# Project Management Institute and Subsidiaries

2017 | Consolidated Financial Statements

PMI Project Management Institute

# TABLE OF CONTENTS



*Featured on the covers,*
PMI certification holders
Rahul Bandhari, PMP, USA (left) and
Diogo Magalhaes, PMP, Canada (right).

RSM US LLP

# Independent Auditor's Report

To the Board of Directors
Project Management Institute

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Project Management Institute (a nonprofit organization) and Subsidiaries, which comprise the consolidated statements of financial position as of 31 December 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Project Management Institute (a nonprofit organization) and Subsidiaries as of 31 December 2017 and 2016, 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.

RSM US LLP

Blue Bell, Pennsylvania
23 April 2018

## Consolidated Statements of Financial Position

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 18,378,769 | $ 14,726,938 |
| Investments (Notes 2 and 3) | 476,036,719 | 431,833,164 |
| Accounts and other receivables, net | 11,321,241 | 8,796,498 |
| Prepaid expenses | 4,228,326 | 3,814,191 |
| Inventory, net | 1,350,945 | 506,136 |
| Total current assets | 511,316,000 | 459,676,927 |
| Property and equipment, net (Note 4) | 10,766,096 | 15,847,791 |
| Long-term assets: | | |
| Deposits and other assets | 376,136 | 343,454 |
| Investments - long-term (Notes 2 and 3) | 37,996,249 | 2,847,200 |
| Intangible assets, net (Notes 3 and 6) | 925,180 | 1,737,228 |
| Goodwill (Notes 3 and 6) | 189,400 | 189,400 |
| Deferred tax asset - long-term, net (Note 14) | 467,891 | 211,303 |
| Total long-term assets | 39,954,856 | 5,328,585 |
| Total assets | $ 562,036,952 | $ 480,853,303 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable (Note 7) | $ 5,036,039 | $ 5,566,929 |
| Unearned revenue (Note 8) | 41,503,042 | 38,127,945 |
| Accrued expenses | 20,651,834 | 9,188,295 |
| Accrued salaries and payroll taxes | 4,891,656 | 3,848,739 |
| Grants payable - current (Note 9) | 839,237 | 525,432 |
| Deferred compensation (Note 17) | 590,224 | 294,670 |
| Total current liabilities | 73,512,032 | 57,552,010 |
| Long-term liabilities: | | |
| Grants payable - long-term (Note 9) | 248,455 | 138,583 |
| Deferred rent liability | 40,345 | 594,612 |
| Total long-term liabilities | 288,800 | 733,195 |
| Total liabilities | 73,800,832 | 58,285,205 |
| Commitments and contingencies (Note 16) | | |
| Net assets: | | |
| Unrestricted net assets | 485,737,615 | 420,283,020 |
| Temporarily restricted net assets (Note 10) | 479,929 | 365,920 |
| Permanently restricted net assets (Notes 10 and 11) | 2,018,576 | 1,919,158 |
| Total net assets | 488,236,120 | 422,568,098 |
| Total liabilities and net assets | $ 562,036,952 | $ 480,853,303 |

See notes to consolidated financial statements

## Consolidated Statements of Activities

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Changes in unrestricted net assets: | | |
| Revenue and support: | | |
| Dues and professional examination fees | $ 178,406,193 | $ 152,028,494 |
| Conferences, seminars and professional development | 16,090,853 | 17,531,559 |
| Book sales and advertising | 12,037,451 | 11,801,955 |
| Other | 1,046,617 | 1,500,865 |
| Investment income, net | 61,563,955 | 22,388,258 |
| Contributions | 530,104 | 454,297 |
| Net assets released from restrictions | 329,236 | 327,273 |
| Total revenue and support | 270,004,409 | 206,032,701 |
| Expenses and losses: | | |
| Program expenses: | | |
| Brand management | 42,501,802 | 40,043,272 |
| Practitioner career development | 81,449,192 | 68,279,481 |
| Global membership and chapters | 18,344,876 | 16,909,827 |
| Strategy | 27,797,940 | 22,308,472 |
| PMI Educational Foundation | 4,323,901 | 3,646,469 |
| Coalition building | 5,063,435 | - |
| Total program expenses | 179,481,146 | 151,187,521 |
| Support expenses: | | |
| Finance and administration | 15,964,736 | 10,455,283 |
| Executive | 1,859,384 | 1,542,375 |
| Governance | 2,466,239 | 2,360,897 |
| Information technology | 813,077 | 739,435 |
| Total support expenses | 21,103,436 | 15,097,990 |
| Total expenses | 200,584,582 | 166,285,511 |
| Loss on abandonment of software development (Note 4) | 3,440,575 | - |
| Impairment losses (Notes 3 and 6) | 524,657 | 3,865,635 |
| Total expenses and losses | 204,549,814 | 170,151,146 |
| Increase in unrestricted net assets | 65,454,595 | 35,881,555 |
| Changes in temporarily restricted net assets: | | |
| Contributions | 62,350 | 116,682 |
| Net assets released from restrictions | (329,236) | (327,273) |
| Investment income, net | 380,895 | 155,517 |
| Increase (decrease) in temporarily restricted net assets | 114,009 | (55,074) |
| Changes in permanently restricted net assets: | | |
| Contributions | 99,418 | 57,617 |
| Increase in permanently restricted net assets | 99,418 | 57,617 |
| Increase in net assets | 65,668,022 | 35,884,098 |
| Net assets, beginning of year | 422,568,098 | 386,684,000 |
| Net assets, end of year | $ 488,236,120 | $ 422,568,098 |

