Audited Consolidated Financial Statements and Consolidating Information

THE ESOP ASSOCIATION & AFFILIATE

December 31, 2017

Contents

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Independent Auditor's Report on the Consolidated Financial Statements

To the Board of Directors
The ESOP Association & Affiliate

We have audited the accompanying consolidated financial statements of The ESOP Association & Affiliate (the Organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 Organization'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 Organization'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 consolidated financial position of The ESOP Association & Affiliate as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
April 23, 2018

Consolidated Statements of Financial Position

December 31,	2017	2016
Assets		
Cash and cash equivalents	**$ 1,222,266**	$ 1,302,909
Investments	**3,232,960**	2,882,948
Accounts receivable	**300,667**	264,049
Inventory	**29,279**	43,403
Prepaid expenses & other assets	**215,325**	303,968
Investments held for deferred compensation	**130,337**	96,252
Property and equipment	**368,203**	445,575
Total assets	**$ 5,499,037**	$ 5,339,104
Liabilities and Net Assets		
Liabilities		
Accounts payable	**$ 195,805**	$ 643,148
Deferred revenue	**1,380,802**	1,145,388
Deferred rent	**346,032**	347,789
Deferred compensation obligation	**130,337**	96,252
Total liabilities	**2,052,976**	2,232,577
Net assets		
Unrestricted	**3,445,061**	3,105,527
Permanently restricted	**1,000**	1,000
Total net assets	**3,446,061**	3,106,527
Commitment and contingencies	**-**	-
Total liabilities and net assets	**$ 5,499,037**	$ 5,339,104

The ESOP Association & Affiliate

Consolidated Statements of Activities

Year Ended December 31,	2017	2016
Unrestricted activities		
Revenue and support		
Seminars and conferences	**$ 3,241,020**	$ 2,886,495
Membership dues	**2,183,259**	2,120,272
Sponsorships	**499,417**	458,851
Contributions	**485,784**	440,566
Other income	**207,991**	206,405
Publications	**72,069**	87,883
Interest and dividends	**66,881**	61,512
Total unrestricted revenue and support	**6,756,421**	6,261,984
Expense		
Program services		
Seminars and conferences	**2,908,712**	2,880,123
Membership	**472,311**	470,056
Government relations	**372,076**	353,850
Research / scholarships	**325,725**	247,307
Publications	**40,509**	45,615
Total program services	**4,119,333**	3,996,951
Supporting services		
Management and general	**2,489,124**	2,291,126
Public relations / development	**123,990**	108,202
Total supporting services	**2,613,114**	2,399,328
Total expense	**6,732,447**	6,396,279
Change in unrestricted net assets before net gain on investments	**23,974**	(134,295)
Net gain on investments	**315,560**	143,810
Change in unrestricted net assets	**339,534**	9,515
Change in net assets	**339,534**	9,515
Net assets, beginning of year	**3,106,527**	3,097,012
Net assets, end of year	**$ 3,446,061**	$ 3,106,527

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	2017	2016
Cash flows from operating activities		
Change in net assets	**$ 339,534**	$ 9,515
Adjustments to reconcile change in net assets		
to net cash (used in) provided by operating activities:		
Depreciation and amortization	**78,142**	68,585
Write-off of obsolete inventory	**10,653**	10,429
Net gain on investments	**(315,560)**	(143,810)
Change in assets and liabilities:		
Accounts receivable	**(36,618)**	(19,228)
Pledges receivable	**-**	9,000
Inventory	**3,471**	(245)
Prepaid expenses & other assets	**88,643**	142,758
Investments held for deferred compensation	**(34,085)**	(19,702)
Accounts payable	**(447,343)**	24,672
Deferred revenue	**235,414**	(33,433)
Deferred rent	**(1,757)**	347,789
Deferred compensation obligation	**34,085**	19,702
Total adjustments	**(419,040)**	386,815
Net cash (used in) provided by operating activities	**(45,421)**	416,032
Cash flows from investing activities		
Sales of investments	**109,670**	356,425
Purchases of investments	**(144,122)**	(221,070)
Purchases of furniture and equipment	**(770)**	(477,368)
Net cash used in investing activities	**(35,222)**	(342,013)
Net (decrease) increase in cash and cash equivalents	**(80,643)**	74,019
Cash and cash equivalents, beginning of year	**1,302,909**	1,228,890
Cash and cash equivalents, end of year	**$ 1,222,266**	$ 1,302,909
Supplementary disclosure of cash flow information		
Cash paid during the year for income taxes	**$ 9,550**	$ 9,650

