

Entrepreneurs' Organization and Subsidiary

**Consolidated Financial Statements
and Independent Auditor's Report**

June 30, 2016 and 2015

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Entrepreneurs' Organization and Subsidiary

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Independent Auditor's Report

To the Board of Directors
Entrepreneurs' Organization and Subsidiary
Alexandria, Virginia

We have audited the accompanying consolidated financial statements of Entrepreneurs' Organization and Subsidiary ("EO"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entrepreneurs' Organization and Subsidiary as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Entrepreneurs' Organization 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2016. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CohnReznick LLP

Bethesda, Maryland
February 22, 2017

Entrepreneurs' Organization and Subsidiary
Consolidated Statements of Financial Position
June 30, 2016 (with Comparative Totals for June 30, 2015)

Assets

	June 30,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 28,238,479	\$ 27,192,182
Certificates of deposit	1,604,500	1,604,500
Accounts and contributions receivable, net	733,702	729,926
Prepaid expenses - see notes 4 and 12	1,571,356	650,883
Property and equipment, net of accumulated depreciation of \$879,631 and \$1,383,957 for 2016 and 2015, respectively	793,085	780,917
Security deposits	51,200	51,200
Investments	600	600
	\$ 32,992,922	\$ 31,010,208

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 4,439,162	\$ 4,399,064
Accrued expenses	1,616,937	1,186,889
Deferred revenue	20,320,463	20,017,439
Deferred lease incentives	343,997	442,282
	26,720,559	26,045,674
Net assets		
Unrestricted		
Board designated	351,469	351,469
Undesignated	5,539,321	4,531,507
	5,890,790	4,882,976
Temporarily restricted	343,573	43,558
Permanently restricted	38,000	38,000
	6,272,363	4,964,534
	\$ 32,992,922	\$ 31,010,208
Total liabilities and net assets		

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Consolidated Statements of Activities and Change in Net Assets Year Ended June 30, 2016 (With Summarized Comparative Totals for Year Ended June 30, 2015)

	2016				2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Revenue					
Membership dues	\$ 22,808,212	\$ -	\$ -	\$ 22,808,212	\$ 19,537,874
Contributions	100,000	-	-	100,000	80,000
Conferences and forums	8,255,249	400,000	-	8,655,249	9,416,427
Royalties	120,285	-	-	120,285	143,788
Interest	47,336	15	-	47,351	20,873
Other - see note 7	137,478	-	-	137,478	9,482
Net assets released from restriction	100,000	(100,000)	-	-	-
Total revenue	31,568,560	300,015	-	31,868,575	29,208,444
Expenses					
Program services					
Chapter development	8,262,642	-	-	8,262,642	7,003,387
Communications	2,394,095	-	-	2,394,095	2,028,967
Learning and leadership	3,408,443	-	-	3,408,443	2,827,093
Conferences and forums	6,733,141	-	-	6,733,141	9,135,974
Information systems development	1,391,762	-	-	1,391,762	1,264,733
Executive education	1,615,457	-	-	1,615,457	1,233,740
Global leadership conference	2,061,767	-	-	2,061,767	1,833,574
Supporting services					
Management and general	4,693,439	-	-	4,693,439	3,293,770
Total expenses	30,560,746	-	-	30,560,746	28,621,238
Change in net assets	1,007,814	300,015	-	1,307,829	587,206
Net assets					
Beginning of year	4,882,976	43,558	38,000	4,964,534	4,377,328
End of year	\$ 5,890,790	\$ 343,573	\$ 38,000	\$ 6,272,363	\$ 4,964,534

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Consolidated Statement of Functional Expenses Year Ended June 30, 2016 (With Summarized Comparative Totals for Year Ended June 30, 2015)