See notes to consolidated financial statements

## Consolidated Statements of Cash Flows

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase in net assets | $ 65,668,022 | $ 35,884,098 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,965,096 | 6,910,291 |
| Amortization of intangible assets | 287,391 | 539,231 |
| Realized and unrealized gain on investments | (51,308,675) | (11,204,141) |
| Contributions restricted for endowment | (99,418) | (61,246) |
| Loss on sales and abandonment of property and equipment | 37,615 | 642 |
| Loss on abandonment of software development | 3,440,575 | - |
| Valuation loss on impairment of leasehold improvements | - | 68,305 |
| Valuation loss on impairment of goodwill and intangible assets | 524,657 | 3,865,673 |
| Provision for (recovery of) uncollectible accounts | 107,943 | (87,606) |
| (Recovery of) provision for inventory obsolescence | (48,215) | 80,699 |
| Deferred rent liability | (562,200) | (477,120) |
| Deferred tax (benefit) expense | (256,588) | 13,552 |
| (Gain) loss on translation adjustments | (217,699) | 111,965 |
| (Increase) decrease in assets: | | |
| Accounts and other receivables | (2,478,536) | 845,027 |
| Inventory | (796,326) | (65,620) |
| Prepaid expenses | (396,825) | (1,481,556) |
| Deposits and other assets | (15,614) | 1,816 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (572,307) | (2,942,030) |
| Unearned revenue | 3,371,435 | (1,902,133) |
| Accrued expenses | 11,454,490 | 2,512,495 |
| Accrued salaries and payroll taxes | 1,028,637 | 127,530 |
| Grants payable | 423,677 | 175,345 |
| Deferred compensation | 295,554 | 294,670 |
| Net cash provided by operating activities | 36,852,689 | 33,209,887 |
| Cash flows from investing activities: | | |
| Purchase of investments | (707,148,889) | (168,463,277) |
| Proceeds from sale of investments | 679,130,952 | 139,222,775 |
| Purchase of property and equipment | (5,363,730) | (4,797,296) |
| Net cash used in investing activities | (33,381,667) | (34,037,798) |
| Cash flows from financing activities: | | |
| Proceeds from contributions restricted for endowment | 42,629 | 66,977 |
| Net cash provided by financing activities | 42,629 | 66,977 |
| Effect on unrealized exchange rate changes on cash and cash equivalents | 138,180 | (109,536) |
| Net increase (decrease) in cash and cash equivalents | 3,651,831 | (870,470) |
| Cash and cash equivalents, beginning of year | 14,726,938 | 15,597,408 |
| Cash and cash equivalents, end of year | $ 18,378,769 | $14,726,938 |
| Supplemental cash flows disclosure: | | |
| Cash paid for income taxes | $ 567,344 | $179,928 |

See notes to consolidated financial statements

# NOTE 1

## Organization and Significant Accounting Policies

**Organization and nature of activities:** Project Management Institute (the Institute) is the world's leading not-for-profit membership association for the project management profession, with more than 500,000 members and 828,000 credential holders in over 200 countries. The Institute's worldwide advocacy for project management is supported by its globally recognized standards and credentials, its extensive research program, and its professional development opportunities. Its products and services are the basis of greater recognition and acceptance of project management's successful role in governments, organizations, academia and industries. Primary sources of revenue include dues, professional examination fees, conferences and seminars, and book sales. The Institute's headquarters are located in Newtown Square, Pennsylvania. In addition, the Institute operates internationally through contract service centers located in Dundalk, Ireland, New Delhi, India, and Singapore that provide local customer care services, as well as through subsidiaries located in Beijing, Brussels, Dubai, London, Mumbai, and Singapore that provide local marketing services, conduct advocacy programs with regional organizations and academia, and foster regional chapter development activities. Project Management Institute is affiliated with domestic and international chapters. Chapters are separate, independent operating entities and, therefore, the consolidated financial statements do not include the accounts of these operating entities. The Institute also provided benchmarking and assessment services through subsidiaries in London and Sydney through early 2017.

In 2017, and in conjunction with senior leaders representing influential organizations from the business, government, academic and social sectors, the Institute launched a non-commercial coalition dedicated to helping organizations bridge the gap between strategy design and strategy delivery and implementation through networking, capability building, and thought and practice leadership.

**Principles of consolidation:** The consolidated financial statements include accounts of Project Management Institute Educational Foundation (PMI Educational Foundation or the Foundation), PMI Organization Centre Private Ltd, a majority-owned subsidiary in Mumbai, Republic of India (PMI India); PMI (Beijing) Project Management Technology Co., Ltd, a wholly-owned foreign enterprise in Beijing, People's Republic of China (PMI China), which has a limited contractual obligation of 20 years; Project Management Institute Australasia PTY LTD (PMI Australasia), a proprietary limited company in Sydney, Australia and subsidiary, Project Management Institute Khaleeji FZ-LLC (PMI Khaleeji), in Dubai, United Arab Emirates; PMI Europe Limited and subsidiaries (PEL), a wholly-owned subsidiary in the United Kingdom with subsidiaries in the United Kingdom and Australia; PMI Management Singapore Pte.Ltd, (PMI Singapore), a wholly-owned subsidiary in Singapore; and PMI Management Europe (PMI Belgium), a wholly owned subsidiary in Brussels, Belgium. All significant intercompany transactions and balances have been eliminated in consolidation.

During 2016, the Institute made the decision to retire the products and services offered by Human Systems International and to cease operations of these entities. On 13 January 2017, employees of HSI in London and Sydney were terminated, and the Institute began an orderly wind-up of operations with the intent to legally dissolve these entities immediately upon completion of this process. Severance amounts payable to terminated employees and other known liabilities related to the wind-up of operations are reflected in the accompanying financial statements as of 31 December 2016.

**Foreign currency translation:** The functional currencies of the Institute's foreign subsidiaries are their local currencies, Indian Rupees, Chinese Renminbi, British Pounds, United Arab Emirates Dirham, Australian Dollars, Singapore Dollars, and the Euro. All statements of financial position accounts have been translated using the exchange rate in effect at the statements of financial position dates. Statements of activities amounts have been translated using a monthly average exchange rate prevailing during the respective period.

**Basis of presentation:** The Institute reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Use of estimates:** The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Note 1: Organization and Significant Accounting Policies (continued)*

**Cash and cash equivalents:** For the purpose of the statements of cash flows, cash equivalents include all highly liquid investments with an initial maturity of three months or less that are not held in a brokerage account for reinvestment. As of 31 December 2017 and 2016, balances included in cash and cash equivalents of $0 and $46,102, respectively, are restricted for endowment.

**Investments:** The Institute carries all investments in marketable securities at fair value measured as more fully described in Note 3, and all other investments at net asset value. Interest and dividend income is recognized when earned. Realized and unrealized gains and losses are reported in the change in net assets. All marketable securities at 31 December 2017 and 2016 are managed by an investment advisor.

**Investments measured at net asset value:** The Institute measures its alternative investments using net asset value (NAV) per share (or its equivalent) as a practical expedient for fair value, and as such, the alternative investments have been excluded from the fair value hierarchy.

**Net investment income:** Net investment income is reported as an increase in unrestricted net assets unless its use is restricted by explicit donor stipulation or law.

**Accounts and other receivables:** Accounts and other receivables are stated at the amount management expects to collect from balances outstanding at year-end. The carrying amount of accounts receivable is reduced by an allowance for credit losses that reflects management's best estimate of the amounts that will not be collected. Each customer balance is individually reviewed when all or a portion of the balance exceeds 90 days from the invoice date. Based on management's reserve policy, an estimate is made of 50% of outstanding balances between 91 to 120 days and 100% of outstanding balances over 120 days of the balance that will not be collected. The allowance for uncollectible accounts was $130,349 and $107,104 at 31 December 2017 and 2016, respectively.

**Inventory:** Inventory consists of Institute publications and commercial publications held for sale, and paper stock for future production of Institute publications. Inventory is stated at the lower of cost or net realizable value, with cost being determined by the average cost method. The carrying amount of inventory is reduced by a reserve for obsolescence that reflects management's best estimate of inventory that may be obsolete and may not be sold. Based on management's reserve policy, an estimate is recorded at varying percentages of the value of inventory on hand in excess of one year's sales based on the age of the inventory and historical obsolescence percentages. The reserve for inventory obsolescence was $389,905 and $438,120 at 31 December 2017 and 2016, respectively.

