

Project Management Institute Educational Foundation

Financial Report
December 31, 2018

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
Project Management Institute Educational Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Project Management Institute Educational Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to 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 the Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Foundation adopted new accounting guidance ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and applied this retrospectively to 2017. Our opinion is not modified with respect to this matter.

RSM US LLP

Blue Bell, Pennsylvania
May 1, 2019

Project Management Institute Educational Foundation

**Statements of Financial Position
December 31, 2018 and 2017**

	2018	2017
Assets		
Cash and cash equivalents	\$ 198,402	\$ 167,569
Investments	3,125,596	3,219,633
Promises to give, net	7,653	82,616
Inventory	17,463	5,030
Prepaid expenses and other assets	45,076	145,403
Website development, net of accumulated amortization of \$449,136 and \$354,136, respectively	126,664	221,664
Computer software, net of accumulated amortization of \$272,067 and \$158,098, respectively	289,778	198,002
	<hr/>	<hr/>
Total assets	\$ 3,810,632	\$ 4,039,917
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 62,250	\$ 46,660
Grants payable	1,011,900	1,087,692
Total liabilities	<hr/> 1,074,150	<hr/> 1,134,352
Net assets:		
Without donor restrictions (deficiency)	(455,833)	(259,389)
With donor restrictions	3,192,315	3,164,954
Total net assets	<hr/> 2,736,482	<hr/> 2,905,565
	<hr/>	<hr/>
Total liabilities and net assets	\$ 3,810,632	\$ 4,039,917

See notes to financial statements.

Project Management Institute Educational Foundation

Statements of Activities

Years Ended December 31, 2018 and 2017

	2018	2017
Changes in net assets without donor restrictions:		
Support, revenue, gains and loss:		
Contributions	\$ 4,380,724	\$ 4,332,110
Book sales, net	3,363	(14,958)
Net investment return (loss)	(18,557)	48,626
Net assets released from restriction	1,850,476	2,227,924
Total support, revenue, gains and loss	6,216,006	6,593,702
Expenses:		
Program:		
PM Ready Workforce and General Programming	2,724,394	2,522,717
PM Knowledgeable Youth	995,678	1,493,576
PM Capable Nonprofits	783,680	517,178
Total program expenses	4,503,752	4,533,471
Fundraising	851,761	904,409
Management and general	1,056,937	994,552
Total expenses	6,412,450	6,432,432
Change in net assets without donor restrictions	(196,444)	161,270
Changes in net assets with donor restrictions:		
Contributions	2,057,412	1,930,420
Net investment return (loss)	(179,575)	380,895
Net assets released from restriction	(1,850,476)	(2,227,924)
Change in net assets with donor restrictions	27,361	83,391
Change in net assets	(169,083)	244,661
Net assets at beginning of year	2,905,565	2,660,904
Net assets at end of year	\$ 2,736,482	\$ 2,905,565

See notes to financial statements.

Project Management Institute Educational Foundation

**Statement of Functional Expenses
Year Ended December 31, 2018**

	Program				Supporting Services		
	PM Ready Workforce and General Programming	PM Knowledgeable Youth	PM Capable Nonprofits	Total Program	Fundraising	Management and General	Total
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,472	\$ 50,472
Amortization	54,185	54,185	54,185	162,555	30,838	15,576	208,969
Annual report	-	-	-	-	-	16,186	16,186
Awards/scholarships/sponsorships	541,579	49,568	-	591,147	-	-	591,147
Consultant fees	452,420	256,677	-	709,097	287,127	48,551	1,044,775
Grants	245,533	568,165	729,495	1,543,193	-	-	1,543,193
Information technology	13,905	70	-	13,975	22,615	4,110	40,700
Management fee	1,183,102	-	-	1,183,102	449,106	680,914	2,313,122
Marketing/promotion	16,621	169	-	16,790	8,564	-	25,354
Office	10,968	96	-	11,064	5,144	14,460	30,668
Printing and copying	14,916	-	-	14,916	2,445	8	17,369
State registration fees	-	-	-	-	-	11,974	11,974
Travel and meetings	191,165	66,748	-	257,913	45,922	216,026	519,861
Uncollectible pledges (credit)	-	-	-	-	-	(1,340)	(1,340)
Total expenses	\$ 2,724,394	\$ 995,678	\$ 783,680	\$ 4,503,752	\$ 851,761	\$ 1,056,937	\$ 6,412,450

See notes to financial statements.