See notes to the consolidated financial statements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The ESOP Association (the Association) was created in January 1978. The primary purposes of the Association are to foster and promote the concept, development and advancement of employee stock ownership plans and to provide assistance to the organizations that have active employee stock ownership plans.

The Employee Ownership Foundation, Inc. (the Foundation) was created in March 1991. The Foundation operates exclusively to carry out the charitable and educational activities and purposes of the Association.

ESOP Association PAC (the PAC) exists to conduct political activities on behalf of the Association's members. The PAC's unaudited assets as of December 31, 2017 and 2016 totaled $345 and $12,502, respectively, and the PAC's unaudited revenue for the years ended December 31, 2017 and 2016, totaled $97,315 and $105,914, respectively. While the Association has control and economic interest in the PAC, its financial information has not been included in the accompanying consolidated financial statements given its immateriality to the consolidated financial statements as a whole.

Principles of consolidation: The consolidated financial statements include the accounts of the Association and the Foundation (collectively referred to as the Organization). All significant intra-entity transactions have been eliminated in consolidation.

Income taxes: The Association is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code (IRC) except on net income derived from unrelated business activities. The Foundation is exempt from income taxes under Section 501(c)(3) of the IRC. The Foundation qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation under Section 509(a)(3) of the IRC. The PAC is a separate segregated fund as defined under Section 527(f) of the IRC.

Basis of accounting: The consolidated financial statements are prepared on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: Preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For consolidated financial statement purposes, cash equivalents consist of demand and money market accounts.

Accounts receivable: Accounts receivable consists of amounts owed from members as a result of meeting registrations and dues. The Organization's management periodically reviews the status of these receivables for collectability, which is assessed based on management's knowledge of and relationship with the customer and the age of the receivable. As a result of these reviews, all receivables deemed uncollectible are written off directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

A. Organization and Summary of Significant Accounting Policies – Continued

Inventory: Inventory consists primarily of publications held for resale and is stated at the lower of cost (average cost method) or market.

Deferred revenue: Deferred revenue consists primarily of deferred membership dues. Membership dues are recognized as revenue in equal monthly installments over the term of the membership. Deferred membership dues represent that portion of membership dues which apply to future periods. There were $202,526 and $197,345 in membership dues renewals recorded in both accounts receivable and deferred revenue as of December 31, 2017 and 2016, respectively.

Net assets: For consolidated financial statement purposes, net assets consist of the following:

> Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects.
>
> Temporarily restricted: Temporarily restricted net assets include those net assets whose use by the Organization has been donor restricted by specified time or purpose limitations.
>
> Permanently restricted: Permanently restricted net assets must be maintained in perpetuity by the Organization. Generally, the donors permit the Organization to use all or part of the income earned on related investments for general or specific purposes. At December 31, 2017 and 2016, the Organization had permanently restricted net assets of $1,000.

Contributions: Contributions are recorded as unrestricted or restricted support depending upon the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized.

Allocation of expenses: The costs of the Organization's various programs and supporting services are summarized on a functional basis in the consolidated statements of activities. Accordingly, certain management and general costs have been allocated among the programs and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through April 23, 2018, which is the date the consolidated financial statements were available to be issued.

