

Audited Consolidated Financial Statements

WORLDWIDE ERC®

March 31, 2019

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Independent Auditor’s Report

To the Board of Directors
Worldwide ERC®, Inc.

We have audited the accompanying consolidated financial statements of Worldwide ERC®, Inc. (Worldwide ERC®), which comprise the consolidated statements of financial position as of March 31, 2019 and 2018, 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 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 Worldwide ERC®’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 Worldwide ERC®’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 Worldwide ERC®, Inc. as of March 31, 2019 and 2018, 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.

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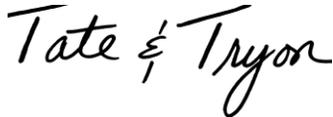
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Adoption of Accounting Standards Update 2016-14

As described in Note A to the consolidated financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, Worldwide ERC[®] adopted the provisions of ASU 2016-14 during the year ended March 31, 2019. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity and functional expense. Worldwide ERC[®]'s previously reported net assets did not change as a result of the adoption of ASU 2016-14. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in black ink that reads "Tate & Tryon". The signature is written in a cursive, flowing style.

Washington, DC
July 9, 2019

Consolidated Statements of Financial Position

March 31,	2019	2018
Assets		
Cash and cash equivalents	\$ 3,510,666	\$ 6,586,740
Investments	10,517,608	9,858,574
Accounts receivable	355,328	353,879
Prepaid expenses and other assets	484,648	417,297
Property and equipment	1,283,983	343,269
Total assets	\$ 16,152,233	\$ 17,559,759
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 963,765	\$ 993,565
Deferred rent and lease incentive	810,439	168,410
Deferred revenue	3,304,206	3,513,904
Deferred compensation	93,878	936,985
Total liabilities	5,172,288	5,612,864
Net Assets		
Without donor restrictions	10,979,945	11,946,895
Total liabilities and net assets	\$ 16,152,233	\$ 17,559,759

Consolidated Statements of Activities

Year Ended March 31,	2019	2018
Revenue		
Conferences and Summits		
Global Workforce Symposium	\$ 3,106,689	\$ 3,041,784
Americas Mobility Conference	1,506,892	1,609,575
Summits	672,340	842,130
Master Series	148,302	113,549
Membership		
Membership dues	2,580,429	2,836,335
Listing fees	1,109,053	1,204,861
Other membership income	366,030	414,466
MOBILITY	1,194,327	1,176,311
Education and Professional Development		
Global Mobility Specialist	433,013	547,906
Certified Relocation Professional fees	353,321	387,711
Other education and professional development income	80,387	102,267
Webinar registration	189,755	167,590
Investment income	173,799	151,315
Other income	40,324	55,853
Total revenue	11,954,661	12,651,653
Expense		
Salaries and fringe benefits	4,476,764	4,513,872
Meetings	2,978,862	2,724,634
Professional services	2,527,594	2,110,342
Office expense	782,846	814,085
Publication services	730,704	711,873
Other expense	691,450	671,096
Depreciation and amortization	210,640	131,789
Total expense	12,398,860	11,677,691
Change in net assets from operations	(444,199)	973,962
Net realized/unrealized gain (loss) on investments	44,173	(57,670)
Provision for income taxes	(151,365)	(187,812)
Technology infrastructure	(414,287)	(502,772)
Gain on write-off of deferred rent and lease incentive	-	130,920
Loss on disposal of property and equipment	(1,272)	(75,095)
Change in net assets	(966,950)	281,533
Net assets, beginning of year	11,946,895	11,665,362
Net assets, end of year	\$ 10,979,945	\$ 11,946,895