Project Management Institute Educational Foundation

**Statement of Functional Expenses
Year Ended December 31, 2017**

	Program				Supporting Services		
	PM Ready Workforce and General Programming	PM Knowledgeable Youth	PM Capable Nonprofits	Total Program	Fundraising	Management and General	Total
Accounting	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,486	\$ 24,486
Amortization	42,178	42,178	42,178	126,534	22,187	12,510	161,231
Annual report	-	-	-	-	-	14,898	14,898
Awards/scholarships/sponsorships	449,124	6,425	-	455,549	-	-	455,549
Consultant fees	573,235	190,119	-	763,354	335,148	37,152	1,135,654
Grants	267,872	1,143,246	475,000	1,886,118	-	-	1,886,118
Information technology	8,211	197	-	8,408	22,228	3,356	33,992
Management fee	1,025,141	-	-	1,025,141	451,673	653,802	2,130,616
Marketing/promotion	100	3,999	-	4,099	1,550	-	5,649
Office	5,198	1,290	-	6,488	3,161	14,980	24,629
Printing and copying	16,568	113	-	16,681	4,798	451	21,930
State registration fees	-	-	-	-	-	11,500	11,500
Travel and meetings	135,090	106,009	-	241,099	63,664	183,817	488,580
Uncollectible pledges	-	-	-	-	-	37,600	37,600
Total expenses	\$ 2,522,717	\$ 1,493,576	\$ 517,178	\$ 4,533,471	\$ 904,409	\$ 994,552	\$ 6,432,432

See notes to financial statements.

Project Management Institute Educational Foundation

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (169,083)	\$ 244,661
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	208,969	161,231
Net realized and unrealized losses (gains)	276,871	(357,714)
Uncollectible pledges (credit)	(1,340)	37,600
Contributions restricted for endowment	(2,100)	(99,418)
(Increase) decrease in assets:		
Promises to give	8,685	(38,150)
Inventory	(12,433)	(5,030)
Prepaid expenses and other assets	100,327	(133,986)
Increase (decrease) in liabilities:		
Accounts payable	15,590	23,598
Grants payable	(75,792)	423,678
Net cash provided by operating activities	349,694	256,470
Cash flows from investing activities:		
Purchase of investments	(322,327)	(3,623,146)
Proceeds from sale of investments	139,493	3,608,427
Purchases of computer software	(205,745)	(118,230)
Website development	-	(95,000)
Net cash used in investing activities	(388,579)	(227,949)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	69,718	42,629
Net cash provided by financing activities	69,718	42,629
Net increase in cash and cash equivalents	30,833	71,150
Cash and cash equivalents:		
Beginning of year	167,569	96,419
End of year	\$ 198,402	\$ 167,569

See notes to financial statements.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Nature of organization: Project Management Institute Educational Foundation (Foundation) is organized and operated exclusively as an independent nonprofit charitable “supporting organization” of Project Management Institute (PMI) within the meaning of Section 501(c)(3) and Section 509(a)(3) of the United States of America Internal Revenue Code (IRC). The Foundation carries out the charitable purposes of PMI and fosters project management research, education and application throughout society on a global basis by providing educational resources, grants, scholarships and awards.

Beginning in 2019, the Foundation plans to implement a modified strategy that brings project management to youth through youth-serving nonprofits; however, the following program activities reflect its focus in 2018 and 2017:

PM Knowledgeable Youth: Integrate Project Management and Project-Centered Education into K through 12 Curricula

Launched in 2012, this program initially focused on getting project management and project-centered education integrated into the curricula for 13- to 19-year-old students globally. It is the cornerstone initiative of the Foundation’s programs and activities and is being used as the laboratory in which the Foundation continues to build and invest in distinctive capabilities. Over the years, as the program shifted focus from pilot to scaling globally, the Foundation extended into primary school education.

