

Entrepreneurs' Organization and Subsidiary

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

June 30, 2019 and 2018

Entrepreneurs' Organization and Subsidiary

Index

	<u>Page</u>
Independent Auditor's Report	2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Change in Net Assets	5
Consolidated Statement of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

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 statements of financial position as of June 30, 2019, and the related consolidated statement of activities and change in net assets, functional expenses and cash flows for the year 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, 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2019, EO adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2016-02, *Leases (Topic 842)*, during the year ended June 30, 2019. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited EO's 2018 consolidated financial statements and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

CohnReznick LLP

Bethesda, Maryland
March 9, 2020

Entrepreneurs' Organization and Subsidiary
Consolidated Statements of Financial Position
June 30, 2019 (with Comparative Totals for June 30, 2018)

	<u>Assets</u>	
	June 30,	
	2019	2018
Assets		
Cash and cash equivalents	\$ 23,080,977	\$ 27,271,894
Investments - Note 5	40,618,103	28,803,031
Accounts and contributions receivable, net	288,789	471,131
Prepaid expenses - Note 6	500,598	754,792
Property and equipment, net - Note 7	77,553	242,108
Right of use asset - Note 11	1,511,808	-
Security deposits	88,079	104,077
	\$ 66,165,907	\$ 57,647,033
Total assets		
	<u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable	\$ 7,775,688	\$ 10,576,431
Accrued expenses	3,006,345	1,897,544
Deferred revenue - Note 8	38,150,329	34,501,854
Future lease obligation - Note 11	1,703,904	-
Deferred lease incentives	-	147,427
	50,636,266	47,123,256
Total liabilities		
Net assets		
Without donor restrictions		
Board designated - Note 9	1,808,095	2,292,550
Undesignated - Note 9	13,721,546	8,131,227
	15,529,641	10,423,777
Total without donor restrictions		
With donor restrictions - Note 9	-	100,000
	15,529,641	10,523,777
Total net assets		
Total liabilities and net assets	\$ 66,165,907	\$ 57,647,033

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Consolidated Statements of Activities and Change in Net Assets Year Ended June 30, 2019 (With Summarized Comparative Totals for Year Ended June 30, 2018)

	2019			2018 total
	Without donor restrictions	With donor restrictions	Total	
Revenue				
Membership dues	\$ 37,375,286	\$ -	\$ 37,375,286	\$ 30,659,891
Conferences and forums	9,812,699	-	9,812,699	7,374,432
Other income - Note 10	259,195	-	259,195	444,348
Investment income - Note 5	1,230,085	-	1,230,085	257,812
Net assets released from restrictions	100,000	(100,000)	-	-
Total revenue	<u>48,777,265</u>	<u>(100,000)</u>	<u>48,677,265</u>	<u>38,736,483</u>
Expenses				
Program services				
Conferences and forums	8,856,296	-	8,856,296	7,620,247
Learning and leadership	4,267,107	-	4,267,107	3,706,528
Executive education	3,120,564	-	3,120,564	1,916,672
Global leadership conference	3,800,620	-	3,800,620	3,710,617
Chapter development	12,835,162	-	12,835,162	9,093,277
Communications	3,640,395	-	3,640,395	3,082,416
Information systems development	1,775,151	-	1,775,151	1,655,815
Total program services	<u>38,295,295</u>	<u>-</u>	<u>38,295,295</u>	<u>30,785,572</u>
Supporting services				
Management and general	5,376,106	-	5,376,106	4,660,929
Total expenses	<u>43,671,401</u>	<u>-</u>	<u>43,671,401</u>	<u>35,446,501</u>
Change in net assets	5,105,864	(100,000)	5,005,864	3,289,982
Net assets, beginning of year	<u>10,423,777</u>	<u>100,000</u>	<u>10,523,777</u>	<u>7,233,795</u>
Net assets, end of year	<u>\$ 15,529,641</u>	<u>\$ -</u>	<u>\$ 15,529,641</u>	<u>\$ 10,523,777</u>