**Property and equipment:** Property and equipment are stated at cost less accumulated depreciation. Maintenance, repairs and minor improvements are charged to operations as incurred. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. The estimated useful lives are as follows: buildings and improvements 5 to 40 years; office furniture and equipment 5 years; computer equipment 3 to 5 years and leasehold improvements 5 to 10 years or over the term of the lease.

**Software development costs:** The Institute expenses costs associated with the planning phase as well as costs related to the operating phase that do not significantly enhance the software. Costs incurred during the development stage are capitalized and are included in property and equipment. The costs are amortized over three years. Computer software and equipment includes capitalized software development costs of $25,573,649 and $24,093,513 at 31 December 2017 and 2016, respectively. Software development in process includes capitalized software development costs not yet placed into service.

**Goodwill and intangible assets:** Goodwill is reviewed annually for impairment to ensure that the fair value is greater than or equal to the carrying value. Any excess of carrying value over the fair value is charged to operations in the period in which impairment is determined.

Intangible assets with finite lives are amortized on a straight-line basis over the estimated residual life of the asset. Estimated asset lives are as follows: member relationships – 3 to 15 years; advertiser relationships – 7 years; developed technology – 15 years; trademarks and tradenames – 20 years to indefinite; and non-compete agreements – 6 years. The estimated useful lives of intangible assets are reviewed annually to determine if events or circumstances warrant a change in the remaining useful life of an asset. In addition, intangible assets are reviewed for impairment when events or circumstances indicate their carrying amount may not be recoverable. During 2017 and 2016, the Institute recognized losses of $524,657 and $3,865,635, respectively, related to the impairment of goodwill and intangible assets acquired with Gantthead.com and Human Systems International, as described in Note 6.

*Note 1: Organization and Significant Accounting Policies (continued)*

**Impairments of long-lived assets:** In the event that facts and circumstances indicate that the carrying value of property and equipment or other noncurrent assets may be impaired, an evaluation of recoverability is performed in order to determine if impairment exists. If an evaluation is required, the Institute estimates future undiscounted cash flows associated with the asset. If the total expected future undiscounted cash flows are less the carrying value for the asset, an impairment loss would be recognized. The impairment loss would be measured by the amount that the carrying value of the asset exceeds its fair value. As a result of the decision to wind up operations of Human Systems International during late 2016 as described in Note 5, leasehold improvements related to the HSI office lease in Sydney, Australia were considered to be impaired. As such, an impairment loss of $68,305 was recognized and is included in Strategy expense in the accompanying statement of activities for the year ended 31 December 2016.

**Grants payable:** Unconditional grants are recorded as expense during the year of approval. Grants subject to certain conditions are recorded as expense during the year in which the conditions are substantially met, or the possibility that the conditions will not be met is remote, as determined by management. Grants payable within one year are recorded at fair value at the date of authorization. Grants payable in more than one year are recorded at the present value of the future cash outflows using a risk free rate of return.

**Unearned revenue:** Unearned revenue represents gross membership and other fees less the amount earned by the Institute under normal revenue recognition procedures.

**Revenue recognition:** Membership dues are recorded in income commensurate with the term of the membership. Certification exam fee revenue is recognized as services are provided. Advertising revenues are recognized as income in the period of publication or display on website. Revenue from the sale of books is recognized when shipped to the customer. Conference, seminar and professional development revenue is recognized in the month that an event is held. Revenues are reported net of sales taxes.

**Advertising:** The Institute uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended 31 December 2017 and 2016 was $3,431,325 and $2,248,904, respectively.

**Income taxes:** The Institute is exempt from U.S. federal income taxes under Section 501(c)(6) Internal Revenue Code (IRC) and also exempt from Pennsylvania income taxes. Revenue generated from the Institute's advertising and sales of membership mailing lists are not considered program activity revenue by the Internal Revenue Service. This type of income is classified as unrelated business income and may be subject to income tax. For the years ended 31 December 2017 and 2016, there was no unrelated business income tax due.

The Foundation is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and generally exempt from federal and state taxes. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. The Foundation had no net unrelated business income for the years ended 31 December 2017 and 2016.

Management evaluated the Institute's and Foundation's tax positions and concluded that the Institute and Foundation had taken no uncertain tax positions that require adjustment to the financial statements. Consequently, no accrual for interest and penalties was deemed necessary for the years ended 31 December 2017 and 2016. The Institute and Foundation file tax returns in the U.S. federal jurisdiction. Generally, the Institute and Foundation are no longer subject to income tax examination by the U.S. federal or state tax authorities for years before 2014.

The Institute's for-profit subsidiaries that are subject to income taxes include provisions for income tax expense and deferred tax assets and liabilities which are calculated using management's best assessment of estimated future taxes to be paid. As part of the process of preparing the consolidated financial statements, the Institute is required to estimate income taxes in each of the tax jurisdictions in which it operates. This process involves estimating the actual current tax obligations together with assessing temporary differences resulting from differing treatment of certain items for tax and accounting purposes. These temporary differences result in non-current deferred tax assets and liabilities, which are included within the consolidated statements of financial position. The Institute then assesses the likelihood that the deferred tax assets will be recovered from future taxable income. The Institute recognizes deferred tax assets to the extent that the Institute believes these assets are more likely than not to be realized. In making such a determination, the Institute considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations. Actual results could differ from this assessment if adequate taxable income is not generated in future periods.

***Note 1**: Organization and Significant Accounting Policies (continued)*

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Institute's results of operations, cash flows or financial position.

The Institute considers the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and the Institute's specific plans for reinvestment of those subsidiary earnings. Should the Institute decide to repatriate the foreign earnings, the Institute would need to adjust the income tax provision in the period that it was determined that the earnings will no longer be indefinitely invested outside the United States.

**Functional classification of expenses:** Costs of providing the Institute's various programs and other activities have been summarized on a functional basis. Accordingly, the expenses directly related to the programs are combined with allocations of certain common costs of the Institute which have been allocated based on estimates made by management. Activities include the following major program areas:

***Brand management:*** Brand management costs include those for development of global standards for project, program and portfolio management; for publication of monthly periodicals for the members of the Institute related to the practice and advancement of project management and current developments in the project management community; for Institute-published and other project management titles offered through the Institute's online marketplace; and for providing comprehensive access to knowledge resources, tools, networks, and broader perspectives to project, program, and portfolio managers worldwide through thought leadership publications and the Institute's PMI.org and ProjectManagement.com websites.

***Practitioner career development:*** Practitioner career development costs include those supporting delivery of examinations for the eight credentials offered by the Institute that recognize knowledge and competency; for delivery of a wide range of professional development offerings; for global accreditation programs for organizations that offer training in project management and issue professional development units (PDUs) needed by the Institute's credential holders to meeting continuing education requirements; for the most extensive research program in the field that advances the science, practice and profession of project management and expands project management's body of knowledge; and to conduct worldwide outreach programs to promote the academic value of project management.

