eLife Sciences Publications, Ltd

Financial Statements

December 31, 2018 and 2017

(With Independent Auditor’s Report Thereon)

eLife Sciences Publications, Ltd

Financial Statements

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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, 2018 and 2017, 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 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. 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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton UKLLP

Grant Thornton UK LLP
London, United Kingdom
24 June 2019

eLife Sciences Publications, Ltd

Balance Sheet

December 31

	2018 £000	2017 £000
Assets		
Current assets:		
Cash and cash equivalents	1,860	1,908
Trade receivables	131	120
Other receivables and prepayments	408	254
Total current assets	2,399	2,282
Property, plant, and equipment:		
Machinery and equipment	161	111
Leasehold improvements	191	87
	352	198
Less accumulated depreciation and amortisation	(117)	(181)
Net Property, plant and equipment	235	17
Total assets	2,634	2,299
Liabilities and Net Assets		
Current liabilities:		
Trade accounts payable	192	277
Accrued expenses	815	790
Contract liabilities	124	99
Deferred grant income	841	951
Corporation tax	18	-
Deferred tax provision	17	-
Other liabilities	83	67
Total current liabilities	2,090	2,184
Net assets:		
Net assets without donor restrictions	544	115
Total net assets	544	115
Total liabilities and net assets	2,634	2,299

See accompanying notes to the financial statements.

(Continued)

eLife Sciences Publications, Ltd

Statements of Activities

Years ended December 31

	2018 **£000**	**2017** **£000**
Revenue		
Publication fees	2,155	1,233
Contributions	4,290	3,832
Total revenue	6,445	5,065
Expenses		
Program services:		
Journal expenses	5,564	4,830
Supporting services:		
Management and general	417	492
Total services expenses	5,981	5,322
Profit/(loss) before tax	464	(257)
Income tax expense	(35)	-
Change in net assets	429	(257)
Net assets, beginning of year	115	372
Net assets, end of year	544	115

See accompanying notes to the financial statements.

eLife Sciences Publications, Ltd

Statements of Functional Expenses

Year ended December 31, 2018

	Program services	**Supporting services**	**Total functional expenses**
	Journal expenses	**Management and general**	
	£000	**£000**	**£000**
Salaries	1,710	112	1,822
Payroll taxes	187	13	200
Employee benefits	100	9	109
Occupancy	264	19	283
Editorial costs	1,760	-	1,760
Professional fees	17	291	308
Marketing expenses	347	-	347
Development costs	984	-	984
Other expenses	174	(28)	146
Depreciation and amortisation	21	1	22
Total functional expenses	5,564	417	5,981

Year ended December 31, 2017

	Program services	**Supporting services**	**Total functional expenses**
	Journal expenses	**Management and general**	
	£000	**£000**	**£000**
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
Development costs	733	-	733
Other expenses	178	148	326
Depreciation and amortisation	11	1	12
Total functional expenses	4,830	492	5,322

See accompanying notes to the financial statements.

eLife Sciences Publications, Ltd

Statements of Cash Flows

Years ended December 31

	2018 £000	2017 £000
Cash flows provided by operating activities:		
Change in net assets	429	(257)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortisation	22	12
Changes in operating assets and liabilities		
(Increase) in trade receivables	(11)	(120)
(Increase) in other receivables and prepayments	(154)	(56)
(Decrease) / increase in trade accounts payable	(85)	149
Increase / (decrease) in accrued expenses	25	(244)
Increase in contract liabilities	25	99
(Decrease) / increase in deferred grant income	(110)	358
Increase in tax liabilities	35	-
Increase in other liabilities	16	8
Net cash (used in) operating activities	192	(51)
Cash flows from investing activities:		
Purchases of fixed assets	(240)	(12)
Net cash (used in) investing activities	(240)	(12)
Net (decrease) in cash and cash equivalents	(48)	(63)
Cash and cash equivalents, beginning of year	1,908	1,971
Cash and cash equivalents, end of year	1,860	1,908

See accompanying notes to the financial statements.

(Continued)

1 Summary of Significant Accounting Policies

(a) Description of Business

eLife Sciences Publications, Ltd (the "Company") was incorporated on 6 October 2011 as a limited liability non-profit non-stock corporation in the State of Delaware, USA. 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 accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US 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:

Net assets without donor restrictions – Net assets that are not subject to any donor-imposed stipulations.

Net assets with donor restrictions – 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.

As the Company does not consider that any donor-imposed stipulations exceed those already in place due to the Company's Bylaws, all net assets, revenue, gains and losses have been classified as relating to net assets without donor restrictions.

(c) Foreign currency

The Company accounts for its operations using the Great Britain Pound ("GBP") as the functional currency, as the primary economic environment in which the company operates is Great Britain. Transactions in United States dollars ("USD") are recognized at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary assets and liabilities denominated in USD are remeasured at the rates prevailing at that date. Foreign currency differences arising on remeasurement of monetary items are recognized in earnings. During 2018, the Company recorded net foreign exchange rate gains of £116,577.

(d) Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 and the valuation of fixed assets.

(e) 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.

(f) Trade and Other Receivables

The Company's trade receivables arise from publication fees to customers and are generally due within 30 days. The Company assesses the status of receivables based on the number of days past due. Management establishes an allowance for doubtful accounts, which is based on a periodic review of the collectability of the receivables in light of historical experience, the nature and volume of the receivables, and other subjective factors. When management determines that a receivable is uncollectible, it is written off against the allowance for doubtful accounts, and payments subsequently received on such receivables are credited to bad debt expense. The Company wrote off no receivables during 2018 and 2017. Management has determined no allowance is required as of December 31, 2018 and 2017.