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended March 31,	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (966,950)	\$ 281,533
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Net realized/unrealized (gain) loss on investments	(44,173)	57,670
Depreciation and amortization	210,640	131,789
Loss on disposal of property and equipment	1,272	75,095
Gain on write-off of deferred rent and lease incentive	-	(130,920)
Changes in assets and liabilities:		
Accounts receivable	(1,449)	167,317
Prepaid expenses and other assets	(67,351)	(73,165)
Accounts payable and accrued expenses	(29,800)	145,862
Deferred rent and lease incentive	153,359	50,474
Deferred revenue	(209,698)	(270,418)
Deferred compensation	(843,107)	15,627
Total adjustments	(830,307)	169,331
Net cash (used in) provided by operating activities	(1,797,257)	450,864
Cash flows from investing activities		
Proceeds from the sale of investments	4,377,983	3,603,911
Purchases of investments	(4,992,844)	(3,902,262)
Purchases of property and equipment	(663,956)	(265,876)
Net cash used in investing activities	(1,278,817)	(564,227)
Net decrease in cash and cash equivalents	(3,076,074)	(113,363)
Cash and cash equivalents, beginning of year	6,586,740	6,700,103
Cash and cash equivalents, end of year	\$ 3,510,666	\$ 6,586,740
Supplemental disclosure of cash flow information		
Leasehold improvements acquired with improvement allowance	\$ 488,670	\$ -
Cash paid during the year for income taxes	\$ 100,000	\$ 302,000

See notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Worldwide ERC®, Inc. (Worldwide ERC®) is a non-stock membership organization that creates innovative solutions for those managing and supporting global relocation and other workforce transitions. Worldwide ERC®'s purpose is to study, evaluate and communicate information on practices and procedures in the relocation of employees who are transferred to different geographical locations so that the transfer may be accomplished with maximum efficiency and minimum disruption to the employee, the family, and the employer, and generally to carry out activities in furtherance of such purposes as are consistent with the public interest.

Worldwide ERC® established *Zhiqian Business Consulting (Shanghai) Co., Ltd (Zhiqian)* as a limited liability company in accordance with Chinese law in January 2014. Zhiqian is also referred to as the Wholly Foreign-Owned Enterprise (WFOE) and it conducts operations in Shanghai, China on behalf of Worldwide ERC®. The WFOE's operations include business information consulting, enterprise management consulting, and conference information consulting. The WFOE's assets totaled \$124,075 and \$131,070 as of March 31, 2019 and 2018, respectively. The WFOE's liabilities totaled \$53,695 and \$65,570 as of March 31, 2019 and 2018, respectively.

Because Worldwide ERC® is a non-profit organization, a for-profit holding company that acts as a sponsor for the WFOE was required to be established. Accordingly, *Gx, Inc. (Gx)* was incorporated in September 2013 in the Commonwealth of Virginia. Gx is authorized to issue 1,000 shares of stock and is a wholly-owned subsidiary of Worldwide ERC®. The WFOE is a wholly-owned subsidiary of Gx, which has provided \$80,000 (in U.S. Dollars) of capital to the WFOE. Gx's assets totaled \$93,047 and \$82,623 as of March 31, 2019 and 2018, respectively. Gx's liabilities totaled \$5,545 and \$0 as of March 31, 2019 and 2018.

Principles of consolidation: The consolidated financial statements include the accounts of Worldwide ERC®, the WFOE, and Gx (collectively, Worldwide ERC®). Significant intra-entity transactions have been eliminated in consolidation.

Basis of accounting: The consolidated financial statements of Worldwide ERC® have been prepared using the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when obligations are incurred.

Use of estimates: The preparation of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents: For consolidated financial statement purposes, Worldwide ERC® includes demand deposits and money market funds, which are not held for investment purposes, in cash and cash equivalents.

Accounts receivable: Accounts receivable consist primarily of amounts due for conference registrations and MOBILITY advertising revenue. Worldwide ERC®'s management periodically reviews the status of all accounts receivable balances for collectability, and each receivable balance is assessed based on management's knowledge of the customer, relationship with the customer, and the age of the receivable balance. As a result of these reviews, accounts receivable balances deemed to be uncollectible are charged 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. Bad debt expense was \$0 for both years ended March 31, 2019 and 2018.

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets without donor restrictions: Net assets without donor restrictions include those net assets whose use has not been restricted by donors, even though their use may be limited in other respects, such as by board-designation.

