

Entrepreneurs' Organization and Subsidiary

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

June 30, 2020 and 2019

Entrepreneurs' Organization and Subsidiary

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Independent Auditor's Report on Consolidated Financial Statements

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, 2020 and 2019, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2020, EO adopted the provisions of Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 was applied using a modified prospective approach. Our opinion is not modified with respect to that matter.

CohnReznick LLP

Bethesda, Maryland
March 4, 2021

Entrepreneurs' Organization and Subsidiary
Consolidated Statements of Financial Position
June 30, 2020 and 2019

<u>Assets</u>		
	2020	2019
Assets		
Cash and cash equivalents	\$ 7,352,024	\$ 23,080,977
Investments - Note 5	35,845,597	40,618,103
Accounts and contributions receivable, net	120,650	288,789
Prepaid expenses - Note 6	71,949	500,598
Property and equipment, net - Note 7	6,028	77,553
Right of use asset - Note 12	1,125,814	1,511,808
Security deposits	191,483	88,079
	\$ 44,713,545	\$ 66,165,907
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable	\$ 1,570,861	\$ 7,775,688
Accrued expenses	2,015,382	3,006,345
Deferred revenue - Note 8	13,052,853	38,150,329
Loan payable - Note 11	1,377,752	-
Future lease obligation - Note 12	1,323,242	1,703,904
	19,340,090	50,636,266
Net assets		
Without donor restrictions		
Board designated - Note 9	19,315,993	1,808,095
Undesignated - Note 9	6,057,462	13,721,546
	25,373,455	15,529,641
Total net assets	25,373,455	15,529,641
Total liabilities and net assets	\$ 44,713,545	\$ 66,165,907

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Consolidated Statements of Activities and Change in Net Assets Years Ended June 30, 2020 and 2019

	2020	2019
Revenue		
Membership dues	\$ 40,589,210	\$ 37,375,286
Conferences and forums	3,640,103	9,812,699
Other income - Note 10	277,816	259,195
Investment income - Note 5	1,829,776	1,230,085
Total revenue	46,336,905	48,677,265
Expenses		
Program services		
Conferences and forums	7,458,340	8,856,296
Learning and leadership	3,843,241	4,267,107
Executive education	1,829,595	3,120,564
Global leadership conference	1,116,938	3,800,620
Chapter development	12,101,373	12,835,162
Communications	2,805,455	3,640,395
Information systems development	2,938,953	1,775,151
Total program services	32,093,895	38,295,295
Supporting services		
Management and general	4,399,196	5,376,106
Total expenses	36,493,091	43,671,401
Change in net assets	9,843,814	5,005,864
Net assets - without donor restrictions, beginning of year	15,529,641	10,523,777
Net assets - without donor restrictions, end of year	\$ 25,373,455	\$ 15,529,641

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Program services							Total Program Services	Management and General	Total
	Conferences and Forums	Learning and Leadership	Executive Education	Global Leadership Conference	Chapter Development	Communications	Information Systems Development			
Catering/AV/meeting space	\$ 2,439,645	\$ 288,401	\$ 1,289,693	\$ 3,240	\$ 1,271,017	\$ 207,373	\$ -	\$ 5,499,369	\$ 230,279	\$ 5,729,648
Chapter and regional growth and support	173,636	686,839	(8,967)	2,950	3,014,977	(46,088)	-	3,823,347	135,000	3,958,347
Computer systems	1,617	7,587	-	20	48,442	5,436	989,132	1,052,234	27,928	1,080,162
Credit card and bank charges	52,707	-	39,943	-	75,291	-	-	167,941	1,103,578	1,271,519
Depreciation	12,589	8,512	1,788	4,506	22,030	9,584	4,649	63,658	7,867	71,525
Digital media	-	26,021	-	-	-	-	-	26,021	-	26,021
Facilitator/speaker fees and travel	2,102,073	313,300	120,054	113,337	1,398,678	3,330	-	4,050,772	-	4,050,772
Gifts and awards	12,130	128,107	12,740	106	69,688	222,292	-	445,063	16,302	461,365
Legal fees	-	-	-	-	2,128	-	-	2,128	66,716	68,844
Operating supplies	7,545	2,721	2,672	-	5,622	264	-	18,824	51,220	70,044
Optional activities	-	-	-	-	6,140	9,272	-	15,412	16,287	31,699
Professional services	222,768	473,660	17,350	44,300	951,928	418,190	1,077,891	3,206,087	820,615	4,026,702
Personalizations	7,892	60,648	3,041	44,148	78,263	9,369	117	203,478	58,428	261,906
Postage and mailing	35,715	3,406	1,939	302	23,102	5,027	-	69,491	19,428	88,919
Printing and design	11,189	3,160	373	-	8,322	22,127	-	45,171	2,024	47,195
PR/Ads/Marketing	746	89,551	3,800	-	76,991	106,670	-	277,758	2,290	280,048
Repairs and maintenance	108,576	73,412	15,423	38,865	190,010	82,666	40,099	549,051	67,860	616,911
Staffing	2,079,018	1,405,700	295,315	744,194	3,638,282	1,582,889	767,819	10,513,217	1,299,386	11,812,603
Taxes	1,132	765	161	405	1,981	862	418	5,724	707	6,431
Telephone and fax	34,125	23,073	4,847	12,215	59,718	25,981	12,603	172,562	21,328	193,890
Travel and transportation	155,237	248,378	29,423	108,350	1,158,763	140,211	46,225	1,886,587	451,953	2,338,540
Total expenses	\$ 7,458,340	\$ 3,843,241	\$ 1,829,595	\$ 1,116,938	\$ 12,101,373	\$ 2,805,455	\$ 2,938,953	\$ 32,093,895	\$ 4,399,196	\$ 36,493,091