***Global membership and chapters:*** Global membership and chapters costs include those related to the delivery of membership benefits to members of the Institute, and to foster and support chapter development activities around the world. Global membership and chapters also includes costs for the Institute's subsidiaries in Brussels, Dubai and Singapore.

***Strategy:*** Strategy costs include those for programs related to the Institute's elite community of industry and government project management directors and thought leaders who influence and advance the project and program management professions; and to conduct worldwide advocacy programs that promote the strategic organizational value of project management. Costs also include those for a refresh of the Institute's Strategic Plan in late 2016 and costs related to the implementation of that plan in 2017. Strategy also includes costs for the Institute's subsidiaries in Beijing and Mumbai.

***PMI Educational Foundation:*** PMI Educational Foundation costs include those related to carrying out the charitable purposes of the Institute and fostering project management research, education and application throughout society on a global basis by providing educational resources, grants, scholarships and awards.

***Coalition building:*** Coalition building costs include those to develop coalition guiding principles and framework, conduct professional and academic research, and build a coalition through events and promotion.

**Recent accounting pronouncements – adopted:** The Institute adopted Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2015-07) on 1 January 2017. As of 31 December 2017, certain investments were valued using net asset value (NAV) per share (or its equivalent) as a practical expedient for fair value and have been excluded from the fair value hierarchy in accordance with ASU 2015-07.

*Note 1: Organization and Significant Accounting Policies (continued)*

**Recent accounting pronouncements – not yet adopted:** In January 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 includes a number of amendments that address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendment eliminating the requirement to disclose fair value of financial instruments measured at amortized cost was previously adopted. The remaining amendments in this update are effective for the Institute for fiscal years beginning after 15 December 2018, and interim periods within fiscal years beginning after 15 December 2019. The Institute has not yet determined the effect on the consolidated financial statements of adopting the other amendments included in ASU 2016-01.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB voted to delay the effective date of the proposed standard (ASU 2015-14, *Revenue from Contracts with Customers, Deferral of the Effective Date*). The updated standard will be effective for annual reporting periods beginning after 15 December 2018. The impact of adopting ASU 2014-09 on the Institute's consolidated financial statements for subsequent periods has not yet been determined.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB Accounting Standard Codification (ASC) Topic 840, Leases (Topic 840) and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessor accounting is mostly unchanged from the current model, but updated to align with certain changes to the lessee accounting model and the new revenue recognition standard. The ASU is effective for annual reporting periods beginning after 15 December 2019, with early adoption permitted. The impact of adopting ASU on the Institute's consolidated financial statements for subsequent periods has not yet been determined.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*, which amends the requirements for financial statements and footnotes. Key elements of this amendment include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after 15 December 2017 and for interim periods within fiscal years beginning after 15 December 2018. The impact of adopting ASU 2016-14 on the Institute's consolidated financial statements for subsequent periods has not yet been determined.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Institute beginning on 1 January 2019. The adoption of ASU 2016-18 is not expected to have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The ASU simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The ASU also clarifies the treatment of the income tax effect of tax deductible goodwill when measuring goodwill impairment loss. ASU 2017-04 will be effective for the Institute beginning on 1 January 2022. ASU 2017-04 must be applied prospectively with early adoption permitted. The Institute is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

**Reclassifications:** Certain reclassifications were made to the 2016 consolidated financial statements to conform to the current year presentation. Amounts of changes in net assets or net assets previously reported were not impacted.

# NOTE 2

## Investments

At 31 December 2017, investments consist of the following:

| | | Cost | | Fair Value / Net Asset Value |
|---|---|---|---|---|
| Certificates of deposit | $ | 1,223,795 | $ | 1,223,795 |
| Mutual funds | | 432,527,790 | | 438,991,813 |
| Alternative investments (a) | | 72,400,000 | | 73,817,360 |
| Total | $ | 506,151,585 | $ | 514,032,968 |
| Investments | $ | 469,217,122 | $ | 476,036,719 |
| Investments – long-term | | 36,934,463 | | 37,996,249 |
| Total | $ | 506,151,585 | $ | 514,032,968 |

(a) Alternative investments are measured using net asset value as a practical expedient to fair value.

The following schedule summarizes the asset classes of investments as of 31 December 2017:

| | |
|---|---|
| U.S. equities mutual funds | 25% |
| International equities mutual funds | 13% |
| Fixed income mutual funds and certificates of deposit | 48% |
| Alternative investments | 14% |
| | 100% |

At 31 December 2016, investments consist of the following:

| | | Cost | | Fair Value |
|---|---|---|---|---|
| Money market funds held for reinvestment | $ | 18,923,614 | $ | 18,923,614 |
| Certificates of deposit | | 808,021 | | 808,021 |
| Equities | | 108,498,030 | | 116,264,046 |
| Mutual funds | | 191,394,395 | | 187,221,740 |
| Exchange traded funds | | 92,090,863 | | 111,462,943 |
| Total | $ | 411,714,923 | $ | 434,680,364 |
| Investments | $ | 409,006,044 | $ | 431,833,164 |
| Investments – long-term | | 2,708,879 | | 2,847,200 |
| Total | $ | 411,714,923 | $ | 434,680,364 |

The following schedule summarizes the asset classes of investments as of 31 December 2016:

| | |
|---|---|
| U.S. equities | 29% |
| International equities | 19% |
| Fixed income | 42% |
| Real estate investment trusts | 7% |
| Cash and cash equivalents | 3% |
| | 100% |

***Note 2**: Investments (continued)*

The following schedule summarizes the components of investment return which are reported in the consolidated statements of activities for the years ended 31 December:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Interest and dividend income | $ | 10,572,476 | $ | 11,239,669 |
| Net realized and unrealized gain | | 50,991,479 | | 11,148,589 |
| Investment income, net – unrestricted | $ | 61,563,955 | $ | 22,388,258 |

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Interest and dividend income | $ | 63,699 | $ | 99,965 |
| Net realized and unrealized gain | | 317,196 | | 55,552 |
| Investment income, net – temporarily restricted | $ | 380,895 | $ | 155,517 |

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

# NOTE 3

## Fair Value Measurements

**Valuation of investments:** The fair value of each investment is determined at the statement of financial position date in accordance with FASB ASC Topic 820, Fair Value Measurement. Accordingly, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts and fair value measurements are separately disclosed by level within the fair value hierarchy. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities.

**Level 2:** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following is a description of the valuation methodologies used for instruments measured at fair value. These valuation methodologies were applied to all of the Institute's financial assets that are carried at fair value as of 31 December 2017 and 2016.

**Investments:** The fair value of securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers (Level 1). When listed prices or quotes are not available, fair value is based upon quoted market prices for similar or identical assets or other observable inputs (Level 2) or significant management judgment or estimation based upon unobservable inputs due to limited or no market activity of the instrument (Level 3).

