Net cash (used in) investing activities	<u>(12)</u>	<u>(8)</u>
Net (decrease) in cash and cash equivalents	(63)	(67)
Cash and cash equivalents, beginning of year	<u>1,971</u>	<u>2,038</u>
Cash and cash equivalents, end of year	<u>1,908</u>	<u>1,971</u>

See accompanying notes to the financial statements.

eLife Sciences Publications, Ltd

Notes to Financial Statements

December 31, 2017 and 2016

(Sterling in thousands)

(1) Summary of Significant Accounting Policies

(a) Description of Business

The Company was incorporated on 6 October 2011 as a limited liability non-profit non-stock corporation in the State of Delaware, USA, with company number 5030732. It is registered in the UK with company number FC030576 and branch number BR015634. It is exempt from USA Federal income tax under section 501(c)(3) of the Internal Revenue Code.

The primary purpose of the Company is to operate exclusively for charitable, scientific and educational purposes, including, but not limited to, the operation of an open access journal for scientific research, as well as such other activities as required to support the mission of such journal.

(b) Basis of preparation

The accompanying financial statements have been prepared on the basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

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

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Company or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Company.

As the Company does not consider that any donor-imposed stipulations exceed those already in place due to the Company's bye-laws, all net assets, revenue, gains and losses have been classified as relating to unrestricted net assets.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, the valuation of fixed assets, and other contingencies.

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(Sterling in thousands)

(d) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Recognition of Publication fee income

The Company adopted Topic 606 with effect from 1 January 2017, using the full retrospective method. The Company commenced charging for publishing services during 2017 and as such the implementation of Topic 606 had no effect on the Statement of Activities for 2016 or upon the Balance Sheet at December 31, 2016.

The Company's revenue relates to publication fee revenue that is recorded upon invoicing of services for peer review carried out on a manuscript, for the production process, and for the publication of the manuscript on the Company's website, and is recognised as the manuscript is published.

The Company has a single performance obligation in its publication contracts, which is the publication of the final version of the manuscript on the Company's website. The whole of the contract value is allocated to this single performance obligation.

Publication fees shown in the Statement of Activities is revenue that has been earned in the year on these contracts.

At the year end, trade and other receivables included £120,000 (2016: £nil) of trade receivables relating to these contracts, plus £57,000 (2016: £nil) in respect of amounts the company is entitled to collect from customers but which have not yet been invoiced to customers.

Within contract liabilities is £99,000 (2016: £nil) representing the value of those invoices in trade receivable (or already paid) where the contract performance obligation had not been satisfied at year end.

The company does not have any obligations for warranties, returns or refunds. The Company's normal payment terms are 30 days from the date of the invoice.

(f) Recognition of Grant Income

In accordance with ASC 958-605, the Company records contributions received from funders as increases in unrestricted net assets, and presents these contributions as Contributions in the Statement of Activities.

Where contributions relate to funding promises, the contributions are recognised to the extent that any associated conditions are substantially met.

The Company has received conditional funding promises from its Sponsors. These promises are subject to the contributions being drawn down by the Company to meet expected cash requirements consistent with forecasts approved by the Sponsors. These contributions are recognised as income in

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the period for which the funding has been authorised by the Sponsors. The available contributions as at the balance sheet date are £23m (2016: £27m). The maximum draw down in each year is limited, with a limit of not less than £5m.

Since two of the Sponsors, the Howard Hughes Medical Institute and the Wellcome Trust, are also members of the Company their Contributions in the year of £3,746,000 (2016: £4,641,000) are related party transactions. No amounts from related parties were outstanding at 31 December 2017 (2016: £nil).

(g) *Property, Plant, and Equipment*

Plant, and equipment are stated at cost.

Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of plant and equipment is 3 years. Total depreciation for the year ended December 31, 2017 was £12,000 (2016: £43,000).

(h) *Research and Development and Advertising*

Research and development and advertising costs are expensed as incurred. Research and development costs amounted to £733,000 in 2017 (2016: £738,000). Advertising costs amounted to £15,000 in 2017 (2016: £23,000).

(i) *Functional Allocation of Expenses*

The costs of providing the various programs and supporting services are summarised on a functional basis in the statement of functional expenses. Certain costs are allocated among the programs and supporting services benefited.

(j) *Income Taxes*

The Company is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986. The Company believes that it has taken no significant uncertain tax positions.

(k) *Retirement Plans*

The Company operates a defined contribution pension plan, and also contributes to the defined contribution pension plans of some of its employees. Contributions payable by the Company are expensed as incurred.

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(Sterling in thousands)

(l) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

(m) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(n) Fair Value Measurements

The estimated fair value amounts for specific groups of financial instruments are presented within the footnotes applicable to such items. Accounts receivable, accounts payable and accrued expenses are stated at the transaction price, which approximates fair value, due to their short term to maturity.

(o) Recently Issued Accounting Standards

The company does not consider that any recently issued accounting standards will have a material effect on the financial statements when adopted.

(2) Significant Risks and Uncertainties Including Business and Credit Concentrations

The contributions received by the Company from funders is highly concentrated, and relates to three organisations, which contributed 49%, 49% and 2% of the contributions in 2017 (2016: two organisations 50%, 50%).

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(Sterling in thousands)

(3) Fair Value Measurements and the Fair Value Option

(a) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments.

	2017 (in thousands)		2016 (in thousands)	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	£ 1,908	1,908	1,971	1,971
Trade and other receivables	374	374	198	198
Financial liabilities:				
Trade accounts payable	277	277	128	128
Accrued expenses	790	790	1,034	1,034
Other liabilities	67	67	59	59

The carrying amounts shown in the table are included in the balance sheet under the indicated captions.

The fair values of the financial instruments shown in the above table as of December 31, 2017 and December 31, 2016 represent the amounts that would be received if those assets were sold or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash and cash equivalents, other receivables, trade accounts payable, accrued expenses and other liabilities: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

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(Sterling in thousands)

(4) Deferred taxation

	(in thousands)	<u>2017</u>	<u>2016</u>
Foreign net operating losses carried forward	£	43	-
Valuation allowance		<u>(43)</u>	<u>-</u>
Deferred tax asset		<u>-</u>	<u>-</u>

The valuation allowance at 31 December 2017 is related to net operating losses, that in the judgement of management, are not more-likely-than-not to be realised. In assessing the realisability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment.

(5) Leases

At December 31, 2017 and 2016 the Company had a noncancelable operating lease, for office property, that expires in 2018. There are no contingent rentals under the lease agreement.

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases (except those with lease terms of a month or less that were not renewed) during 2017 and 2016 consisted of the following:

	(in thousands)	<u>2017</u>	<u>2016</u>
Minimum rentals	£	70	72

Future minimum lease payments under noncancelable operating leases as of December 31, 2017 and 2016 are:

	(in thousands)	<u>2017</u>	<u>2016</u>
<i>Years from balance sheet date:</i>			
One year		49	69
Two years		<u>-</u>	<u>49</u>
Total minimum lease payments	£	49	118

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(6) Retirement plans

The Company makes contributions into employees' defined contribution pension plans. All employees are eligible to participate. The Company contributes between 6% and 10% of pay.

Total retirement plan costs for the year ended December 31, 2017 were £95,000 (2016: £81,000).

(7) Commitments and Contingencies

The Company is not engaged in any legal proceedings.

(8) Subsequent events

The Company has evaluated subsequent events from the balance sheet date through 17 August 2018, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.