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Consolidated Statement of Functional Expenses Year Ended June 30, 2019 (With Summarized Comparative Totals for Year Ended June 30, 2018)

	Program services							Management and general	2019 total	Summarized 2018 total	
	Conferences and Forums	Learning and Leadership	Executive Education	Global Leadership Conference	Chapter Development	Communications	Information Systems Development				Total
Catering/AV/meeting space	\$ 3,297,699	\$ 322,685	\$ 2,074,827	\$ 2,054,768	\$ 1,348,293	\$ 238,889	\$ -	\$ 9,337,161	\$ 280,066	\$ 9,617,227	\$ 7,417,593
Chapter and regional growth and support	325,475	1,352,205	39,416	41,817	3,142,523	387,193	-	5,288,629	2,500	5,291,129	3,082,757
Computer systems	397	27,175	-	-	57,622	34,542	660,057	779,793	57,942	837,735	1,058,803
Credit card and bank charges	112,500	-	69,000	15	72,289	1,895	-	255,699	1,001,058	1,256,757	980,499
Depreciation	28,962	19,582	4,114	10,367	50,683	22,050	10,696	146,454	18,101	164,555	247,980
Digital media	7,700	49,016	-	-	9,020	6,650	-	72,386	-	72,386	84,518
Facilitator/speaker fees and travel	2,588,436	312,826	467,963	310,047	1,402,992	12,264	-	5,094,528	3,991	5,098,519	4,099,484
Gifts and awards	5,759	41,732	11,710	38,034	33,079	131,520	-	261,834	4,292	266,126	660,306
Legal fees	-	-	-	-	2,161	-	-	2,161	121,560	123,721	204,766
Operating supplies	3,059	3,939	561	22	19,266	926	-	27,773	39,715	67,488	25,434
Optional activities	-	50	-	-	99	12,867	-	13,016	3,015	16,031	17,294
Professional services	92,982	426,357	31,908	9,120	363,652	544,363	348,549	1,816,931	1,428,682	3,245,613	1,898,524
Personalizations	1,129	1,247	-	86,374	25,443	87,910	-	202,103	315,442	517,545	231,028
Postage and mailing	29,191	8,027	1,008	24,967	43,253	8,401	101	114,948	11,792	126,740	130,972
Printing and design	28,797	230	415	8,433	15,612	235	-	53,722	191	53,913	29,962
PR/Ads/Marketing	2,813	20,498	-	-	272,563	292,319	-	588,193	291	588,484	248,748
Repairs and maintenance	66,657	45,069	9,468	23,860	116,649	50,750	24,618	337,071	41,661	378,732	506,419
Staffing	1,946,457	1,316,071	276,485	696,743	3,406,300	1,481,962	718,862	9,842,880	1,216,537	11,059,417	9,835,627
Taxes	1,263	854	179	452	2,211	962	467	6,388	789	7,177	7,251
Telephone and fax	28,773	19,454	4,087	10,299	50,353	21,907	10,626	145,499	17,984	163,483	190,377
Travel and transportation	288,247	300,090	129,423	485,302	2,401,099	302,790	1,175	3,908,126	810,497	4,718,623	4,488,159
Total expenses	\$ 8,856,296	\$ 4,267,107	\$ 3,120,564	\$ 3,800,620	\$ 12,835,162	\$ 3,640,395	\$ 1,775,151	\$ 38,295,295	\$ 5,376,106	\$ 43,671,401	\$ 35,446,501

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Consolidated Statements of Cash Flows Year Ended June 30, 2019 (With Comparative Totals for the Year Ended June 30, 2018)