*Note 3: Fair Value Measurements (continued)*

**Fair value on a recurring basis:** The tables below present the balance of assets measured at fair value on a recurring basis as of 31 December:

2017

| | Total | Level 1 | Level 2 | Level 3 | Investments Valued at NAV |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Certificates of deposit | $ 1,223,795 | $ 1,223,795 | $ – | $ – | $ – |
| Mutual funds | 438,991,813 | 438,991,813 | – | – | – |
| Alternative investments | 73,817,360 | – | – | – | 73,817,360 |
| Total investments | $ 514,032,968 | $ 440,215,608 | $ – | $ – | $ 73,817,360 |

2016

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Money market funds held for reinvestment | $ 18,923,614 | $ 18,923,614 | $ – | $ – |
| Certificate of deposit | 808,021 | 808,021 | – | – |
| Equities | 116,264,046 | 116,264,046 | – | – |
| Mutual funds | 187,221,740 | 187,221,740 | – | – |
| Exchange traded funds | 111,462,943 | 111,462,943 | – | – |
| Total investments | $ 434,680,364 | $ 434,680,364 | $ – | $ – |

There was no change in the valuation techniques used to measure fair value of investments in the years ended 31 December 2017 and 2016.

Alternative investments represent the following as of 31 December 2017:

| | Net Asset Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Offshore Opportunity Fund (a) | $ 24,244,598 | $ – | quarterly | 95 days |
| Energy Debt Fund (b) | 19,812,104 | – | semi-annual | 95 days |
| Structured Credit Segregated Fund (c) | 14,967,719 | – | quarterly | 65 days |
| Core Property Fund (d) | 14,792,939 | – | quarterly | 95 days |
| Total | $ 73,817,360 | $ – | | |

(a) Investment fund investing in a fund of hedge funds that invest in equity hedge, global macro, relative value, and event-driven strategies. The investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption for the first year after acquisition. The remaining restriction period for these investments is ten months at 31 December 2017.

(b) A U.S. limited partnership that invests in bonds and debt securities of U.S. and international energy companies. The investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption for the first three years after acquisition. The remaining restriction period for these investments is two years and ten months at 31 December 2017.

***Note 3**: Fair Value Measurements (continued)*

(c) Investment fund investing primarily in equity and debt securities of collateralized debt obligations and other structured credit investments. The investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption for the first two years after acquisition. The remaining restriction period for these investments is one years and ten months at 31 December 2017.

(d) A U.S. limited partnership that invests in real estate funds of U.S. commercial real estate, including the office, multi-family, retail and industrial sectors. There are no restrictions on redemption of the investment as of 31 December 2017; however if the Institute were to redeem its investment, ten percent of the value of the redemption may be held in escrow until the completion of the fund's audit.

**Fair value on nonrecurring basis:** Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments were not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets carried on the statement of financial position by caption and by level within the fair value hierarchy (as described above) as of 31 December:

2017

| | Total | Level 1 | Level 2 | Level 3 | Impairment |
|---|---|---|---|---|---|
| Goodwill | $ 189,400 | $ – | $ – | $ 189,400 | $ – |
| Intangible assets: | | | | | |
| Advertiser relationships | $ 201,900 | $ – | $ – | $ 201,900 | $ 524,657 |
| Trademarks/tradenames | 723,280 | – | – | 723,280 | – |
| | $ 925,180 | $ – | $ – | $ 925,180 | $ 524,657 |

2016

| | Total | Level 1 | Level 2 | Level 3 | Impairment |
|---|---|---|---|---|---|
| Goodwill | $ 189,400 | $ – | $ – | $ 189,400 | $ 1,351,509 |
| Intangible assets: | | | | | |
| Advertiser relationships | $ 968,743 | $ – | $ – | $ 968,743 | $ – |
| Membership relationships | – | – | – | – | 903,918 |
| Developed technologies | – | – | – | – | 1,184,266 |
| Trademarks/tradenames | 768,485 | – | – | 768,485 | 222,078 |
| Non-compete agreements | – | – | – | – | 203,864 |
| | $ 1,737,228 | $ – | $ – | $ 1,737,228 | $ 2,514,126 |

# NOTE 4

## Property and Equipment

Property and equipment at 31 December are as follows:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 792,689 | $ 792,689 |
| Buildings and improvements | 3,928,185 | 3,928,185 |
| Leasehold improvements | 6,779,859 | 6,869,900 |
| Office furniture and equipment | 4,794,932 | 3,895,885 |
| Computer software and equipment | 30,724,289 | 28,011,174 |
| Software development in process | 28,389 | 1,967,339 |
| | 47,048,343 | 45,465,172 |
| Less accumulated depreciation and amortization | (36,282,247) | (29,617,381) |
| Net property and equipment | $ 10,766,096 | $ 15,847,791 |

***Note 4**: Property and Equipment (continued)*

As a result of the decision to wind up operations of Human Systems International during 2016 (see Note 5), leasehold improvements related to the HSI office lease in Sydney, Australia that commenced 1 November 2015 were considered to be impaired as of 31 December 2016. As such, an impairment loss of $68,305 was recognized and is included in Strategy expense in the accompanying statement of activities for the year ended 31 December 2016.

In December 2017, the Institute made a decision to sunset a research and development project that no longer aligned with its refreshed strategy. As such, the Institute recorded a loss on the abandonment of software development of $3,440,575, which is included on the statement of activities for the year ended 31 December 2017.

# Note 5

## Business Combinations

**Human Systems International:** On 3 May 2013, the Institute formed a wholly-owned foreign subsidiary in the United Kingdom, PMI Europe Limited (PEL). PEL is a private limited holding company established for purposes of the acquisitions described in the following paragraphs. On 7 August 2013, PEL formed a wholly owned foreign subsidiary in Australia, PMI Holdings Pty Ltd. (PHPL). PHPL is a private limited company also established as a holding company for acquisition purposes.

On 26 September 2013, PEL and PHPL purchased 100% of the ownership of the Human Systems International group companies (HSI) through a series of concurrent acquisitions. HSI is a group of for-profit assessment and benchmarking companies with offices in London, United Kingdom and Sydney, Australia. HSI developed the world's largest and most robust database that highlights organizational project and program management best practices; using the insights assembled from this rich data sources has accelerated the Institute's ability to develop relevant and credible thought leadership positions, content resources, and knowledge and sharing among members and other key stakeholders. The excess of the purchase price over the net tangible assets and liabilities of $1,351,509 was recorded as goodwill.

During 2016, the Institute, in conjunction with its Board of Directors, commenced a strategy refresh which identified the individual practitioner as the Institute's primary customer. As part of this change in focus, it was determined that existing approach to serving organizations, which included the products and services offered by HSI, did not align with the Institute's new strategic direction going forward. As such, a decision was made to retire the products offered by HSI and commence the wind-up of operations for these entities, with the intent to legally dissolve them in 2017. As a result of this decision, goodwill and intangible assets related to the purchase of these entities was determined to be fully impaired as of 31 December 2016, as discussed further in Note 6.