PM Capable Nonprofits

Project management professionals believe that improving response in times of need can be accomplished through providing project management training to non-governmental organizations so that they may use their limited resources more efficiently and effectively. These activities also include those organizations providing front-line disaster relief personnel and humanitarian efforts. The Foundation also regularly offers project management related professional development scholarships to the staff of non-governmental organizations.

PM Ready Workforce and General Programming

The Foundation delivers general programming to include dozens of scholarships, professional and student awards, networking groups, engagement of local communities through PMI chapters, volunteer opportunities and new educational resources.

Basis of presentation: The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Unconditional contributions are recognized as support in the period received. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor. Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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.

Cash and cash equivalents: For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments: The Foundation records investments in marketable equity securities with readily determinable fair values and all investments in debt securities at fair value measured as more fully described in Note 3. Net investment return (loss) consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses. Net investment return (loss) is reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law.

The Foundation invests in various marketable equity securities (mutual funds). These 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 balances and the amounts reported in the statements of financial position and statements of activities.

Investment pools: The Foundation maintains master investment accounts for its donor-restricted endowment investments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual accounts based on the relationship of the beginning cost value of each investment to the total cost value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Promises to give: Unconditional promises to give are reported at the amounts management expects to collect on balances outstanding at year end. Changes in the allowance for uncollectible amounts are reported as uncollectible losses or recoveries and changes in the amount of discount are netted against contributions, both in the statements of activities. Management closely monitors outstanding balances and writes off, as of year-end, all balances that are not considered collectible. Unconditional promises to give, less an allowance for uncollectible accounts, are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are not recognized until they become unconditional; that is, in the period in which the conditions on which they depend are substantially met. The allowance was \$0 and \$2,500 at December 31, 2018 and 2017, respectively.

Inventory: Inventory consists of a Foundation publication held for sale. Inventory is stated at the lower of cost or market, average cost method.

In-kind contributions: The Foundation recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended December 31, 2018 and 2017, contributed services of \$687,191 and \$603,566 have been recorded, respectively.

A substantial number of volunteers donated significant amounts of their time to assist in the Foundation's activities, which do not meet the recognition criteria described above and have accordingly not been reflected in the accompanying financial statements.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Website development: Website development costs are recorded at cost and are amortized on a straight-line basis over their estimated useful life of three years.

Computer software: Computer software is recorded at cost. Amortization is calculated using the straight-line method over the estimated useful life of three years.

Grants expense and 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.

Concentration of credit risk: The Foundation maintains cash balances at one financial institution. The account is insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. In addition, the Foundation maintains cash and cash equivalents in a brokerage account that is uninsured. As of December 31, 2018, the uninsured balance for the brokerage account is approximately \$44,000. The Foundation has not experienced any losses on cash accounts and believes that they are not exposed to significant credit risk on cash.

Income taxes: The Foundation is exempt from income taxes under the provisions of Section 501(c)(3) of the IRC and generally exempt from federal and state income 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 December 31, 2018 and 2017.

Management evaluated the Foundation's tax positions and concluded that the 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 December 31, 2018 and 2017. The Foundation files tax returns in the U.S. federal jurisdiction. Generally, the Foundation is no longer subject to income tax examination by the U.S. federal or state tax authorities for years before 2015.

Advertising costs: The Foundation expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2018 and 2017 totaled \$4,392 and \$5,649, respectively.

Revenue recognition: Revenue from the sale of books is recognized when shipped to the customer.

Recently issued accounting pronouncement – adopted: The Foundation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and footnotes, on January 1, 2018. The Foundation retrospectively applied this ASU to the 2017 financial statements. 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.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements – not yet adopted: In November 2016, the Financial Accounting Standards Board (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 Foundation for the fiscal years beginning after December 15, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Foundation is currently evaluating the impact of the adoption of this guidance on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For an entity that serves as the resource recipient, this standard is effective for fiscal years beginning after December 31, 2018. For an entity that serves as the resource provider, this standard is effective for fiscal years beginning after December 15, 2019. Early adoption of this standard is permitted. The Foundation is currently evaluating the effect that this guidance will have on the financial statements.

