

Research Institute For Fragrance Materials, Inc.

Financial Statements

December 31, 2024 and 2023

Independent Auditors' Report

**Board of Directors
Research Institute For Fragrance Materials, Inc.**

Opinion

We have audited the accompanying financial statements of the Research Institute For Fragrance Materials, Inc. which comprise the statements of financial position as of December 31, 2024 and 2023 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 financial statements referred to above present fairly, in all material respects, the financial position of the Research Institute For Fragrance Materials, Inc. as of December 31, 2024 and 2023, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Research Institute For Fragrance Materials, Inc. 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.

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 the Research Institute For Fragrance Materials, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 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 generally accepted auditing standards, 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 the Research Institute For Fragrance Materials, Inc.'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 the Research Institute For Fragrance Materials, Inc.'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.

April 8, 2025

Research Institute For Fragrance Materials, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

1. Organization and Tax Status

Research Institute For Fragrance Materials, Inc. (the "Institute") is a non-profit organization established to ensure the safety of raw materials used in perfumery in an independent, scientific and unbiased manner without respect to individual company interests. The Institute is exempt from income tax under the provisions of Section 501(c)6 of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Institute's net assets are classified as with or without donor restrictions. At December 31, 2024 and 2023, all the Institute's net assets are without donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Institute considers all money market funds and highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recorded at amortized cost less an allowance for credit losses that are not expected to be recovered. The amount of accounts receivable and corresponding allowance for credit losses are presented on the statements of financial position. The Institute maintains allowances for credit losses resulting from the expected failure or inability of its customers to make required payments. The Institute recognizes the allowance for credit losses at inception and reassesses at every reporting date based on the asset's expected collectability.

The allowance is based on multiple factors including historical experience with bad debts, the credit quality of the customer base, the aging of such receivables and current macroeconomic conditions, as well as expectations of conditions in the future, if applicable. The Institute's allowance for credit losses is based on the assessment of the collectability of assets pooled together with similar risk characteristics.

2. Summary of Significant Accounting Policies (continued)

Research Institute For Fragrance Materials, Inc.

Notes to Financial Statements
December 31, 2024 and 2023

Accounts Receivable and Allowance for Credit Losses (continued)

The Institute records a provision for expected credit losses using a historical loss-rate method based on the ratio of its historical write-offs to its average trade accounts receivable. At each reporting period, the Institute assesses whether financial assets in a pool continue to display similar risk characteristics. If particular receivables no longer display risk characteristics that are similar to those of the receivables in the pool, the Institute may determine that it needs to move those receivables to a different pool or perform an individual assessment of expected credit losses for those specific receivables. Management has determined no allowance was necessary at December 31, 2024 and 2023.

Fair Value of Financial Instruments

The Institute follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation and Income Recognition

Investments are carried at their fair value. Interest income is recorded when earned. Dividend income is recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets.

Property and Equipment

The Institute follows the practice of capitalizing all expenditures for property and equipment with a cost in excess of \$5,000. Property and equipment are carried at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 12 years.

Leases

The Institute determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use ("ROU") assets and lease liabilities in the statements of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Institute does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. The Institute's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Research Institute For Fragrance Materials, Inc.

Notes to Financial Statements December 31, 2024 and 2023

The Institute's revenue is derived primarily from membership dues, special assessment dues and database income subscriptions. Membership and special assessment dues revenue for each member depends on a variety of factors including annual worldwide sales or purchases. Databased income subscription revenue for each member varies based on total users. Upon first joining the Institute, membership dues, special assessment dues and database income subscriptions are prorated for the remainder of the calendar year. Membership dues, special assessment dues and database income subscriptions then convert to a calendar year basis. Payments received during the calendar year that are applicable to the subsequent year are reflected as deferred revenue in the accompanying statements of financial position.

The beginning and ending membership dues contract balances were as follows:

	December 31,		
	2024	2023	2022
Contract assets	\$ 360,494	\$ 1,138,827	\$307,658
Contract liabilities	-	23,400	133,810

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management. The Institute allocated direct costs to four program services including science, testing, expert panel and database. Program services are outsourced by the Institute, therefore occupancy, insurance, equipment and maintenance and depreciation expenses are allocated to management and general. Allocated expenses among program services and management and general include salaries and benefits, professional fees, supplies and equipment and travel and meeting expenses, which are allocated based on time and costs where efforts are made.