B. Credit and Market Risk

Credit risk: The Organization maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Organization.

Market risk: The Organization invests funds in professionally managed mutual funds. Such investments are exposed to market and credit risks. Thus, the Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Organization uses the following prioritized input levels to measure fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 inputs that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk such as bid/ask spreads and liquidity discounts.

Investments recorded at fair value are comprised of mutual funds valued using Level 1 inputs based on quoted prices for identical assets in active markets. Management believes the estimated fair values of investments to be a reasonable approximation of their exit price.

Investments, consisted of the following at December 31,:

	2017	2016
Investments, at fair value:		
Mutual funds - equity	$ 1,759,212	$ 1,531,263
Mutual funds - fixed income	1,473,748	1,351,685
Total investments, at fair value	**$ 3,232,960**	**$ 2,882,948**
Investments held for deferred compensation, at fair value:		
Mutual funds - equity	122,905	82,517
Mutual funds - fixed income	6,132	-
Total	129,037	82,517
Money market funds held for deferred compensation *	1,300	13,735
Total investments held for deferred compensation	**$ 130,337**	**$ 96,252**

* Money market funds included in the investment portfolio are not subject to the provisions of fair value measurements as they are recorded at cost.

D. Property and Equipment

Acquisitions of property and equipment greater than $500 are capitalized at cost. Depreciation of office furniture and equipment and computer software and equipment is provided for using the straight-line method over the estimated useful lives of the assets ranging from three to five years. Leasehold improvements are capitalized and amortized on a straight-line basis over the lesser of the estimated useful life of the improvement or the remaining lease term.

Property and equipment consisted of the following at December 31,:

	2017	2016
Leasehold improvements	$ 302,851	$ 302,851
Computer software and equipment	285,790	285,790
Office furniture and equipment	26,525	26,630
	615,166	615,271
Less: accumulated depreciation and amortization	(246,963)	(169,696)
	$ 368,203	**$ 445,575**

E. Retirement Plans

401(k) plan: The Organization has a 401(k) plan which covers all employees upon their completion of minimum requirements as to age and length of service. The Organization matches up to 100% of an employee's contribution, limited to $4,000. Pension expense for the years ended December 31, 2017 and 2016 was $39,867 and $30,455, respectively.

Deferred compensation: The Organization has a deferred compensation plan under Section 457(b) of the Internal Revenue Code for a key employee. The related assets and liability as of December 31, 2017 and 2016 were $130,339 and $96,252, respectively.

F. Commitments and Contingencies

Operating lease: During July 2015, the Organization entered into a ten-year lease for office space in Washington, D.C. under a non-cancellable operating lease commencing January 2016 and expiring January 31, 2026. The operating lease agreement contains a tenant improvement allowance of $292,808, rent abatements, and annual rent escalations.

Generally accepted accounting principles (GAAP) require that the cost of the tenant improvements be capitalized and depreciated as property and equipment. During 2016, the Organization utilized the entire allowance in acquiring certain leasehold improvements and is recognizing the benefit related to the tenant improvement allowance on a straight-line basis over the life of the lease. The unearned portion of the tenant improvement allowance totaled $234,730 and $263,769 as of December 31, 2017 and 2016, respectively and is presented as a component of deferred rent on the consolidated statements of financial position.

F. COMMITMENTS AND CONTINGENCIES – CONTINUED

GAAP also requires that the rent abatements and scheduled rent increases resulting from the escalation of base rentals be recorded as a liability and amortized ratably so as to record rent expense on a straight-line basis over the term of the office lease agreement. The accrued portion of these items totaled $111,302 and $84,020 as of December 31, 2017 and 2016, respectively, and is presented as a component of deferred rent on the consolidated statements of financial position.

Rental expense under the office lease agreements for the years ended December 31, 2017 and 2016 was $147,623 and $137,959, respectively.