**Gantthead.com, Inc.:** On 31 December 2013, the Institute purchased 100% of the ownership interests of Gantthead.com, Inc. (Gantt head or the Entity), a taxable entity incorporated in Delaware, for $3,100,000. On 10 April 2014, the Institute's Board of Directors adopted a resolution to dissolve the Entity in accordance with Delaware General Corporation Law and to file an election under IRC Section 338(h)(10) to liquidate the Entity. All assets, liabilities and intellectual property of the Entity were effectively transferred to the Institute as of the acquisition date.

Through the acquisition of Gantthead, the Institute acquired two websites, ProjectManagement.com and Projects@Work.com. As a result, the Institute now delivers the most comprehensive access to knowledge resources, tools, networks, and broader perspectives to project, program, and portfolio managers worldwide. Both sites focus on generating content through use of industry experts, and facilitating global networking and knowledge sharing among practitioners at all levels, across all regions and industries.

The excess of the purchase price over the net tangible assets and liabilities of $189,400 was recorded as goodwill.

# Note 6

## Goodwill and Other Intangible Assets

Goodwill is not subject to amortization; rather, it is assessed for impairment at least annually and is primarily related to growth expectations, expected future profitability, the substantial skill and expertise of the established workforce, and expected cost synergies.

Goodwill of $189,400 as of 31 December 2017 and 2016 is the result of the acquisition of Gantthead.com described in Note 5. As the result of the Institute's decision during 2016 to wind up operations of HSI, goodwill of $1,351,509 related was HSI is considered to be impaired as of 31 December 2016, and a loss equal to this amount is included in impairment losses in Strategy in the accompanying statement of activities for the year ended 31 December 2016.

The gross carrying amount and accumulated amortization of intangible assets at 31 December are as follows:

2017

| | Gross Assets | Accumulated Amortization | Net Book Value | Useful Life |
|---|---|---|---|---|
| Advertiser relationships | $ 1,170,643 | $ 968,743 | $ 201,900 | 7 years |
| Trademarks/tradenames | 904,100 | 180,820 | 723,280 | 20 years |
| | $ 2,074,743 | $ 1,149,563 | $ 925,180 | |

2016

| | Gross Assets | Accumulated Amortization | Net Book Value | Useful Life |
|---|---|---|---|---|
| Advertiser relationships | $ 1,695,300 | $ 726,557 | $ 968,743 | 7 years |
| Trademarks/tradenames | 904,100 | 135,615 | 768,485 | 20 years |
| | $ 2,599,400 | $ 862,172 | $ 1,737,228 | |

The Institute acquired these intangibles as a result of the acquisitions described in Note 5. Estimated aggregate amortization expense for the remaining identified intangible assets is as follows for the years ending 31 December:

| | |
|---|---|
| 2018 | $ 112,505 |
| 2019 | 112,505 |
| 2020 | 112,505 |
| 2021 | 45,205 |
| 2022 | 45,205 |
| Thereafter | 497,255 |

Aggregate amortization expense was $287,391 and $539,231 in the years ended 31 December 2017 and 2016, respectively. Because of the decision to wind up the operations of HSI, the Institute determined that the carrying value of the intangible assets associated with the acquisition of HSI, including member relationships, developed technology, trademarks, and non-compete agreements, will not be recovered and that the assets have been fully impaired. Accordingly, the Institute recorded related impairment losses of $2,514,126, which are included in impairment losses in the accompanying statement of activities for the year ended 31 December 2016.

Management performed an analysis of the net carrying value of intangible assets resulting from the acquisition of Gantthead.com and determined that a portion of the remaining value of advertiser relationships will not be recovered based on projected future cash inflows from advertising revenue, and as such, the asset has been partially impaired. Accordingly, the Institute recorded a related impairment loss of $524,657 to reduce the carrying value of the asset, which is included in impairment losses in the accompanying statement of activities for the year ended 31 December 2017.

# Note 7

## Accounts Payable

Accounts payable include amounts due to local chapters for dues collected by the Institute on their behalf. Amounts due to chapters as of 31 December 2017 and 2016, were $1,178,085 and $1,109,091, respectively.

# Note 8

## Unearned Revenue

Unearned revenues at 31 December are as follows:

| | 2017 | 2016 |
|---|---|---|
| Unearned membership dues | $ 30,977,674 | $ 29,114,647 |
| Unearned professional examination fees | 8,205,408 | 6,834,595 |
| Unearned registered education provider fees | 1,456,700 | 1,500,725 |
| Advance seminar registration fees, booth sales and others | 863,260 | 677,978 |
| | $ 41,503,042 | $ 38,127,945 |

# NOTE 9

## Grants Payable

Grants payable include amounts that will be paid more than one year after the date of the financial statements, which are discounted to present value using a discount rate equal to the risk-free rate of return on the date of grant approval. Grants payable at 31 December are as follows:

| | 2017 | 2016 |
|---|---|---|
| Payable in one year or less | $ 839,237 | $ 525,432 |
| Payable in one year to five years | 257,000 | 140,000 |
| Total amount granted | 1,096,237 | 665,432 |
| Unamortized discount | (8,545) | (1,417) |
| Grants payable | $ 1,087,692 | $ 664,015 |

# NOTE 10

## Net Assets

The Institute's wholly owned foreign enterprise in Beijing, China is required to appropriate not less than 10% of its profit after tax for employee welfare benefit usage according to foreign invested enterprises law in the People's Republic of China. Annual appropriation of earnings is required until the accumulated restricted earnings balance is at least 50% of the registered capital of the Institute. Net assets appropriated under this rule were $162,348 and $123,121 as of 31 December 2017 and 2016, respectively, and are included in unrestricted net assets in the statements of financial position.

Temporarily restricted net assets at 31 December consist of the following:

| | 2017 | 2016 |
|---|---|---|
| Purpose release: | | |
| Scholarships and awards | $ 479,929 | $ 365,920 |

***Note 10**: Net Assets (continued)*

Net assets were released from restrictions by satisfying purpose restrictions during the years ended 31 December as follows:

| | 2017 | 2016 |
|---|---|---|
| Purpose release: | | |
| Scholarships and awards | $ 329,236 | $ 327,273 |

Permanently restricted net assets consist of endowment fund assets to be held in perpetuity. The income from these assets is to be used to provide scholarships and awards.

# Note 11

## Endowment Funds

Accounting standards for the classification and disclosure of endowments of nonprofit organizations provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and disclosures about an organization's endowment funds. As of 31 December 2017, Pennsylvania has not adopted UPMIFA.