	Year ended June 30,	
	2019	2018
Cash flows from operating activities		
Membership dues received	\$ 39,385,718	\$ 34,610,868
Conferences and forums revenue received	11,633,084	9,895,607
Other income received	1,121,279	688,811
Payments to vendors, suppliers and employees	(44,883,927)	(31,331,330)
Net cash provided by operating activities	7,256,154	13,863,956
Cash flows from investing activities		
Purchase of investments	(91,957,338)	(51,965,285)
Proceeds from sales of investments	80,510,267	28,480,953
Purchase of property and equipment	-	(12,697)
Net cash used in investing activities	(11,447,071)	(23,497,029)
Net decrease in cash and cash equivalents	(4,190,917)	(9,633,073)
Cash and cash equivalents, beginning of year	27,271,894	36,904,967
Cash and cash equivalents, end of year	\$ 23,080,977	\$ 27,271,894
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 5,005,864	\$ 3,289,982
Adjustments		
Depreciation	164,555	247,980
Amortization of right of use asset	385,993	-
Realized and unrealized gain on investments	(368,001)	(13,349)
Increase in assets		
Accounts and contributions receivable	182,342	222,197
Prepaid expenses	254,194	49,068
Security deposits	15,998	-
Increase (decrease) in liabilities		
Accounts payable	(2,800,743)	4,504,160
Accrued expenses	1,108,801	(587,752)
Future lease obligation	(193,897)	-
Deferred revenue	3,648,475	6,249,955
Deferred lease incentives	(147,427)	(98,285)
Net cash provided by operating activities	\$ 7,256,154	\$ 13,863,956
Noncash investing and financing activities		
Right of use asset acquired	\$ (1,897,801)	\$ -
Future lease obligation incurred	1,897,801	-
Net cash outlay	\$ -	\$ -

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

Note 1 - Organizations

Entrepreneurs' Organization ("EO") - 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 193 chapters, spanning 60 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 14,309 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 Organisation Europe Limited is a 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. Entrepreneurs Organisation Europe Limited was incorporated in the 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 Entrepreneurs Organisation Europe Limited as well as control of the board of directors and therefore, Entrepreneurs Organisation Europe Limited 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 Entrepreneurs Organisation Europe Limited (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, 2018. 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, 2018, from which the summarized information was derived.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2019

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 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 funds, are considered to be cash equivalents.

Investments

Investments consist of corporate obligations, government obligations, mutual funds - fixed income, foreign bonds and certificates of deposit measured at fair value. Fair values are determined by reference to market interest rates and other relevant information generated by market transactions. Entrepreneurs' Organization records unrealized gains and losses in the consolidated statements of activities and change in net assets as increases or decreases in net assets without donor restrictions, unless the income or loss is restricted by donor restrictions or law. EO invests in a variety of investments that are exposed to various risks, such as fluctuations in market value and credit risk. It is reasonably possible that changes in risks in the near term could materially affect the investment balances and amounts reported in the accompanying consolidated financial statements.

Accounts and contributions receivable, net

EO records accounts receivable net of an allowance for uncollectible accounts when necessary. Accounts receivable are comprised primarily of conferences receivable. 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, 2019 and 2018.

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 is 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, 2019 and 2018 was \$0. A payment of \$100,000 is due for the year ending June 30, 2020.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements 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 statement 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. For the years ended June 30, 2019 and 2018, all acquisitions of property and equipment greater than \$5,000 with an expected useful life greater than one year were capitalized.

Net asset classification

Entrepreneurs' Organization's net assets are classified into two categories: with donor restrictions and without donor restrictions.

All revenue is considered to be available without donor restriction unless specifically restricted by the donor or by law.

Board designated: Board designated net assets represent amounts designated to be used by the ten regions to pursue organizational priorities and enhance member value and net assets designated for future infrastructure needs of Entrepreneurs' Organization.

With donor restrictions: EO reports gifts of cash and other assets as with donor restrictions 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, these are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and change in net assets as net assets released from restrictions.

Resources whose use by EO is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled are also classified as net assets with donor restrictions. The income generated by these assets may be with or without donor restrictions according to donor stipulations.