Entrepreneurs' Organization and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Program services							Management and General	Total	
	Conferences and Forums	Learning and Leadership	Executive Education	Global Leadership Conference	Chapter Development	Communications	Information Systems Development			Total Program Services
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
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
Computer systems	397	27,175	-	-	57,622	34,542	660,057	779,793	57,942	837,735
Credit card and bank charges	112,500	-	69,000	15	72,289	1,895	-	255,699	1,001,058	1,256,757
Depreciation	28,962	19,582	4,114	10,367	50,683	22,050	10,696	146,454	18,101	164,555
Digital media	7,700	49,016	-	-	9,020	6,650	-	72,386	-	72,386
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
Gifts and awards	5,759	41,732	11,710	38,034	33,079	131,520	-	261,834	4,292	266,126
Legal fees	-	-	-	-	2,161	-	-	2,161	121,560	123,721
Operating supplies	3,059	3,939	561	22	19,266	926	-	27,773	39,715	67,488
Optional activities	-	50	-	-	99	12,867	-	13,016	3,015	16,031
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
Personalizations	1,129	1,247	-	86,374	25,443	87,910	-	202,103	315,442	517,545
Postage and mailing	29,191	8,027	1,008	24,967	43,253	8,401	101	114,948	11,792	126,740
Printing and design	28,797	230	415	8,433	15,612	235	-	53,722	191	53,913
PR/Ads/Marketing	2,813	20,498	-	-	272,563	292,319	-	588,193	291	588,484
Repairs and maintenance	66,657	45,069	9,468	23,860	116,649	50,750	24,618	337,071	41,661	378,732
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
Taxes	1,263	854	179	452	2,211	962	467	6,388	789	7,177
Telephone and fax	28,773	19,454	4,087	10,299	50,353	21,907	10,626	145,499	17,984	163,483
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
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

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Consolidated Statements of Cash Flows Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Membership dues received	\$ 20,023,442	\$ 39,385,718
Conferences and forums revenue received	431,463	11,633,084
Other income received	1,288,933	1,121,279
Payments to vendors, suppliers and employees	(43,286,779)	(44,883,927)
Refunds to members for conference registrations	(1,154,929)	-
	(22,697,870)	7,256,154
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchase of investments	(50,309,690)	(91,957,338)
Proceeds from sales of investments	55,900,855	80,510,267
	5,591,165	(11,447,071)
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Proceeds from loan payable	1,377,752	-
	1,377,752	-
Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(15,728,953)	(4,190,917)
Cash and cash equivalents, beginning of year	23,080,977	27,271,894
Cash and cash equivalents, end of year	\$ 7,352,024	\$ 23,080,977
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	\$ 9,843,814	\$ 5,005,864
Adjustments		
Depreciation	71,525	164,555
Amortization of right of use asset	385,994	385,994
Realized and unrealized gain on investments	(818,659)	(368,001)
(Increase) decrease in assets		
Accounts and contributions receivable	168,139	182,342
Prepaid expenses	428,649	254,194
Security deposits	(103,404)	15,998
Increase (decrease) in liabilities		
Accounts payable	(6,204,827)	(2,800,743)
Accrued expenses	(990,963)	1,108,801
Future lease obligation	(380,662)	(193,898)
Deferred revenue	(25,097,476)	3,648,475
Deferred lease incentives	-	(147,427)
	(22,697,870)	7,256,154
Net cash provided by (used in) operating activities		
Noncash investing and financing activities		
Right of use asset acquired	\$ -	\$ (1,897,802)
Future lease obligation incurred	-	1,897,802
	-	-
Net cash outlay	\$ -	\$ -

See Notes to Consolidated Financial Statements.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 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 198 chapters, spanning 61 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 14,807 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.

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.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 2019

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, 2020 and 2019.

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, 2020 and 2019 was \$0. A payment of \$100,000 is due for the year ending June 30, 2021.