	Program Services							Management and General	2016 Total	Summarized 2015 Total	
	Chapter Development	Communications	Learning and Leadership	Conferences and Forums	Information Systems Development	Executive Education	Global Leadership Conference				Total
Accelerator program	\$ -	\$ -	\$ 839,485	\$ 277,417	\$ -	\$ -	\$ -	\$ 1,116,902	\$ -	\$ 1,116,902	\$ 881,794
Catering	-	-	43,000	1,880,188	-	804,223	1,062,923	3,790,334	-	3,790,334	5,222,691
Chapter and regional growth and support	2,811,458	22,084	156,725	258,940	-	-	10,000	3,259,207	74,000	3,333,207	1,161,701
Computer systems	-	-	-	5,063	228,041	-	-	233,104	14,597	247,701	217,761
Credit card and bank charges	-	-	-	70,400	-	54,100	-	124,500	609,407	733,907	653,085
Depreciation	97,272	40,792	37,654	56,481	21,965	6,276	18,827	279,267	34,514	313,781	556,678
Digital media	-	135,539	95,421	-	-	-	-	230,960	-	230,960	194,256
Event voucher	407,000	-	-	-	-	-	-	407,000	-	407,000	178,000
Facilitator training fees	-	-	-	1,083,070	-	220,000	-	1,303,070	-	1,303,070	1,297,300
Facilitator travel expenses	-	-	-	542,057	-	30,567	60,000	632,624	-	632,624	657,241
Gifts and awards	371,629	8,197	-	62,592	-	8,983	11,410	462,811	9,877	472,688	433,267
Governance	-	-	-	-	-	-	-	-	1,236,028	1,236,028	1,262,333
GSEA	618,475	-	-	-	-	-	-	618,475	-	618,475	642,345
Healthnet and EOconnect	-	-	-	-	-	-	-	-	279,127	279,127	295,688
Legal fees	-	-	-	-	-	-	-	-	312,337	312,337	386,562
Meetings	475,669	98,343	327,449	115,555	54,825	-	-	1,071,841	-	1,071,841	1,115,232
Mentor program	-	-	158,370	-	-	-	-	158,370	-	158,370	86,335
Operating supplies	31,606	15,735	19,788	76,066	7,137	5,539	40,720	196,591	11,215	207,806	291,050
Optional activities	-	-	12,063	92,765	-	-	29,704	134,532	-	134,532	159,000
Professional services	26,132	177,241	37,574	56,736	401,274	62,803	89,104	850,864	291,695	1,142,559	920,999
Personalizations	-	-	528,931	-	-	-	-	528,931	-	528,931	533,359
Postage and mailing	21,000	139,991	-	-	-	-	-	160,991	68,732	229,723	147,767
Printing and design	-	143,551	-	-	-	-	-	143,551	-	143,551	87,216
PR/Ads/Marketing	-	510,028	-	-	-	-	-	510,028	-	510,028	570,887
Rent	116,766	48,967	45,200	67,800	26,367	7,533	22,600	335,233	41,433	376,666	369,387
Repairs and maintenance	10,836	4,544	4,195	6,292	96,045	699	2,097	124,708	3,848	128,556	120,687
Speaker fees/travel	-	-	-	478,790	-	246,150	67,261	792,201	80,412	872,613	1,028,290
Staffing	2,447,224	1,026,255	1,021,456	1,420,969	555,099	157,885	473,656	7,102,544	868,370	7,970,914	7,399,117
Taxes	4,468	1,874	1,730	2,594	1,009	288	865	12,828	1,585	14,413	7,601
Telephone and fax	84,197	-	-	-	-	-	-	84,197	48,294	132,491	103,120
Travel and transportation	738,910	20,954	79,402	179,366	-	10,411	172,600	1,201,643	707,968	1,909,611	1,640,489
Total expenses	\$ 8,262,642	\$ 2,394,095	\$ 3,408,443	\$ 6,733,141	\$ 1,391,762	\$ 1,615,457	\$ 2,061,767	\$ 25,867,307	\$ 4,693,439	\$ 30,560,746	\$ 28,621,238

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary
Consolidated Statements of Cash Flows
Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Year Ended June 30,	
	2016	2015
Cash flows from operating activities		
Membership dues received	\$ 24,014,877	\$ 21,321,526
Contributions and grant payments received	100,000	80,000
Conferences and forums revenue received	7,747,832	9,382,234
Royalties received	120,285	143,788
Interest received	47,351	20,873
Other income received	137,478	9,482
Payments to vendors, suppliers and employees	<u>(30,795,577)</u>	<u>(33,108,015)</u>
Net cash provided by (used in) operating activities	<u>1,372,246</u>	<u>(2,150,112)</u>
Cash flows from investing activities		
Purchase of certificates of deposit	(1,104,500)	(1,104,500)
Proceeds from maturity of certificates of deposit	1,104,500	1,104,500
Purchase of property and equipment	<u>(325,949)</u>	<u>(195,813)</u>
Net cash used in investing activities	<u>(325,949)</u>	<u>(195,813)</u>
Net increase (decrease) in cash and cash equivalents	1,046,297	(2,345,925)
Cash and cash equivalents		
Beginning of year	<u>27,192,182</u>	<u>29,538,107</u>
End of year	<u>\$ 28,238,479</u>	<u>\$ 27,192,182</u>
Reconciliation of change in net assets to net		
Cash provided by (used in) operating activities	\$ 1,307,829	\$ 587,206
Change in net assets		
Adjustments		
Depreciation	313,781	556,678
Realized gain on investments	-	(529)
(Increase) Decrease in assets		
Accounts receivable	(3,776)	(413,811)
Prepaid expenses	(920,473)	13,188
Increase (decrease) in liabilities		
Accounts payable	40,098	(5,330,012)
Accrued expenses	430,048	371,654
Deferred revenue	303,024	2,163,799
Deferred lease incentives	<u>(98,285)</u>	<u>(98,285)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,372,246</u>	<u>\$ (2,150,112)</u>