Revenue recognition

Membership dues are reported as revenue in the year to which they pertain. Initiation fees are currently \$2,500, 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. An additional \$500 of the initiation fee is recorded as deferred revenue for conference registrations. Conference registrations are recognized in the year in which the conference is held.

Contributions without donor restrictions, 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.

Contributions with donor restrictions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), the net assets with donor restrictions are reclassified to net assets

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

without donor restrictions and reported in the consolidated statements of activities and change in net assets as net assets released from donor 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 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. Staffing costs and other indirect expenses have been allocated among program and support departments based on management's estimate of time related to each activity.

Advertising costs

EO expenses advertising costs when incurred. Advertising expense was \$262,254 and \$135,377 for the years ended June 30, 2019 and 2018, 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 years ended June 30, 2019 and 2018, 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, 2019 and 2018. 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 2015 remain open.

Change in accounting principles

During the year ended June 30, 2019, EO adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). Accordingly, the beginning balances of the net assets previously classified as unrestricted have been retrospectively adjusted as without donor restrictions. Additionally, donor restricted net assets categories (temporarily and permanently restricted) have been retrospectively adjusted to consolidate all donor-restricted net assets into one classification, with donor restrictions. ASU 2016-14 requires additional disclosures in the areas of liquidity and availability. EO has adjusted the presentation of

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

these consolidated financial statements accordingly and ASU 2016-14 has been applied retrospectively to all periods presented.

During the year ended June 30, 2019, EO adopted FASB ASU 2016-02, *Leases (Topic 842)*. 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. The new standard applies to capital or operating leases entered into after the standard was issued. EO early-adopted this standard based on the execution of EO's amended office lease in November 2018. See Note 11.

Reclassifications

Certain reclassifications have been made to the 2018 amounts to conform to the 2019 presentation.

Subsequent events

EO has evaluated subsequent events for potential recognition or disclosure through March 9, 2020, the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity

Under EO's liquidity management plan, cash in excess of daily requirements is invested in investments under EO's investment policy statement and guidelines.

The following table reflects EO's financial assets at June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statements of financial position date because of donor restrictions. Amounts not available include board designated funds, which may become available for use only upon approval from the board of directors.

	June 30,	
	2019	2018
Financial assets		
Cash and cash equivalents	\$ 23,080,977	\$ 27,271,894
Investments	40,618,103	28,803,031
Accounts receivable	288,789	471,131
	<u>63,987,869</u>	<u>56,546,056</u>
Less: Those unavailable for general expenditure within one year due to:		
Accounts and contributions receivable, net, subject to donor restrictions	-	100,000
Board-designated funds	<u>1,808,095</u>	<u>2,292,550</u>
	<u>1,808,095</u>	<u>2,392,550</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 62,179,774</u>	<u>\$ 54,153,506</u>

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

Note 4 - Concentration of credit risk

EO maintains its cash in bank accounts and certain investments which at times may exceed the federally insured limit of \$250,000 per financial institution. EO had balances on deposit at June 30, 2019 that exceeded the federally insured limit by approximately \$18,579,000.

Note 5 - Investments

Investments consist of the following:

	June 30,	
	2019	2018
Certificates of deposit	\$ 9,001,112	\$ 16,328,075
Corporate obligations	10,646,361	11,092,227
Government obligations	9,586,248	1,382,729
Mutual funds - Fixed Income	8,974,289	-
Foreign bonds	2,410,093	-
	<u>\$ 40,618,103</u>	<u>\$ 28,803,031</u>

Investment income consists of:

	Year ended June 30,	
	2019	2018
Interest income	\$ 862,084	\$ 244,463
Unrealized gain on investments	267,035	13,176
Realized gain on investments	100,966	173
	<u>\$ 1,230,085</u>	<u>\$ 257,812</u>

Note 6 - Prepaid expenses

Prepaid expenses consist of the following:

	June 30,	
	2019	2018
University One event	\$ 23,937	\$ 333,903
Exploration event	167,962	-
Credit card fees on renewals	244,089	140,170
Global staff week	35,529	-
Rent	-	47,138
Singularity University Contract	-	150,000
Other prepaid expenses	29,081	83,581
	<u>\$ 500,598</u>	<u>\$ 754,792</u>

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

Note 7 - Property and equipment

Property and equipment consists of the following:

	June 30,	
	2019	2018
Computer equipment	\$ 255,661	\$ 255,661
Computer software	509,047	509,047
Furniture, fixtures and other equipment	34,937	34,937
Leasehold improvements	885,768	885,768
	1,685,413	1,685,413
Less accumulated depreciation and amortization	<u>(1,607,860)</u>	<u>(1,443,305)</u>
Net property and equipment	<u>\$ 77,553</u>	<u>\$ 242,108</u>

Depreciation expense totaled \$164,555 and \$247,980 for the years ended June 30, 2019 and 2018, respectively.

Note 8 - Deferred revenue

EO has deferred revenue related to its programs. The following represents revenue that was deferred as of the following:

	June 30,	
	2019	2018
Dues	\$ 28,585,537	\$ 27,002,855
Events	7,085,592	5,416,549
Entrepreneurial Masters Program	182,000	213,000
Initiation fees	2,297,200	1,869,450
	<u>\$ 38,150,329</u>	<u>\$ 34,501,854</u>

Note 9 - Net assets

Net assets with donor restrictions consist of amounts received for the purpose of supporting the operating activities of EO. Net assets with donor restrictions consist of the following at June 30:

	June 30,	
	2019	2018
Unexpended contributions		
Global Student Entrepreneur Awards	\$ -	\$ 100,000
	<u>\$ -</u>	<u>\$ 100,000</u>

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

Net assets without donor restrictions consist of the following at June 30:

	June 30,	
	2019	2018
Board designated		
Infrastructure	\$ 781,634	\$ 700,000
US east region	124,974	234,218
US central region	101,172	242,949
US west region	107,406	88,486
LAC region	63,785	79,805
Canada region	107,925	233,820
Europe region	77,152	121,225
MEPA region	74,212	90,969
South Asia region	119,835	176,966
APAC region	125,000	324,112
North Asia region	125,000	-
	<u>1,808,095</u>	<u>2,292,550</u>
Undesignated	<u>13,721,546</u>	<u>8,131,227</u>
Total net assets without donor restrictions	<u>\$ 15,529,641</u>	<u>\$ 10,423,777</u>

Note 10 - Other income

Other income consists of the following:

	Year ended June 30,	
	2019	2018
Royalties	\$ 231,445	\$ 406,603
Miscellaneous revenue	<u>27,750</u>	<u>37,745</u>
	<u>\$ 259,195</u>	<u>\$ 444,348</u>

Note 11 - Leasing activities

EO leased office space under an eight-year lease that was set to expire December 31, 2019. In November 2018, EO entered into a lease amendment effective January 1, 2019, adjusting the term of the lease to expire May 31, 2023 and adjusting the rental payment schedule accordingly. Rent is payable monthly with annual escalations of 2.50 percent as well as adjustment for increases in operating expenses and real estate taxes of the building. As part of the lease amendment, the lessor provided EO with rent abatement for the first five months of the amended lease term for the office space provided in the lease. The landlord also provided EO a lease incentive in the form of a tenant allowance of up to \$178,700. EO did not use any of the tenant allowance as of June 30, 2019.

The lease offers EO a renewal option to extend the lease for an additional three years, which management does not deem likely at this time. The agreement also provides right of first refusal

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

options for expansion to the floor below the occupied space, and management also deems the right unlikely to be exercised.