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, 2020 and 2019, 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.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 2019

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 to pursue organizational priorities and enhance member value. At June 30, 2020 and June 30, 2019, board designated net assets are to be used for the following areas: The Ten regions, Infrastructure, Accelerator, Regional Chapter Model (Bridge Chapters), Together Fund and Member Reinvestment Fund ("600 per member credit"). In addition, a transfer of realized investment income was made into the Innovation Fund from undesignated funds as per our policy on reserves.

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 are classified as either conditional or unconditional. Revenue is recognized on a conditional contribution once a barrier or hurdle to be entitled to the resource is overcome and the resource provider is released from obligation to fund or has the right of return of any advanced funding if EO fails to overcome the barrier. Unconditional contributions are recognized as revenue when the commitment to contribute is received. Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions depending upon the existence and/or nature of donor restrictions.

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.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 2019

Advertising costs

EO expenses advertising costs when incurred. Advertising expense was \$274,437 and \$583,791 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019. 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 2016 remain open.

Change in accounting principles

During the year ended June 30, 2020, EO adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Adopting the new standard did not have a material effect on the timing of EO's revenue recognition for the years ending June 30, 2020 and 2019.

During the year ended June 30, 2019, EO adopted FASB 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 these consolidated financial statements accordingly.

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.

Deferral of revenue recognition accounting standard

EO has elected to defer adoption of FASB ASU 2014-09, *Revenue from Contracts with Customers*, to the year ending June 30, 2021, in accordance with FASB ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities* which was issued in June 2020.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 2019

Subsequent events

EO has evaluated subsequent events for potential recognition or disclosure through March 4, 2021, the date the consolidated financial statements were available to be issued. See Note 18 for disclosure of a subsequent event that management has concluded requires disclosure in the consolidated financial statements.

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, 2020 and 2019, 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,	
	2020	2019
Financial assets		
Cash and cash equivalents	\$ 7,352,024	\$ 23,080,977
Investments	35,845,597	40,618,103
Accounts receivable	120,650	288,789
	<u>43,318,271</u>	<u>63,987,869</u>
Less: Those unavailable for general expenditure within one year due to:		
Board-designated funds	<u>19,315,993</u>	<u>1,808,095</u>
	<u>19,315,993</u>	<u>1,808,095</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 24,002,278</u>	<u>\$ 62,179,774</u>

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, 2020 that exceeded the federally insured limit by approximately \$6,456,000.

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 2019

Note 5 - Investments

Investments consist of the following:

	June 30,	
	2020	2019
Certificates of deposit	\$ 11,742,973	\$ 9,001,112
Corporate obligations	11,073,392	10,646,361
Government obligations	7,111,544	9,586,248
Mutual funds - Fixed Income	2,560,000	8,974,289
Foreign bonds	3,357,688	2,410,093
	<u>\$ 35,845,597</u>	<u>\$ 40,618,103</u>

Investment income consists of:

	Year ended June 30,	
	2020	2019
Interest income	\$ 1,011,117	\$ 862,084
Unrealized gain on investments	528,411	267,035
Realized gain on investments	290,248	100,966
	<u>\$ 1,829,776</u>	<u>\$ 1,230,085</u>

Note 6 - Prepaid expenses

Prepaid expenses consist of the following:

	June 30,	
	2020	2019
University One event	\$ -	\$ 23,937
Exploration event	-	167,962
Credit card fees on renewals	-	244,089
Global staff week	-	35,529
Other prepaid expenses	71,949	29,081
	<u>\$ 71,949</u>	<u>\$ 500,598</u>

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 2019

Note 7 - Property and equipment

Property and equipment consist of the following:

	June 30,	
	2020	2019
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	(1,679,385)	(1,607,860)
Net property and equipment	\$ 6,028	\$ 77,553

Depreciation expense totaled \$71,525 and \$164,555 for the years ended June 30, 2020 and 2019, 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,	
	2020	2019
Dues	\$ 7,377,793	\$ 28,585,537
Events	2,419,134	7,085,592
Entrepreneurial Masters Program	316,750	182,000
Initiation fees	2,939,176	2,297,200
	\$ 13,052,853	\$ 38,150,329

Entrepreneurs' Organization and Subsidiary

**Notes to Consolidated Financial Statements
June 30, 2020 and 2019**

Note 9 - Net assets

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

	June 30,	
	2020	2019
Board designated		
Infrastructure	\$ 2,550,854	\$ 781,634
Regional Chapter Model (Bridge Chapters)	100,000	-
Accelerator	600,000	-
Together Fund	6,000,000	-
Member Reinvestment Fund (\$600 per member credit)	7,500,000	-
Innovation Fund	729,211	-
US east region	268,422	124,974
US central region	186,766	101,172
US west region	296,213	107,406
LAC region	95,580	63,785
Canada region	189,197	107,925
Europe region	113,291	77,152
MEPA region	97,432	74,212
South Asia region	311,600	119,835
APAC region	135,851	125,000
North Asia region	141,576	125,000
	19,315,993	1,808,095
Undesignated	6,057,462	13,721,546
Total net assets without donor restrictions	\$ 25,373,455	\$ 15,529,641