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016

Note 1 - Organizations

Entrepreneurs' Organization - for entrepreneurs only - is a membership organization founded in 1987 and designed to help business owners from around the world on their path to greater business and personal fulfillment. EO is a global community enriching members' lives through dynamic peer-to-peer learning and once-in-a-lifetime experiences. EO is the catalyst that enables entrepreneurs to learn from each other, leading to greater business success and an enriched personal life. Through its core values - Boldly Go, Thirst for Learning, Make a Mark, Trust and Respect and Cool - EO is working to build the world's most influential community of entrepreneurs. By engaging leading entrepreneurs to learn and grow, EO is fueling the entrepreneurial engine.

With members in more than 160 chapters, spanning 50 countries, EO's rapidly expanding membership includes entrepreneurs from every size and type of business. EO membership continues to increase on an annual basis and is now over 12,000 members. Membership in EO is by invitation only and is subject to approval by both Global Support Services and the sponsoring local chapter. Prospective EO members must be a founder, co-founder, owner or controlling shareholder of a business with gross annual revenue exceeding US \$1 million.

Entrepreneurs Organization Europe Limited ("EO UK") is a not-for-profit entity formed by EO to organize, promote and hold previously contemplated events that as a primary focus deliver high standards of entrepreneurial education and/ or that promote personal growth and networking amongst attendees. EO UK was incorporated in United Kingdom in March 2016 and EO is the sole Global Member of the organization. As a global member, EO has an economic interest in the UK Entity as well as control of the board of directors and therefore, EO UK is consolidated with EO.

Note 2 - Summary of significant accounting policies

Basis of accounting

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligation is incurred.

Principles of consolidation

The consolidated financial statements include the accounts of EO and EO UK (collectively referred to as the "EO"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Prior year information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional reporting area for the year ended June 30, 2015. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with EO's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts

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Notes to Consolidated Financial Statements

June 30, 2016

of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash in checking accounts and amounts invested in accounts subject to immediate withdrawal, such as money market funds, are considered to be cash equivalents.

Certificates of deposit

EO's certificates of deposit are measured at fair value. Fair values for the certificates of deposit are determined by reference to market interest rates and other relevant information generated by market transactions. These inputs used to determine fair values are considered Level 2 inputs under generally accepted accounting principles (significant observable inputs other than quoted prices in active markets for identical assets).

Accounts and contributions receivable, net

Entrepreneurs' Organization records accounts receivable net of an allowance for uncollectible accounts when necessary. Accounts receivable are comprised primarily of conferences and forums receivables. The allowance is determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for uncollectible accounts once management determines an account, or a portion thereof, to be worthless. The allowance was \$27,000 at June 30, 2016 and 2015.

Contributions receivable represents unconditional promises to give cash to EO. The need for an allowance is determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Unconditional promises to give that are expected to be collected in future years are recorded at their net present value, using risk-adjusted interest rates. Amortization of the present value discount on contributions receivable are reflected as contributions income on the consolidated statements of activities and change in net assets. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines a pledge, or a portion thereof, to be uncollectible. Management considers all pledges receivable to be fully collectible. Bad debt expense on pledges receivable for the years ended June 30, 2016 and 2015 was \$0. Payments of \$100,000 are due in each of the years ending June 30, 2017, June 30, 2018 and June 30, 2019.

Property and equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of the donation. Equipment under capital leases is recorded at the fair value of the equipment at the inception of the lease. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation of purchased assets and amortization of leasehold improvements are computed by the straight-line method over the lesser of the estimated useful lives or lease term. Amortization expense on leasehold improvements is included in depreciation expense in the consolidated statements of functional expenses. Certain costs of internally developed software and website development are capitalized and amortized over the estimated useful lives of the software and website. All acquisitions of property and equipment greater than \$2,000 with an expected useful life greater than one year are capitalized.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016

Net asset classification

Entrepreneurs' Organization's net assets are classified into three categories: unrestricted, temporarily restricted and permanently restricted.