The endowment of the Foundation consists of approximately 30 funds established for various purposes (donor-restricted endowment funds) and a board designated fund that was established in 2015 to support general operations. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Management has interpreted Pennsylvania law for investment of trust funds (PA Law) as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted assets is classified as temporarily restricted or unrestricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by PA Law. In accordance with PA Law, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of the investments
- Other resources of the Foundation
- The investment policies of the Foundation

*Note 11: Endowment Funds (continued)*

**Composition of endowment net assets:** Endowment funds as of 31 December 2017 and changes therein during the year then ended are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 95,414 | $ 405,227 | $ 1,955,134 | $ 2,455,775 |
| Board designated endowment funds | 722,014 | – | – | 722,014 |
| | $ 817,428 | $ 405,227 | $ 1,955,134 | $ 3,177,789 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 647,407 | $ 248,858 | $ 1,912,505 | $ 2,808,770 |
| Contributions | – | – | 42,629 | 42,629 |
| Investment income | 19,697 | 48,632 | – | 68,329 |
| Net realized and unrealized gains | 166,559 | 189,610 | – | 356,169 |
| Amounts appropriated for expenditure | (16,235) | (81,873) | – | (98,108) |
| Transfers | – | – | – | – |
| Endowment net assets, end of year | $ 817,428 | $ 405,227 | $ 1,955,134 | $ 3,177,789 |

Endowment funds as of 31 December 2016 and changes therein during the year then ended are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 65,426 | $ 248,858 | $ 1,912,505 | $ 2,226,789 |
| Board designated endowment funds | 581,981 | – | – | 581,981 |
| | $ 647,407 | $ 248,858 | $ 1,912,505 | $ 2,808,770 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 587,243 | $ 193,349 | $ 1,845,528 | $ 2,626,120 |
| Contributions | 13,980 | – | 66,977 | 80,957 |
| Investment income | 32,389 | 77,111 | – | 109,500 |
| Net realized and unrealized gains | 17,365 | 42,770 | – | 60,135 |
| Amounts appropriated for expenditure | (3,848) | (64,094) | – | (67,942) |
| Transfers | 278 | (278) | – | – |
| Endowment net assets, end of year | $ 647,407 | $ 248,858 | $ 1,912,505 | $ 2,808,770 |

*Note 11: Endowment Funds (continued)*

Amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) as of 31 December are as follows:

| | 2017 | 2016 |
|---|---|---|
| **Endowment funds classified as permanently restricted net assets** | | |
| The portion of the perpetual endowment fund that is required to be retained permanently either by explicit donor stipulation or by State law | $ 1,955,134 | $ 1,912,505 |
| **Endowment funds classified as temporarily restricted net assets** | | |
| The portion of the perpetual endowment fund subject to purpose restrictions | $ 405,227 | $ 248,858 |

**Permanently restricted funds with deficiencies:** At times, the fair value of the assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PA Law requires the Foundation to retain as a fund of perpetual duration.

Deficiencies of this nature are reported in unrestricted net assets and were $0 and $1,219 as of 31 December 2017 and 2016, respectively. Deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

**Return objectives and risk parameters:** The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a source of funding for specific program activities of the Foundation, including Scholarships and Awards, while attempting to maintain the purchasing power of the endowment assets. Endowment assets include those assets that the Foundation must hold in perpetuity or for a donor-specified period of time. The primary long-term management objective is to preserve the real (inflation adjusted) purchasing power of the endowment, both restricted and unrestricted, before gifts. This objective should be achieved over a 3-5 year period.

**Strategies employed for achieving objectives:** To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The primary investment objective of the endowment is to earn an average real total return of 5.1%.

**Spending policy and how the investment objectives relate to spending policy:** The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average value over the prior three years through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considers the long-term expected return on its endowment.

The target spending rate is that which, as part of the total return, satisfies these conditions - (a) permits reinvestment of enough total return to preserve the real purchasing power of current funds (b) permits a level of consistency and stability in the scholarship, academic and humanitarian programs of the Foundation (c) is sustainable over time regardless of periodic variations in the levels required to satisfy (a) and (d) recognizes that circumstances may preclude achievement of all three objectives in any one year.

# NOTE 12

## Concentration of Credit Risk

The Institute maintains cash and cash equivalent balances at financial institutions in accounts insured by the Federal Deposit Insurance Corporation (FDIC insured). The Institute also holds cash at overseas locations which are not subject to FDIC insurance, but which in some cases may be partially covered by local country deposit protection schemes. As of 31 December 2017, uninsured balances were approximately $16,369,000. The Institute holds investments in various funds held with its custodian that are not insured or guaranteed by the FDIC or any other government agency, and as of 31 December 2017, these investments did not include any uninsured money market funds. The Institute has not experienced any loss in such accounts. The Institute's management believes it is not exposed to any significant credit risk on its cash and cash equivalents and its investment balances.

# NOTE 13

## Non-U.S. Operations and Assets

Operations outside the United States are currently conducted by subsidiaries in Beijing, China; Brussels, Belgium; Dubai, UAE; London, United Kingdom; Mumbai, India; Singapore, and Sydney, Australia. Foreign operations are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on foreign investment and income repatriation, government price or foreign exchange controls, and restrictions on currency exchange. Currency exchange controls and restrictions on the export of currency by certain countries may negatively impact the cash flows of the Institute. For example, there are currently existing currency exchange controls and restrictions on the RMB, the currency of China. Net assets of foreign subsidiaries are less than 1% of the Institute's total net assets and consist mainly of cash, accounts receivable, property and equipment, and deferred tax assets, less accounts payable, accrued expenses, and accrued salaries and payroll taxes. Total non-U.S. assets equaled approximately $3.4 million, which represented approximately 1% of the Institute's total assets.

The wholly-owned foreign subsidiary (WOFE) in China has a requirement to fund $650,000 USD in registered capital. As the funding requirement was satisfied in previous years, no further funding is required as of 31 December 2017 or 2016.

# NOTE 14

## Income Taxes

The Institute has a 99.9% interest in a foreign for-profit subsidiary, PMI Organization Centre Private Ltd, Mumbai, India. In addition, the Institute has a wholly owned foreign enterprise, PMI Project Management Technology Co., Ltd, Beijing, China; Project Management Institute Australasia PTY LTD, a proprietary limited company in Sydney, Australia, and Project Management Institute Khaleeji FZ LLC, a limited liability company in Dubai, UAE; PMI Management Singapore, a private limited company in Singapore; and PMI Management Europe, a private limited company in Brussels, Belgium. The Institute has elected to treat these foreign subsidiaries as pass-through entities for U.S. income tax purposes. The earnings from the investments in the subsidiaries are included in taxable income in a manner consistent with the financial reporting results. The majority of the earnings of the subsidiaries are derived through a cost-plus-fee arrangement with the Institute. The terms of the fee arrangements were established by independent transfer pricing studies. All of the earnings are wholly related to the tax exempt purpose of the Institute and are, therefore, not subject to unrelated business income tax in the United States.

The Institute has 100% interest in a foreign for-profit subsidiary, PMI Europe Limited (PEL), London, United Kingdom. PEL has ownership of subsidiaries in London, United Kingdom and Sydney, Australia. PEL is treated as a controlled foreign corporation for United States income tax purposes. Through early 2017, the earnings from the investment in this subsidiary were derived from benchmarking and assessment consulting services.