Accounting for Uncertainty in Income Taxes

The Institute recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the Institute had no uncertain tax positions that would require financial statement recognition or disclosure. The Institute is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to 2021.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is April 8, 2025.

3. Concentration of Credit Risk

The Institute's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents, investments and receivables. Deposits

Research Institute For Fragrance Materials, Inc.

Notes to Financial Statements December 31, 2024 and 2023

held at financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") are insured up to \$250,000. Investment holdings at financial institutions insured by the Securities Investor Protection Corporation ("SIPC") are insured up to \$500,000 (\$250,000 for cash holdings). At times cash balances may exceed the FDIC limit. As of December 31, 2024 and 2023, the Institute's uninsured cash and cash equivalents balances on deposit totaled approximately \$2,891,000 and \$3,363,000. As of December 31, 2024 and 2023, the Institute's uninsured investment holdings totaled approximately \$6,309,000 and \$5,744,000.

The investment portfolio is diversified by type of investments and industry concentrations so that no individual investment, investment advisor, investment manager or group of investments represents a significant concentration of credit risk. The Institute's receivables consist principally of membership dues and specific testing costs that are being shared by various members.

4. Investments

The following are major categories of investments at fair value and cost as of December 31:

	2024			
	Fair Value			Cost
	Level 1	Level 2	Total	Total
Common Equities				
Consumer	\$ 847,985	\$ -	\$ 847,985	\$ 152,462
Industrial	659,105	-	659,105	155,927
Information technology	938,889	-	938,889	175,772
Energy	171,689	-	171,689	101,850
Financials	1,277,411	-	1,277,411	265,241
Communication services	548,320	-	548,320	122,918
Health care	179,122	-	179,122	111,196
Materials	241,962	-	241,962	45,483
Real estate	94,289	-	94,289	38,597
Government Securities				
State and local government	-	1,804,724	1,804,724	1,879,384
Corporate bonds	-	45,610	45,610	49,180
	<u>\$ 4,958,772</u>	<u>\$ 1,850,334</u>	<u>\$ 6,809,106</u>	<u>\$ 3,098,010</u>

4. Investments (continued)

Research Institute For Fragrance Materials, Inc.

Notes to Financial Statements December 31, 2024 and 2023

	2023			
	Fair Value			Cost
	Level 1	Level 2	Total	Total
Common Equities				
Consumer	\$ 739,178	\$ -	\$ 739,178	\$ 157,502
Industrial	654,805	-	654,805	163,372
Information technology	807,879	-	807,879	192,365
Energy	208,052	-	208,052	101,849
Financials	992,897	-	992,897	288,692
Communication services	420,580	-	420,580	122,918
Health care	193,895	-	193,895	108,864
Materials	256,758	-	256,758	50,865
Real estate	80,539	-	80,539	38,597
Government Securities				
State and local government	-	1,844,987	1,844,987	1,918,538
Corporate bonds	-	44,620	44,620	49,180
	<u>\$ 4,354,583</u>	<u>\$ 1,889,607</u>	<u>\$ 6,244,190</u>	<u>\$ 3,192,742</u>

5. Property and Equipment

Property and equipment consists of the following as of December 31:

	2024	2023
Leasehold improvements	\$ 72,254	\$ 72,254
Property and equipment	791,751	749,629
Website development	<u>172,390</u>	<u>172,390</u>
	1,036,395	994,273
Less accumulated depreciation	<u>820,608</u>	<u>750,834</u>
Property and Equipment, net	<u>\$ 215,787</u>	<u>\$ 243,439</u>

6. Lease Commitment

The ROU assets represent the Institute's right to use underlying assets for the lease term, and the lease liabilities represent the Institute's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from operating leases, were calculated based on the present value of future lease payments over the lease terms. The Institute has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments.

6. Lease Commitment (*continued*)

On March 31, 2023, the Institute entered into a new five year and four month lease

Research Institute For Fragrance Materials, Inc.