Measure of operations: Worldwide ERC® does not include net realized/unrealized gain (loss) on investments, provision for income taxes, technology infrastructure, gain on write-off of deferred rent and lease incentive, and loss on disposal of property and equipment in the change in net assets from operations.

Change in accounting policies: Worldwide ERC® adopted FASB Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended March 31, 2019. ASU 2016-14 refreshes current accounting standards by simplifying the presentation of net assets on the face of the financial statements and enhancing disclosures related to liquidity and functional expense. Accounting and reporting changes related to ASU No. 2016-14 have been retrospectively applied to all prior periods presented as if the policy had always been in effect.

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported net income. In particular, the following 2018 expenses have been reclassified in the current year presentation:

	Previously Reported	Reclassification	Currently Reported
Expense			
Professional services	\$ 2,051,397	\$ 58,945	\$ 2,110,342
Publication services	770,818	(58,945)	711,873
	\$ 2,822,215	\$ -	\$ 2,822,215

Subsequent events: Subsequent events have been evaluated through July 9, 2019, which is the date the consolidated financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: Worldwide ERC® maintains demand deposits with commercial banks and money market funds with financial institutions. At times, deposit and money market fund balances held by Worldwide ERC® may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of the deposit 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 Worldwide ERC®.

Market risk: Worldwide ERC® has a professionally managed portfolio of investments primarily consisting of fixed income securities. Such investments are exposed to market and credit risks and may be subject to 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.

Notes to the Consolidated Financial Statements

C. INVESTMENTS

In accordance with accounting principles generally accepted in the United States of America, Worldwide ERC® uses the following prioritized input levels to measure fair value of investments. 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 valued using Level 1 inputs include mutual funds, the values for which are based on quoted prices for identical assets in active markets.

Investments valued using Level 2 inputs include corporate bonds and U.S. Government obligations, which were valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security.

Management believes the estimated fair values of investments to be a reasonable approximation of their exit price.

Investments recorded at cost include money market funds and certificates of deposit. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

The following is a summary of the input levels used to determine fair value of investments, which are measured on a recurring basis, at March 31, 2019:

2019	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Corporate bonds	\$ 2,173,496	\$ -	\$ 2,173,496	\$ -
U.S. Government obligations	2,093,651		2,093,651	
Mutual funds - equities	36,084	36,084		
	4,303,231	\$ 36,084	\$ 4,267,147	\$ -
Investments, at cost				
Money market funds	193,377			
Certificates of deposit	6,021,000			
	\$ 10,517,608			

Notes to the Consolidated Financial Statements

C. INVESTMENTS - CONTINUED

The following is a summary of the input levels used to determine fair value of investments, which are measured on a recurring basis, at March 31, 2018:

2018	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Corporate bonds	\$ 2,609,292	\$ -	\$ 2,609,292	\$ -
U.S. Government obligations	1,300,101		1,300,101	
Mutual funds - equities	814,498	814,498		
Mutual funds - fixed income	4,424	4,424		
	<u>4,728,315</u>	<u>\$ 818,922</u>	<u>\$ 3,909,393</u>	<u>\$ -</u>
Investments, at cost				
Money market funds	489,259			
Certificates of deposit	<u>4,641,000</u>			
	<u>\$ 9,858,574</u>			

Investments consisted of the following at March 31,:

	2019	2018
Investments available for general expenditures	\$ 10,423,730	\$ 8,921,589
Assets held to fund deferred compensation	<u>93,878</u>	<u>936,985</u>
	<u>\$ 10,517,608</u>	<u>\$ 9,858,574</u>

Net investment return consisted of the following for the years ended March 31,:

	2019	2018
Interest income	\$ 193,908	\$ 171,366
Investment management fees	<u>(20,109)</u>	<u>(20,051)</u>
	173,799	151,315
Net realized/unrealized gain (loss) on investments	<u>44,173</u>	<u>(57,670)</u>
	<u>\$ 217,972</u>	<u>\$ 93,645</u>

Notes to the Consolidated Financial Statements

D. LIQUIDITY

Worldwide ERC® structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In particular, Worldwide ERC® follows its investment policy which provides guidance regarding the investment of cash balances in excess of immediate liquidity needs.