Functional expenses: The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, the expenses directly related to the program are combined with allocations of certain common costs of the Foundation, which have been allocated based on estimates made by management. The expenses that are allocated include amortization expense, consultant fees and management fees. Amortization expense and consulting fees for website design are allocated based on website content. Management fees are allocated based on estimates of time and effort.

Reclassifications: Certain reclassifications were made to the 2017 financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net assets or net assets previously reported.

Note 2. Investments

Investments consist of the following as of December 31:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Mutual funds - equity	\$ 1,902,891	\$ 1,631,994	\$ 1,685,549	\$ 1,759,824
Mutual funds - bonds	1,550,041	1,493,602	1,448,913	1,459,809
Total investments	<u>\$ 3,452,932</u>	<u>\$ 3,125,596</u>	<u>\$ 3,134,462</u>	<u>\$ 3,219,633</u>

Project Management Institute Educational Foundation

Notes to Financial Statements

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 Measurements. 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 other inputs that are observable or can be 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 Foundation's financial assets that are carried at fair value as of December 31, 2018 and 2017.

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).

Fair value on a recurring basis: The tables below present the balance of assets measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds - equity	\$ 1,631,994	\$ 1,631,994	\$ -	\$ -
Mutual funds - bonds	1,493,602	1,493,602	-	-
Total investments	<u>\$ 3,125,596</u>	<u>\$ 3,125,596</u>	<u>\$ -</u>	<u>\$ -</u>
	2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Mutual funds - equity	\$ 1,759,824	\$ 1,759,824	\$ -	\$ -
Mutual funds - bonds	1,459,809	1,459,809	-	-
Total investments	<u>\$ 3,219,633</u>	<u>\$ 3,219,633</u>	<u>\$ -</u>	<u>\$ -</u>

There was no change in the valuation techniques used to measure fair value of investments in the years ended December 31, 2018 and 2017.

At December 31, 2018 and 2017, the Foundation did not have any financial instruments that are recorded at fair value on a nonrecurring basis.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 4. Promises to Give

Promises to give consist of amounts expected to be collected as follows at December 31:

	2018	2017
In one year or less	\$ 7,653	\$ 85,116
Between one year and five years	-	-
	<u>7,653</u>	<u>85,116</u>
Allowance for uncollectible accounts	-	(2,500)
Total net promises to give	<u>\$ 7,653</u>	<u>\$ 82,616</u>

The promises to give as of December 31, 2017 include amounts restricted for the endowment. There were no promises to give restricted for endowment as of December 31, 2018.

Additionally, at December 31, 2018, the Foundation has received conditional promises to give (in-kind services, primarily related to educational programs) up to a value of approximately \$148,500. The promises are conditional upon obtaining the required enrollment for the scholarships.

Note 5. Intangible Assets

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

	2018	
	Website Development	Computer Software
Gross assets	\$ 575,800	\$ 561,845
Accumulated amortization	(449,136)	(272,067)
Net	<u>\$ 126,664</u>	<u>\$ 289,778</u>
	2017	
	Website Development	Computer Software
Gross assets	\$ 575,800	\$ 356,100
Accumulated amortization	(354,136)	(158,098)
Net	<u>\$ 221,664</u>	<u>\$ 198,002</u>

Amortization expense for the years ended December 31, 2018 and 2017 was \$208,969 and \$161,231, respectively.