Future minimum lease payments, not including the Organization's share of operating costs, under the terms of the lease are as follows:

Year Ending December 31,	
2018	$ 175,100
2019	179,500
2020	184,100
2021	188,600
2022	193,400
Thereafter	627,300
	$ 1,548,000

Hotel contracts: The Organization has contracts with various hotels and convention centers for future conferences. In the event that the Organization cancels, it can be held liable for liquidated damages incurred by the hotels and convention centers as calculated in accordance with the terms of the agreements.

Employment agreement: The Organization has entered into an employment agreement with its President that runs through June 2018. Under certain circumstances, the agreement stipulates that the Organization will be liable for severance and other payments.

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Independent Auditor's Report on the Consolidating Information

To the Board of Directors
The ESOP Association & Affiliate

We have audited the consolidated financial statements of The ESOP Association & Affiliate as of and for the year ended December 31, 2017 and 2016, and have issued our report thereon dated April 23, 2018, which expressed an unmodified opinion on those consolidated financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Tate & Tryon

Washington, DC
April 23, 2018

The ESOP Association & Affiliate

Consolidating Statement of Financial Position

December 31, 2017

	Association	Foundation	Eliminations	Total
Assets				
Cash and cash equivalents	$ 832,331	$ 389,935	$ -	**$ 1,222,266**
Investments	1,304,182	1,928,778		**3,232,960**
Accounts receivable	300,667			**300,667**
Inventory	29,279			**29,279**
Prepaid expenses & other assets	215,325			**215,325**
Investments held for deferred compensation	130,337			**130,337**
Property and equipment	368,203			**368,203**
Total assets	$ 3,180,324	$ 2,318,713	$ -	**$ 5,499,037**
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 190,150	$ 5,655	$ -	**$ 195,805**
Deferred revenue	1,369,802	11,000		**1,380,802**
Deferred rent	346,032			**346,032**
Deferred compensation obligation	130,337			**130,337**
Total liabilities	2,036,321	16,655	-	**2,052,976**
Net assets				
Unrestricted	1,144,003	2,301,058		**3,445,061**
Permanently restricted		1,000		**1,000**
Total net assets	1,144,003	2,302,058	-	**3,446,061**
Total liabilities and net assets	$ 3,180,324	$ 2,318,713	$ -	**$ 5,499,037**

The ESOP Association & Affiliate

Consolidating Statement of Activities

Year Ended December 31, 2017

	Association	Foundation	Eliminations	Total
Unrestricted activities				
Revenue				
Seminars and conferences	$ 3,129,047	$ 111,973	$ -	**$ 3,241,020**
Membership dues	2,183,259			**2,183,259**
Sponsorships	499,417			**499,417**
Contributions		485,784		**485,784**
Other income	267,991		(60,000)	**207,991**
Publications	72,069			**72,069**
Interest and dividends	29,156	37,725		**66,881**
Total unrestricted revenue and support	6,180,939	635,482	(60,000)	**6,756,421**
Expense				
Program services				
Seminars and conferences	2,765,594	143,118		**2,908,712**
Membership	472,311			**472,311**
Government relations	372,076			**372,076**
Research / scholarships		325,725		**325,725**
Publications	40,509			**40,509**
Total program services	3,650,490	468,843	-	**4,119,333**
Supporting services				
Management and general	2,357,583	191,541	(60,000)	**2,489,124**
Public relations / development	61,770	62,220		**123,990**
Total supporting services	2,419,353	253,761	(60,000)	**2,613,114**
Total expense	6,069,843	722,604	(60,000)	**6,732,447**
Change in unrestricted net assets before net gain on investments	111,096	(87,122)	-	**23,974**
Net gain on investments	158,026	157,534		**315,560**
Change in net assets	269,122	70,412	-	**339,534**
Net assets, beginning of year	874,881	2,231,646		**3,106,527**
Net assets, end of year	$ 1,144,003	$ 2,302,058	$ -	**$ 3,446,061**