The following provides a summary of financial assets available for general expenditures within one year at March 31,:

	2019	2018
Cash and cash equivalents	\$ 3,510,666	\$ 6,586,740
Investments	10,517,608	9,858,574
Accounts receivable	<u>355,328</u>	<u>353,879</u>
	14,383,602	16,799,193
Less deferred compensation liability	<u>(93,878)</u>	<u>(936,985)</u>
	<u>\$ 14,289,724</u>	<u>\$ 15,862,208</u>

E. RELATED PARTY TRANSACTIONS

Worldwide ERC® Foundation for Workforce Mobility (the Foundation) is exempt from the payment of income taxes on its exempt activities under section 501(c)(3) of the Internal Revenue Code. One member of Worldwide ERC®'s management team and the Chairman of the Board of Directors of Worldwide ERC® both have non-voting rights on the Foundation's Board of Trustees. However, because Worldwide ERC® does not have the ability to appoint a majority voting interest of the Foundation's Board of Trustees, Worldwide ERC® does not control the Foundation. Therefore, the Foundation is not required, under current accounting standards, to be included in Worldwide ERC®'s consolidated financial statements.

Worldwide ERC® has recorded a payable to the Foundation totaling \$621 and \$720 as of March 31, 2019 and 2018, respectively, representing the net effect of the intra-entity transactions.

Worldwide ERC® provided basic administrative services to the Foundation free-of-charge as an in-kind contribution. Effective January 1, 2019, the Foundation paid Worldwide ERC® an administrative fee of \$1,500 per month. Therefore, administrative fees from the Foundation totaled \$4,500 and \$0 for the years ended March 31, 2019 and 2018, respectively. Administrative fees have been included in other income in the accompanying consolidated statements of activities.

Notes to the Consolidated Financial Statements

F. INCOME TAXES

Worldwide ERC® is exempt from the payment of income taxes on its exempt activities under section 501(c)(6) of the Internal Revenue Code. However, Worldwide ERC® is subject to income tax on its unrelated business activities. The provision for income taxes reported in the consolidated statements of activities solely relates to Worldwide ERC®'s current Federal and state income tax expense. The provision for income taxes totaled \$151,365 and \$187,812 for the years ended March 31, 2019 and 2018, respectively.

Gx files corporate income tax returns with the U.S. government and the Commonwealth of Virginia and has generated a small balance of net operating loss carry forwards. The net operating loss carry forwards may be applied against current and future years' taxable income.

Zhiqian files income tax returns with the government of the People's Republic of China. Tax expense related to operations in Asia was included in other expense in the accompanying consolidated statements of activities and totaled \$11,070 and \$12,758 for the years ended March 31, 2019 and 2018, respectively.

G. PROPERTY AND EQUIPMENT

Acquisitions of furniture and equipment greater than \$500 are recorded at cost and depreciated or amortized using the straight-line method over useful lives ranging from 2 to 7 years. Leasehold improvements are recorded at cost 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 March 31,:

	2019	2018
Furniture and equipment	\$ 1,801,292	\$ 1,819,890
Leasehold improvements	<u>717,752</u>	<u>-</u>
	2,519,044	1,819,890
Less accumulated depreciation and amortization	<u>(1,235,061)</u>	<u>(1,476,621)</u>
	<u>\$ 1,283,983</u>	<u>\$ 343,269</u>

Depreciation expense totaled \$210,640 and \$131,789 for the years ended March 31, 2019 and 2018, respectively.

Notes to the Consolidated Financial Statements

H. DEFERRED REVENUE

Revenue received in advance of the period in which it will be earned is reported as deferred revenue. Membership revenue is recognized in the period during which the services are provided. Conferences and summits revenue includes registration fees, exhibit fees, and sponsorships which are recognized in the month during which the events occur.