Estimated amortization expense in the future years is as follows:

2019	\$ 213,319
2020	132,069
2021	55,689
Thereafter	<u>15,365</u>
	<u>\$ 416,442</u>

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 6. 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 December 31 are as follows:

	2018	2017
Payable in one year or less	\$ 825,162	\$ 839,237
Payable in one year to five years	196,000	257,000
Total amount granted	1,021,162	1,096,237
Unamortized discount	(9,262)	(8,545)
Grants payable	<u>\$ 1,011,900</u>	<u>\$ 1,087,692</u>

Note 7. Related Party Transactions

The Foundation receives administrative services from Project Management Institute. The costs for these administrative services were \$1,950,039 and \$1,751,160 for the years ended December 31, 2018 and 2017, respectively. The Foundation also receives in-kind contributions from Project Management Institute. The in-kind contributions for facilities, information technology and human resource costs were \$363,083 and \$379,456 for the years ended December 31, 2018 and 2017, respectively. Such costs comprise management fee expense in the statements of functional expenses.

In 2018, Project Management Institute Board of Directors approved up to \$5,605,000 in contributions for general operations and programs. The Foundation received \$3,415,053 and \$1,992,312 for general operations and programs, respectively.

In 2017, Project Management Institute Board of Directors approved up to \$5,200,000 in contributions for general operations and programs. The Foundation received \$3,429,679 and \$1,768,652 for general operations and programs, respectively.

Total contributions from Project Management Institute for the years ended December 31, 2018 and 2017 were \$5,770,448 and \$5,577,787, respectively.

Note 8. Net Assets

Net assets without donor restrictions at December 31, 2018 and 2017 consist of the following:

	2018	2017
Undesignated (deficiency)	\$ (557,112)	\$ (342,331)
Quasi-endowment	101,279	82,942
	<u>\$ (455,833)</u>	<u>\$ (259,389)</u>

On January 1, 2019, certain amounts included above were board-designated as the initial funding for the operating and opportunity reserves. See below and Note 11.

Reserve policy: On September 20, 2018, the Foundation's Board of Directors approved a reserve policy to establish and maintain a source of capital for security to make funds available for use in order to sustain financial operations in the unanticipated event of a significant unbudgeted loss in operating income or increase in operating expenses and to provide capital for targeted growth, expansion or research and development. The reserve policy established an operating reserve and an opportunity reserve, with the intent of the reserves to be funded over time and it is effective January 1, 2019.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 8. Net Assets (Continued)

Operating reserve: The operating reserve is intended to be used in situations of financial shortfall, with the long-term target to supply funding for up to one year of ongoing operation of the Foundation. Effective January 1, 2019, certain accounts are board-designated as the initial funding for the operating reserve. The targeted reserve amount is to supply funding for up to one year of limited operations of the Foundation, particularly to assure the Foundation can meet its outstanding grant commitments and commitments for endowed scholarships. The targeted reserve amount is calculated at a percentage of three years' average operating expenses augmented by anticipated budget growth plus total outstanding grant liabilities. The operating reserve will be funded to the targeted reserve amount of approximately \$4.7 million over a period not to exceed 15 years.

Opportunity reserve: The opportunity reserve is intended to provide additional funds for unexpected opportunities to build the Foundation's reputation or capability to deliver its mission. The opportunity reserve is to be used to fund innovative growth and expansion in a way that does not create large disruptions in normal operating budgets. Effective January 1, 2019, the quasi-endowment balance is board-designated as the initial funding for the opportunity reserve. The minimum target of the opportunity reserve is \$500,000; however there will be no further funding of the opportunity reserve until the operating reserve is fully funded. The opportunity reserve will be tracked and invested as part of the endowment fund until such time as further funding begins, at which point it will be maintained in a separate investment account, governed by specific direction to be created at that time.