As of 31 December 2017, the Institute has federal income tax net operating loss (NOL) carryforwards of $3,062,188, which will expire at various dates from 2026 through 2033. The current provision reflects a deferred benefit and corresponding deferred tax asset of approximately $1,067,370 related to such NOLs.

As of 31 December 2016, the Institute has federal income tax net operating loss (NOL) carryforwards of $3,062,188, which will expire at various dates from 2025 through 2032. The current provision reflects a deferred benefit and corresponding deferred tax asset of approximately $1,067,370 related to such NOLs.

***Note 14**: Income Taxes (continued)*

The provision for taxes on income earned in Australia, Belgium, China, India, Singapore, the United Kingdom, and the United States is reported in the consolidated statements of activities in brand management, global membership and chapters, and strategy program expenses and consists of the following for the years ended 31 December:

| | 2017 | 2016 |
|---|---|---|
| Current provision | $ 257,995 | $ 267,458 |
| Deferred provision (benefit) | (247,661) | 1,748 |
| Income tax provision (benefit) | $ 10,334 | $ 269,206 |

The net deferred tax assets are reported in the consolidated statements of financial position at 31 December as follows:

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | $ 1,535,261 | $ 1,694,037 |
| Valuation allowance | (1,067,370) | (1,482,734) |
| Net deferred tax assets | 467,891 | 211,303 |
| Deferred tax liabilities | – | – |
| Total net deferred tax assets | $ 467,891 | $ 211,303 |

Deferred income taxes result from transactions which are recognized in different periods for financial and tax reporting purposes and relate primarily to differences in the bad debts written off for tax purposes, the period of deduction for goodwill and intangible assets, certain accrued expenses, and different depreciation methods. Deferred income taxes are recognized for the tax consequences of these differences by applying enacted statutory rates expected to be in effect when taxes are actually paid or recovered.

The valuation allowance was established to reduce the deferred tax asset to the amount that will more likely than not be realized. This reduction is necessary due to uncertainty of the Institute's ability to utilize all of the NOL carryforwards before they expire.

Cash paid for foreign income taxes for the years ended 31 December 2017 and 2016, were $567,344 and $179,928, respectively.

# NOTE 15

## Foreign Currency Translation Adjustments

Foreign currency translation adjustments associated with consolidating the accounts of the Institute's majority owned for-profit subsidiaries are reported in the consolidated statements of activities. The amount of accumulated translation adjustments is included in unrestricted net assets in the consolidated statements of financial position.

The accumulated foreign currency translation adjustments are as follows for the years ended 31 December:

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ (468,819) | $ (356,854) |
| Foreign currency translation adjustments | 217,699 | (111,965) |
| Balance, end of year | $ (251,120) | $ (468,819) |

# NOTE 16

## Commitments and Contingencies

The Institute has operating lease agreements for office space located in Newtown Square, Pennsylvania and Washington, D.C., USA; Beijing, Shenzhen and Shanghai, China; Mumbai, New Delhi and Bangalore, India; Dubai, UAE; Singapore and Belgium, Brussels, for which obligations end at various dates through 2023.

The Institute has lease for office space for its Global Headquarters (GHQ) in Newtown Square, Pennsylvania, USA. The original 10-year lease had total lease payments of approximately $18,600,000 and annual minimum lease payments starting at $1,700,000 that increased annually over the lease term to amounts up to $2,000,000 per year through January 2018. The lease agreement included a rent holiday of three months and provision for renewal periods at the Institute's option. The Institute recorded amounts related to rent holiday periods, scheduled rent increases and a tenant improvement allowance of $2,150,000 as deferred rent liability. The Institute amortizes the deferred rent on a straight-line basis over the lease term beginning with the date the Institute took possession of the leased space. The lease was renewed during 2017 and amended to extend its term for an additional 5 years. The amended lease has total lease payments of approximately $9,400,000 and annual minimum lease payments starting at $1,800,000 that increase annually over the lease term to amounts up to $1,950,000 per year through January 2023.

During 2017, the Institute terminated a multi-year office lease in Sydney, Australia in conjunction with the wind-up of operations for HSI.

Additionally, the Institute has lease agreements for various pieces of office equipment.

The primary component of the Institute's future obligations summarized below is the office rent expense for GHQ. The summary of the minimum future obligations related to the office space and office equipment leases for each of the fiscal years ending 31 December is presented below:

Years ending 31 December:

| | | |
|---|---|---|
| 2018 | $ | 2,362,141 |
| 2019 | | 1,899,533 |
| 2020 | | 1,883,742 |
| 2021 | | 1,912,827 |
| 2022 | | 1,944,832 |
| Thereafter | | 162,265 |
| | $ | 10,165,340 |

Rent expense for office space and equipment was $2,290,074 and $2,283,355 for the years ended 31 December 2017 and 2016, respectively.

The Institute enters into contracts with various hotels for blocks of rooms for future events. The commitments require the Institute to pay an attrition fee if the actual number of room nights used by the Institute is less than an agreed upon percentage of the initial room occupancy. The attrition fee represents the hotel's exclusive remedy for the Institute's failure to generate the agreed upon room block revenue and shall only be paid after management's review and approval.

# NOTE 17

## Retirement Plans

The Institute has a defined contribution savings plan for the benefit of its employees. Under the plan, a contribution based on compensation is made for each covered employee. The plan allows employees to make elective salary deferrals and the Institute will make matching contributions based on the employees' elective salary deferrals. For the years ended 31 December 2017 and 2016, the Institute contributed $2,230,190 and $2,172,004, respectively, to the plan.

The Institute has a deferred compensation plan for its current President and CEO which vests on 31 December 2020 and is conditional on his continuous employment through 31 December 2020. The liability for benefits under this plan was $590,224 and $294,670 as of 31 December 2017 and 2016, respectively.

In 2017 and 2016, the Institute recognized $295,554 and $294,670, respectively, in compensation expense related to the plan.

# NOTE 18

## Subsequent Events

In preparing these consolidated financial statements, management has evaluated events and transactions for potential recognition or disclosure through 23 April 2018, the date the consolidated financial statements were available to be issued.

On 17 April 2018, the UK entities of Human Systems International, Human Systems Ltd. and Human Systems International Ltd., were formally dissolved.

Beijing

Bengaluru

Brussels

Buenos Aires

Dubai

Dundalk

London

Mumbai

New Delhi

Philadelphia

Rio de Janeiro

São Paulo

Shanghai

Shenzhen

Singapore

Sydney

Washington, D.C.

Project Management Institute

Making project management indispensable for business results.®

Project Management Institute
Global Headquarters
14 Campus Blvd
Newtown Square, PA 19073-3299 USA
Tel: +1 610 356 4600 | Fax: +1 610 356 4647
Email: customercare@pmi.org