Deferred revenue consisted of the following at March 31,:

	2019	2018
Membership	\$ 1,881,591	\$ 2,017,166
Conferences and summits	1,370,101	1,480,624
Other income	<u>52,514</u>	<u>16,114</u>
	<u>\$ 3,304,206</u>	<u>\$ 3,513,904</u>

I. RETIREMENT PLANS

Defined contribution plan: Worldwide ERC® sponsors a qualified 401(k) plan available to all employees meeting certain eligibility requirements as defined by the plan document. Unless limited by IRS regulations, Worldwide ERC® provides safe harbor matching contributions equal to 100% of participant contributions up to 4% of participant compensation. Worldwide ERC®'s contributions, excluding amounts forfeited by non-vested participants, totaled \$113,036 and \$115,225 for the years ended March 31, 2019 and 2018, respectively.

Deferred compensation plans: Prior to obtaining exemption from income taxes, Worldwide ERC® had a nonqualified deferred compensation plan for a group of key employees which was established under Internal Revenue Code Section 409A. The plan was frozen in a prior year and participants have continued to liquidate their assets by requesting distributions from the plan in accordance with the plan document.

Worldwide ERC® also has nonqualified deferred compensation plan for a key employee which was established under Internal Revenue Code Section 457(b).

Worldwide ERC®'s obligation under both of the deferred compensation plans is funded by investments as described in Note C which totaled \$93,878 and \$936,985 at March 31, 2019 and 2018, respectively. The deferred compensation liability equals the assets held to fund deferred compensation both of which totaled \$93,878 and \$936,985 at March 31, 2019 and 2018, respectively.

Notes to the Consolidated Financial Statements

J. FUNCTIONAL EXPENSE

Worldwide ERC® has reported natural expenses in the consolidated statements of activities. Natural expenses that directly relate to a particular program or supporting service have been charged to the applicable functional activity and have not been allocated. Shared costs related to all programs and supporting services have been allocated to the program and supporting services that benefited. In particular, salaries and fringe benefits have been allocated based on management's estimates of effort. Other shared costs, such as rent, depreciation, and information technology have been allocated based either on employee effort or usage.

Technology infrastructure has been reported in the consolidated statements of activities as a non-operating item that includes non-capitalizable costs related to a new customer relationship management system. Technology infrastructure costs are not the same as information technology costs. Therefore, technology infrastructure costs have not been allocated and are not included in the functional expense information presented below.

Provision for income taxes has also been reported in the consolidated statements of activities as a non-operating item. Therefore, provision for income taxes has not been allocated and is not included in the functional expense information presented below.

Functional expense consisted of the following for the years ended March 31,:

2019	Conferences and Summits	Membership	Education and Professional Development	Other Programs	General and administrative	Total
Salaries and fringe benefits	\$ 1,181,501	\$ 733,334	\$ 1,129,029	\$ 98,758	\$ 1,334,142	\$ 4,476,764
Meetings	2,655,804	43,049	47,290	2,732	229,987	2,978,862
Professional services	334,879	529,629	318,996	294,227	1,049,863	2,527,594
Office expense	265,380	109,765	106,501	50,215	250,985	782,846
Publication services	85,513	128,161	62,757	452,755	1,518	730,704
Other expense	238,419	187,339	47,205	19,323	199,164	691,450
Depreciation and amortization	80,887	29,411	29,079	15,595	55,668	210,640
	\$ 4,842,383	\$ 1,760,688	\$ 1,740,857	\$ 933,605	\$ 3,121,327	\$ 12,398,860

2018	Conferences and Summits	Membership	Education and Professional Development	Other Programs	General and administrative	Total
Salaries and fringe benefits	\$ 1,238,989	\$ 801,127	\$ 1,074,268	\$ 154,676	\$ 1,244,812	\$ 4,513,872
Meetings	2,390,193	64,347	54,127	3,060	212,907	2,724,634
Professional services	287,630	531,194	269,547	223,601	798,370	2,110,342
Office expense	286,624	125,471	106,554	57,774	237,662	814,085
Publication services	48,843	122,137	60,258	468,013	12,622	711,873
Other expense	211,745	198,800	46,547	16,880	197,124	671,096
Depreciation and amortization	49,820	20,569	17,982	10,312	33,106	131,789
	\$ 4,513,844	\$ 1,863,645	\$ 1,629,283	\$ 934,316	\$ 2,736,603	\$ 11,677,691