Note 10 - Other income

Other income consists of the following:

	Year ended June 30,	
	2020	2019
Royalties	\$ 276,518	\$ 231,445
Miscellaneous revenue	1,298	27,750
	\$ 277,816	\$ 259,195

Note 11 - Loan payable

On April 17, 2020, EO obtained a promissory note of \$1,377,752 from its bank under the Small Business Administration (SBA)'s Paycheck Protection Program (PPP) that is part of the CARES Act stimulus relief. The note bears interest at 1 percent and requires monthly payments of principal and interest on the outstanding principal balance, unless forgiven in whole or part by the SBA under the CARES Act. If the note is not forgiven, payments will begin seven months from the date of the note

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until the maturity date of April 15, 2022 when the entire principal balance, along with all accrued and unpaid interest, is due in full. The terms of the promissory note are subject to change depending on final regulation or legislation enacted. As of June 30, 2020, the full loan balance of \$1,377,752 is outstanding.

Note 12 - 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, 2020 and 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 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, 2020 and 2019 was \$616,911 and \$378,732, respectively. As part of the implementation of ASU 2016-02 during the year ended June 30, 2019, the Organization 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.

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Notes to Consolidated Financial Statements June 30, 2020 and 2019

The following table represents the reconciliation of the right of use asset as of June 30, 2020:

Right of use asset, July 1, 2018	\$	-
Right of use asset acquired		1,897,802
Amortization of right of use asset		<u>(385,994)</u>
Right of use asset, June 30, 2019		1,511,808
Amortization of right of use asset		<u>(385,994)</u>
Right of use asset, June 30, 2020	\$	<u>1,125,814</u>

Future minimum lease payments under the lease are as follows:

<u>Year ending June 30,</u>		
2021	\$	484,491
2022		496,652
2023		<u>466,166</u>
Total		1,447,309
Amount representing interest		<u>(124,067)</u>
Total future lease obligation	\$	<u>1,323,242</u>

Note 13 - 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, 2020 and 2019, EO's contributions to the Plan totaled \$188,484 and \$170,165, respectively.

Note 14 - Related party transactions

The outstanding payable to Entrepreneurs Organisation Europe Limited to EO was \$23,208 at June 30, 2020. The outstanding receivable from Entrepreneurs Organisation Europe Limited to EO was \$63,685 at June 30, 2019. The amount to be reimbursed to and from Entrepreneurs Organisation Europe Limited has been eliminated in consolidation at June 30, 2020 and 2019.

Note 15 - Commitments

EO has contracted with a hotel in National Harbor, Maryland 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 \$1,110,000, depending on the nature and timing of the cancellation. As of June 30, 2020, there are no plans to cancel any future conferences or meetings.

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Notes to Consolidated Financial Statements June 30, 2020 and 2019

Note 16 - 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 ("ASC"). Fair values of assets measured on a recurring basis at June 30, 2020 and 2019 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, 2020</u>				
Assets				
Certificates of deposit	\$ 11,742,973	\$ -	\$ 11,742,973	\$ -
Corporate obligations	11,073,392	-	11,073,392	-
Government obligations	7,111,544	-	7,111,544	-
Mutual funds - Fixed Income	2,560,000	2,560,000	-	-
Foreign bonds	3,357,688	-	3,357,688	-
	<u>\$ 35,845,597</u>	<u>\$ 2,560,000</u>	<u>\$ 33,285,597</u>	<u>\$ -</u>
<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>

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.

Note 17 - COVID-19

In 2020, the spread of the coronavirus that causes COVID-19 has caused business disruption throughout the world. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this global pandemic. Beginning in March 2020, EO cancelled or delayed various events scheduled for March 2020 through the remainder of 2020 as a

Entrepreneurs' Organization and Subsidiary

Notes to Consolidated Financial Statements June 30, 2020 and 2019

result of COVID-19. Prior to the cancellation of the events, EO paid deposits to various venues under the terms of the agreements. As a result of the cancellations, all previously paid deposits have been expensed on the consolidated statement of activities. While EO expects the global pandemic to negatively impact EO's financial condition, results of operations, and cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

Note 18 - Subsequent event

EO submitted its application for PPP Loan forgiveness in December 2020 and received notice from its lender in January 2021 that the SBA approved forgiveness of the full amount of the PPP Loan and the related interest thereon. This event will be recognized in the year ending June 30, 2021. There is a six-year period during which the SBA can review EO's forgiveness calculation.



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