The office lease is accounted for in accordance with FASB ASU No. 2016-02, *Leases*. As a result, EO has recorded a future lease obligation liability equal to the present value of the future payments under the terms of the lease, discounted at an estimated organizational incremental borrowing rate of 6.00%. This liability is reduced as cash payments are made under the terms of the lease. Interest is charged to occupancy expense for the difference. EO has also recorded a right of use asset equal to the lease obligation. The asset is amortized on a straight-line basis over the lease term and is reflected as occupancy expense in the accompanying consolidated financial statements. Occupancy expense for the years ended June 30, 2019 and 2018 was \$378,732 and \$506,419, respectively. The Organization has elected not to restate comparative periods, and has elected the hindsight practical expedient, allowing EO to reassess the lease term as of the beginning of the period, prior to the execution of the amendment. The deferred lease incentive liability at June 30, 2018 of \$147,427, which pertained to the original lease, was removed and recorded against occupancy expense for the year ended June 30, 2019 as part of the accounting under ASU 2016-02.

The following table represents the reconciliation of the right of use asset as of June 30, 2019:

Right of use asset, beginning of year	\$	-
Right of use asset acquired		1,897,801
Amortization of right of use asset		<u>(385,993)</u>
Right of use asset, end of year	\$	<u>1,511,808</u>

Future minimum lease payments under the lease are as follows:

<u>Year ending June 30,</u>		
2020	\$	472,628
2021		484,491
2022		496,652
2023		<u>466,166</u>
Total		1,919,937
Amount representing interest		<u>(216,033)</u>
Total future lease obligation	\$	<u>1,703,904</u>

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

Note 12 - 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 the Plan at contribution rates to be set annually. During the years ended June 30, 2019 and 2018, EO's contributions to the Plan totaled \$170,165 and \$143,384, respectively.

Note 13 - Related party transactions

The outstanding receivable from Entrepreneurs Organisation Europe Limited to EO was \$63,685 and \$642,414 at June 30, 2019 and 2018, respectively. The amount to be reimbursed from Entrepreneurs Organisation Europe Limited has been eliminated in consolidation at June 30, 2019 and 2018.

Note 14 - Commitments

EO has contracted with a hotel in Sydney Australia for a conference to be held in a future year. Cancellation fees would apply if the conference was not held. However, due to the numerous variables involved, EO's ultimate liability under this contract cannot be determined; however, the estimated costs range from \$0 to \$34,000, depending on the nature and timing of the cancellation. As of June 30, 2019, there are no plans to cancel any future conferences or meetings.

Note 15 - Fair value measurements

EO has determined the fair value of certain assets as required by the *Fair Value Measurement* topic of the FASB Accounting Standards Codification ("FASB ASC"). Fair values of assets measured on a recurring basis at June 30, 2019 and 2018 are as follows:

	Fair value measurement at reportable date using			
	Fair value	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<u>June 30, 2019</u>				
Assets				
Certificates of deposit	\$ 9,001,112	\$ -	\$ 9,001,112	\$ -
Corporate obligations	10,646,361	-	10,646,361	-
Government obligations	9,586,248	-	9,586,248	-
Mutual funds - Fixed Income	8,974,289	8,974,289	-	-
Foreign bonds	2,410,093	-	2,410,093	-
	<u>\$ 40,618,103</u>	<u>\$ 8,974,289</u>	<u>\$ 31,643,814</u>	<u>\$ -</u>
<u>June 30, 2018</u>				
Assets				
Certificates of deposit	\$ 16,328,075	\$ -	\$ 16,328,075	\$ -
Corporate obligations	11,092,227	-	11,092,227	-
Government obligations	1,382,729	-	1,382,729	-
	<u>\$ 28,803,031</u>	<u>\$ -</u>	<u>\$ 28,803,031</u>	<u>\$ -</u>

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2019

This FASB ASC topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and provide the highest quality inputs; Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets or liabilities in active or inactive markets or other significant market-observable inputs; Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. EO uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, EO measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There have been no changes in the valuation methodologies used during the current year. All assets have been valued using a market approach. Certificates of deposit, corporate obligations, government obligations, and foreign bonds are not exchange-traded investments and are valued using a market approach based on quoted prices from pricing sources utilized by investment managers.



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