Notes to the Consolidated Financial Statements

J. FUNCTIONAL EXPENSE - CONTINUED

The following is a summary of program and supporting services, excluding non-operating items, for the years ended March 31,:

	2019	2018
Conferences and Summits	\$ 4,842,383	\$ 4,513,844
Membership	1,760,688	1,863,645
Education and Professional Development	1,740,857	1,629,283
Other Programs	<u>933,605</u>	<u>934,316</u>
Total program services	9,277,533	8,941,088
General and Administrative	<u>3,121,327</u>	<u>2,736,603</u>
Total supporting services	<u>3,121,327</u>	<u>2,736,603</u>
	<u>\$ 12,398,860</u>	<u>\$ 11,677,691</u>

K. COMMITMENTS AND CONTINGENCIES

Terminated operating lease: Worldwide ERC® had an operating lease for office space that was terminated on October 31, 2017 (during the year ended March 31, 2018). The lease included an abatement of rent and an escalation clause that adjusted annual base rentals.

Under the terminated lease, Worldwide ERC® was provided a tenant improvement allowance to build-out the office space totaling \$592,470 and an additional tenant improvement loan totaling \$197,490. The loan was repaid as additional rent and the cost of the build-out was capitalized within property and equipment as leasehold improvements, which were amortized over the term of the lease. The rent abatement and scheduled rent increases along with the tenant improvement allowance and loan were recorded as a liability and were amortized ratably to achieve straight-line rent expense over the term of the lease.

Upon termination of the old lease, Worldwide ERC® wrote off the assets and liabilities related to the old lease. Therefore, the consolidated statements of activities included a gain on the write-off of the deferred rent and lease incentive liability totaling \$130,920 during the year ended March 31, 2018. The consolidated statements of activities also included a loss on the write-off of the leasehold improvements totaling \$72,910 during the year ended March 31, 2018. The loss on the write-off of leasehold improvements was included in the loss on disposal of property and equipment.

Notes to the Consolidated Financial Statements

K. COMMITMENTS AND CONTINGENCIES - CONTINUED

Current operating lease: In conjunction with terminating its previous operating lease, Worldwide ERC® signed a new operating lease with the same landlord and agreed to reduce the amount of office space. The new operating lease expires on October 31, 2028. The current operating lease includes an abatement of rent and an escalation clause that adjusts annual base rentals. The lease also has a pass-through clause relating to real estate taxes and operating expenses, which are not included in base rentals.

Under the current operating lease, Worldwide ERC® was provided a tenant improvement allowance to build-out the office space totaling \$488,760. Worldwide ERC® completed the build-out during the year ended March 31, 2019 and the cost of the build-out was capitalized within property and equipment as leasehold improvements which will be amortized over the term of the lease. The rent abatement and scheduled rent increases along with the tenant improvement allowance have been recorded as a liability and will be amortized ratably to achieve straight-line rent expense over the term of the lease. The liability for deferred rent and lease incentive totaled \$810,439 and \$168,410 at March 31, 2019 and 2018, respectively.

Future minimum rental payments related to the current operating lease are as follows:

Year Ending March 31,	Amount
2020	\$ 395,200
2021	405,100
2022	415,300
2023	425,600
2024	436,300
Thereafter	<u>2,141,900</u>
	<u>\$ 4,219,400</u>

Rent expense related to both the terminated and the current operating leases totaled \$364,681 and \$458,977 for the years ended March 31, 2019 and 2018, respectively.

Employment agreement: Worldwide ERC® has an employment agreement with a key employee, which expires April 2022. The terms of the agreement include severance in the event of termination without cause.

Hotel agreements: Worldwide ERC® has entered into several agreements with hotels providing room accommodations and service for its future meetings and conferences through the year ending March 31, 2025. Most of these hotel agreements contain a clause whereby Worldwide ERC® is liable for liquidated damages in the event of cancellation, or lower than expected attendance, as calculated in accordance with the terms of the agreements.