(g) Recognition of Publication fee income

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 £131,000 (2017: £120,000) of trade receivables relating to these contracts, plus £61,000 (2017: £57,000) 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 £124,000 (2017: £99,000) 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.

(h) Recognition of Grant Income

In accordance with ASC 958-605, the Company records contributions received from funders as increases in net assets without donor restrictions, 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 the period for which the funding has been authorised by the Sponsors. The available unauthorised contributions as at the balance sheet date are £20m (2017: £23m). 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 £3,775,000 (2017: £3,746,000) are related party transactions. No amounts from related parties were outstanding at 31 December 2018 (2017: £nil).

(i) Property, Plant, and Equipment

Plant, and equipment are stated at cost.

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method using an estimated useful life of three years and five years for machinery and equipment. Costs related to leasehold improvements are capitalised on properties held under operating leases and depreciated over the lesser of their estimated useful lives or the applicable lease term. Maintenance and repair costs are expensed when incurred and expenditures for major renewals and betterments that extend the useful lives of existing assets are capitalised and depreciated over their respective useful lives. When property, plant or equipment is retired or disposed of, the related cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in the statements of activities.

Total depreciation for the year ended December 31, 2018 was £22,000 (2017: £12,000).

(j) Research and Development and Advertising

Research and development and advertising costs are expensed as incurred. Research and development costs amounted to £984,000 in 2018 (2017: £733,000). Advertising costs amounted to £27,000 in 2018 (2017: £15,000).

(k) Functional Allocation of Expenses

The costs of providing various program and supporting activities have been summarised on a function basis in the Statements of Functional Expenses. Expenses directly attributable to a specific functional area of the Company are reported as expenses of those functional areas while indirect cost that benefit multiple functional areas have been allocated amount the various functional areas based on the full time employee equivalent method of allocation.

(l) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. An allowance against deferred tax assets is recorded in whole or in part when it is more likely than not that such tax benefits will not be realized. The Company records interest and penalties to income tax expense in statement of operations.

The Company adopted certain provisions of FASB Accounting Standards Codification ("ASC") Topic 740, "Income Taxes", for the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Company's financial statements. All tax positions for which the statute of limitations remains open are subject to evaluation. Only tax positions that meet the more-likely-than-not recognition threshold at the evaluation date will be recognized or continue to be recognized.

Developing the provision for income taxes, including the effective tax rate, and analysis of potential tax exposure items, if any, requires significant judgment and expertise in federal and state income tax laws, regulations and strategies, including the determination of deferred tax assets and liabilities and any estimated valuation allowances management deems necessary to value deferred tax assets. The judgments and tax strategies are subject to audit by various taxing authorities. While management believes they have provided adequately for the income taxes in the consolidated financial statements, adverse determinations by these taxing authorities could have a material adverse effect on the consolidated financial position, results of operations or cash flows.

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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Recently Issued Accounting Standards

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for Profit Entities" (Topic 958). The ASU amends the current reporting model for nonprofit organisations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The Company has adopted this ASU, and has changed its presentation of its net assets classes and expanded the footnote disclosures as required by the ASU.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of the activities. The new standard is effective for the

Company for the year ending December 31, 2020. A modified retrospective approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the effect the provisions of ASU 2016-02 will have on the financial statements.

2 Significant Risks and Uncertainties Including Business and Credit Concentrations

The contributions received by the Company from funders is highly concentrated, and relates to four organisations, which contributed 44%, 44%, 10% and 2% of the contributions in 2018 (2017: three organisations 49%, 49% and 2%).

3 Fair Value Measurements and the Fair Value Option

The carrying amount of the Company's financial instruments, consisting of cash, trade receivable, accounts payable, and accrued liabilities are reasonable estimates of their fair values based on their short-term nature.

4 Income Taxes

Reconciliation of income tax expense:

	2018 £000	2017 £000
Profit before tax	464	-
Tax on profit before tax at standard corporation tax rate of 19%	88	-
Effects of:		
Fixed asset differences	1	-
Expenses not deductible for tax purposes	12	-
Adjust closing deferred tax to average rate of 19%	(2)	-
Adjust opening deferred tax to average rate of 19%	(7)	-
Deferred tax not recognised	(57)	-
Total income tax expense	35	-

Analysis of income tax expense for the period:

	2018 £000	2017 £000
Current tax		
UK corporation tax at 19%	18	-
Deferred tax		
Origination and reversal of temporary differences	17	-
Total income tax expense	35	-

The components of deferred tax assets and liabilities:

	2018 £000	2017 £000
Fixed asset temporary differences	18	-
Short term temporary differences	(1)	-
Net deferred tax liability	17	-

Movement in provision:

	2018 £000	2017 £000
Provision at start of period	-	-
Deferred tax charged in income tax expense for the period	17	-
Provision at end of period	17	-

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company states those balances at the enacted tax rates expected to be in effect when the taxes are paid or recovered.

5 Leases

At December 31, 2018 and 2017 the Company had a noncancelable operating lease, for office property, that expires in 2028, but with a break clause in 2023. The Company also had a noncancelable operating lease, for office property, that expired in 2018. There are no contingent rentals under the lease agreement.

Minimum rent expense under operating leases is 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 2018 and 2017 consisted of the following:

	2018 £000	2017 £000
Minimum rentals	117	70

Future minimum lease payments under noncancelable operating leases as of December 31, 2018 and 2017 are:

	2018 £000	2017 £000
Years from balance sheet date:		
2019	131	49
2020	131	-
2021	131	-
2022	131	-
2023	72	-
Total minimum lease payments	596	49

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, 2018 were £108,000 (2017: £95,000).

7 Commitments and Contingencies

From time to time, the Company is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or the financial position of the Company.

8 Subsequent events

The Company has evaluated subsequent events from the balance sheet date through 24 June 2019, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.