All revenue is considered to be available for unrestricted use unless specifically restricted by the donor or by law.

Board Designated: EO's Board of Directors designated unrestricted net assets to be reserved to support future operating needs. As of June 30, 2016 and 2015, there was \$351,469 of board designated monies remaining.

Temporarily restricted net assets: EO reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and change in net assets as net assets released from restrictions.

Permanently restricted net assets represent resources whose use by EO is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled. The income generated by these assets may be unrestricted or restricted according to donor stipulations.

EO has established a Lifetime Trustee Program. Under the terms of this program, a maximum of 10 individuals may donate up to \$15,000 each to EO with the stipulation that the principal amounts donated be held in perpetuity while the income generated from the principal be used for the general purposes of EO. As of June 30, 2016 and 2015, a total of \$38,000 has been contributed to EO under the Lifetime Trustee Program.

Revenue recognition

Membership dues are reported as revenue in the year to which they pertain. Initiation fees are currently \$1,500, of which \$500 is recorded as deferred revenue and applied to revenue when the member attends forum training. If the member does not go through forum training within two years, the \$500 is recorded as revenue. Conference registrations are recognized in the year in which the conference is held.

Unrestricted contributions, including unconditional promises, are reported as revenue when they are received. Unconditional promises are presumed to carry implied time restrictions unless otherwise specifically directed by the donor.

Donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and change in net assets as net assets released from restrictions.

Revenue from grant awards considered to be exchange transactions is recognized as expenses are incurred. Amounts received in excess of revenue recognized are reported as deferred revenue.

In-kind contributions

In-kind contributions are reported at fair value and recognized as revenue in the accounting period when they are received. Contributions of donated services that create or enhance nonfinancial

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Notes to Consolidated Financial Statements June 30, 2016

assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are reported at their fair value in the period received.

Functional expenses

The costs of providing the various programs of EO have been summarized on a functional basis in the consolidated statements of activities and change in net assets and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising costs

EO expenses advertising costs when incurred. Advertising expense was \$188,780 and \$233,328 for the years ended June 30, 2016 and 2015, respectively.

Income tax status

EO is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRS"). Due to its tax exempt status, EO is not subject to income taxes on revenue that is generated related to its exempt purpose. EO is required to file and does file tax returns with the IRS and other taxing authorities. Income from certain activities not directly related to EO's tax-exempt purpose is subject to taxation as unrelated business income. During year ended June 30, 2016 and 2015, EO did not earn any unrelated business income from its activities.

EO believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. EO recognizes interest and penalties expense related to uncertain tax positions in management and general expenses on the consolidated statements of activities and change in net assets. EO reported no penalties and interest related to uncertain tax positions for the years ended June 30, 2016 and 2015. Income tax returns filed by EO are subject to examination by the IRS for a period of three years, While no income tax returns are currently being examined by the IRS, tax years since 2012 remain open.

Reclassifications

Certain reclassifications have been made to the 2015 amounts to conform to the 2016 presentation.

Subsequent events

EO has evaluated subsequent events for potential recognition or disclosure through February 22, 2017, the date the consolidated financial statements were available to be issued.

Note 3 - Concentration of credit risk

EO maintains its cash in bank accounts which at times may exceed the federally insured limit of \$250,000 per financial institution. EO had balances on deposit at June 30, 2016 and 2015 that exceeded the federally insured limit by approximately \$31,000,000.

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**Notes to Consolidated Financial Statements
June 30, 2016**

Note 4 - Prepaid expenses

Prepaid expenses consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
EO UK	\$ 990,361	\$ -
Strategy Summit	205,662	163,951
Credit card fees on renewals	177,935	221,937
Global staff week	67,349	26,041
Rent	45,420	41,591
President meeting hotel deposit	36,063	-
Other prepaid expenses	48,566	197,363
	<u>\$ 1,571,356</u>	<u>\$ 650,883</u>

Note 5 - Property and equipment

Property and equipment, at cost, net of accumulated depreciation and amortization at June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Computer Equipment	\$ 240,594	\$ 222,387
Computer Software	509,047	1,092,710
Furniture, Fixtures and Other Equipment	34,937	34,937
Leasehold Improvements	888,138	814,840
	1,672,716	2,164,874
Less: Accumulated Depreciation and Amortization	<u>(879,631)</u>	<u>(1,383,957)</u>
Net Property and Equipment	<u>\$ 793,085</u>	<u>\$ 780,917</u>

Depreciation expense totaled \$313,781 and \$556,678 for the years ended June 30, 2016 and 2015, respectively.