Notes to Financial Statements December 31, 2024 and 2023

agreement with a commencement date of May 1, 2023 for office space expiring August 31, 2028. As of May 1, 2023, the Institute recognized a lease liability of \$674,018, that represents the present value of the remaining operating lease payments of \$759,575, discounted using the Institutes risk-free interest rate using a treasury rate of 4.29% and a ROU asset of \$674,018.

As of December 31, 2024 and 2023, the weighted-average remaining lease term for the operating lease was 44 months and 56 months and the weighted average discount rate was 4.29%. ROU asset as of December 31, 2024 and 2023 was \$480,512 and \$598,157 and amortization of ROU asset during 2024 and 2023 was \$117,645 and \$157,190. Cash paid for operating leases for the years ended December 31, 2024 and 2023 was \$146,411 and \$134,649.

Future maturities of lease liabilities are presented in the following table, for the fiscal year ending December 31:

2025	\$ 149,713
2026	153,016
2027	156,318
2028	105,680
Less present value discount	<u>(41,696)</u>
	<u>\$ 523,031</u>

Rent expense for the years ended December 31, 2024 and 2023 was \$142,420 and \$180,762.

7. Liquidity and Availability of Financial Assets

The Institute's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position were as follows as of December 31:

	<u>2024</u>	<u>2023</u>
Financial assets:		
Cash and cash equivalents	\$4,166,302	\$4,863,082
Dues receivable	273,500	999,532
Database receivables	86,994	139,295
Investments	<u>6,809,106</u>	<u>6,244,190</u>
Total financial assets	11,335,902	12,246,099
Less: Contractual or donor imposed restrictions amounts		
Board designated reserve fund	<u>7,547,096</u>	<u>6,022,842</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$3,788,806</u>	<u>\$6,223,257</u>

7. Liquidity and Availability of Financial Assets (continued)

As part of the Institute's liquidity management strategy, the Institute structures its financial

Research Institute For Fragrance Materials, Inc.

Notes to Financial Statements December 31, 2024 and 2023

assets to be available as its general expenditures, liabilities and other obligations come due. The Institute's working capital and cash flows have cyclical variations during the year attributable to the cash receipts of membership dues. The Institute will send dues invoices no later than January 15th for each Institute member. At the option of each member, annual dues may be paid in full or on a biannual (twice-yearly) basis. Dues receivable are subject to implied time restrictions, but are expected to be collected within one year.

Additionally, the Institute has a board designated reserve fund. This was established by the governing board with the objective of setting funds aside to provide long-term support for the programs of the Institute. Although the Institute does not intend to spend from its board designated reserve fund other than amounts appropriated for expenditure as part of its annual budget approval process, these amounts could be made available if necessary.

8. Retirement Plan

The Institute sponsors a 401(k) plan where participants have the option to contribute a percentage of their salary, subject to specific statutory limitations. The Institute adopted a safe harbor plan where it is required to make a minimum discretionary contribution of 3% regardless of participants' level of contribution to the 401(k) plan. In addition, the Institute will match 50% of the first 6% of employee contributions. Expense for the plan totaled \$254,573 and \$240,788 in 2024 and 2023.

9. Board Designated Reserve Fund

The Institute currently maintains a board designated reserve fund whose purpose is to provide long term support for the programs of the Institute. In addition, the Board requires a minimum amount to be designated in this reserve fund to be sufficient to maintain the Institute's ongoing operations and programs for a set period of time, and if necessary, to wind down the Institute's operations and meet all outstanding obligations. For 2024 and 2023, this amount was set to 50% of the Institute's annual operating expenses. These funds are to be used at the Board's discretion and are included with cash and cash equivalents and investments on the accompanying statements of financial position as of December 31, 2024 and 2023.

Changes in board designated net assets for the years ended December 31, are as follows:

	2024	2023
Board designated reserve fund, beginning of year	\$ 6,022,842	\$ 5,375,075
Additions	492,428	-
Interest and dividends	287,411	259,311
Realized gains	144,151	84,507
Unrealized gain	655,488	818,405
Appropriations	-	(465,638)
Investment management fees	(55,224)	(48,818)
Board designated reserve fund, end of year	<u>\$ 7,547,096</u>	<u>\$ 6,022,842</u>

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