Note 6 - Deferred revenue

EO has deferred revenue related to its programs. The following represents revenue that was deferred as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Dues	\$ 18,448,023	\$ 17,307,208
Initiation Fees	118,000	52,150
Entrepreneurial Masters Program	206,000	207,000
Events	1,548,440	2,451,081
	<u>\$ 20,320,463</u>	<u>\$ 20,017,439</u>

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Notes to Consolidated Financial Statements June 30, 2016

Note 7 - Other revenue

Other revenue consists of the following for the year ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Tag Watch program	\$ 80,287	\$ -
YLA program	19,903	-
Marketplace	14,000	3,500
Miscellaneous revenue	23,288	5,982
	<u>\$ 137,478</u>	<u>\$ 9,482</u>

Note 8 - Temporarily restricted net assets

EO has established an endowment fund to financially support EO to fund special organizational projects. In addition, EO has unexpended amounts restricted to support future programmatic activities to be determined. Temporarily restricted net assets as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Endowment Fund	\$ 39,377	\$ 39,377
Unexpended Contributions:		
Global Student Entrepreneur Awards	300,000	-
Unexpended Endowment Interest	4,196	4,181
	<u>\$ 343,573</u>	<u>\$ 43,558</u>

Note 9 - Endowment fund

During the year ended June 30, 2000, the Board of Directors of EO established a separate fund within EO called the Endowment Fund. The assets of the Endowment Fund are to be used to financially support EO by funding specific projects in specific program areas such as communications, information systems development, member products, and conferences and forums. All contributions received to date have been reported as increases in temporarily restricted net assets.

The Board of Directors have interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA"), as enacted into law in Virginia during October 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, EO classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of donor-restricted funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by EO in a manner consistent with the standard of prudence prescribed by SPMIFA.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016

In accordance with SPMIFA, EO considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the funds
- (2) The purposes of EO and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of EO
- (7) The investment policies of EO

Return objectives and risk parameters

EO has invested its endowment assets in a manner that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to produce approximately 0.25 percent. Actual returns in a given year may vary from this amount.

Spending policies of the endowments

EO allocates the investment income generated by the endowment each year based on the purpose of the endowment, based on the donor's request. If the donor does not specify a purpose of the income generated from their permanently restricted endowment, the income is used for general support. EO did not use the investment income for general operations during 2016 or 2015.

Note 10 - Leasing activities

EO leases office space under an eight-year lease ending December 31, 2019. Rent is payable monthly beginning at \$35,740, with annual escalations of 2.75 percent as well as adjustment for increases in operating expenses and real estate taxes of the building. EO received a six-month period of rent abatement at the beginning of the lease, and the lessor agreed to cover the cost of tenant improvements in the amount of \$786,280. EO also leases office equipment under various leasing arrangements.

The total future minimum lease payments for the above operating leases that have remaining non-cancelable lease terms in excess of one year are due as follows:

<u>Year Ending June 30,</u>	<u>Office</u>
2017	\$ 484,777
2018	498,144
2019	511,868
2020	<u>259,401</u>
Total	<u>\$ 1,754,190</u>

Note 11 - Retirement plan

EO has established the Entrepreneurs' Organization 401(k) Plan (the "Plan"), which covers all full time employees of EO who are over 21 on the date of hire or turn 21 at the time of employment as defined by the Plan. EO reserves the right to make matching and profit-sharing contributions into

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2016

the Plan at contribution rates to be set annually. During the years ended June 30, 2016 and 2015, EO's contributions to the Plan totaled \$95,351 and \$77,924, respectively.

Note 12 - Related party transactions

During the year ended June 30, 2016, EO expended \$990,361 on behalf of EO UK to pay for the event to be held in London in September 2016. The total amount expended is included in prepaid expenses in the accompanying consolidated statements of financial position at June 30, 2016. The amount to be reimbursed from EO UK of \$990,361 has been eliminated in consolidation.

Note 13 - Commitments

EO has contracted with hotels in various cities for meetings to be held in future years. Cancellation fees would apply if these conferences are not held. However, due to the numerous variables involved, the EO's ultimate liability under these contracts cannot be determined; however, the estimated costs range from \$0 to \$184,000, depending on the nature, timing and number of meeting cancellations. As of June 30, 2016, there are no plans to cancel any future conferences or meetings.

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