Net assets with donor restrictions at December 31, 2018 and 2017 consist of the following:

	2018	2017
Subject to expenditure for specified purpose:		
PM Knowledgeable Youth	\$ 276,422	\$ -
PM Capable Nonprofits	-	4,575
PM Ready Workforce:		
Grants	48,000	-
Scholarships and awards, other	80,390	95,827
	<u>404,812</u>	<u>100,402</u>
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for scholarships and awards	273,871	542,674
Subject to endowment spending policy and appropriation:		
Endowments for scholarships and awards	2,523,978	2,457,134
Unconditional promises to give, net to endowment	-	64,744
Underwater endowments	(10,346)	-
Total endowments (Note 9)	<u>2,787,503</u>	<u>3,064,552</u>
	<u>\$ 3,192,315</u>	<u>\$ 3,164,954</u>

Net assets with donor restrictions contain endowment fund assets to be held in perpetuity. The income from these assets is to be used primarily to provide scholarships and awards. The income from one donor-restricted endowment is used to support general operations.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 8. Net Assets (Continued)

Net assets were released from restrictions by satisfying purpose restrictions during the years ended December 31, 2018 and 2017 as follows:

	2018	2017
Purpose release:		
PM Knowledgeable Youth	\$ 941,493	\$ 1,426,077
PM Capable Nonprofits	483,072	475,000
PM Ready Workforce:		
Grants	247,900	125,000
Scholarships and awards	178,011	201,847
	<u>\$ 1,850,476</u>	<u>\$ 2,227,924</u>

Note 9. Endowment Funds

Accounting standards for the classification and disclosure of endowments of not-for-profit 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 December 31, 2018, 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 net assets with donor restrictions for endowment (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the 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 net assets with donor restrictions for endowment is classified as net assets with donor restrictions for scholarships and awards or net assets without donor restrictions, based on the existence of donor restrictions or by law. Net assets with donor restrictions for scholarships and awards are classified as such, 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

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 9. Endowment Funds (Continued)

Composition of endowment net assets: Endowment funds as of December 31, 2018 and changes therein during the year then ended are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ 84,247	\$ 2,787,503	\$ 2,871,750
Board designated endowment funds	101,279	-	101,279
	<u>\$ 185,526</u>	<u>\$ 2,787,503</u>	<u>\$ 2,973,029</u>
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 177,981	\$ 2,999,808	\$ 3,177,789
Contributions	26,024	69,718	95,742
Net investment return	(18,479)	(179,651)	(198,130)
Amounts appropriated for expenditure	-	(102,372)	(102,372)
Endowment net assets, end of year	<u>\$ 185,526</u>	<u>\$ 2,787,503</u>	<u>\$ 2,973,029</u>

Endowment funds as of December 31, 2017 and changes therein during the year then ended are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ 95,414	\$ 2,999,808	\$ 3,095,222
Board designated endowment funds	82,567	-	82,567
	<u>\$ 177,981</u>	<u>\$ 2,999,808</u>	<u>\$ 3,177,789</u>
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 131,903	\$ 2,676,869	\$ 2,808,772
Contributions	-	42,629	42,629
Net investment return	44,859	379,637	424,496
Amounts appropriated for expenditure	-	(98,108)	(98,108)
Transfers	1,219	(1,219)	-
Endowment net assets, end of year	<u>\$ 177,981</u>	<u>\$ 2,999,808</u>	<u>\$ 3,177,789</u>

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 9. Endowment Funds (Continued)

Amounts classified as net assets with donor restrictions as of December 31 are as follows:

	2018	2017
<u>Endowment fund classified as net assets with donor restrictions</u>		
The portion of the perpetual endowment fund that is required to be retained permanently either by explicit donor stipulation or by PA Law	\$ 2,523,978	\$ 2,457,134
The portion of the perpetual endowment fund subject to purpose restrictions	263,525	542,674
	<u>\$ 2,787,503</u>	<u>\$ 2,999,808</u>

Funds with donor restrictions 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 exist in three endowment funds with donor restrictions and are reported in net assets with donor restrictions. Together, these funds have an original gift value of \$175,000, a current fair value of \$164,654 and a deficiency of \$10,346 as of December 31, 2018. There were no deficiencies of this nature at December 31, 2017. Deficiencies result from unfavorable market fluctuations that occur shortly after the investment of new contributions with donor restrictions and continued appropriation for certain programs that were deemed prudent by management. The Foundation's investment and spending policy permits management to assess prudent spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. In the event of significant anticipated underwater endowments due to continued appropriation for certain programs, the Foundation would pay out scholarships through funding from general operations.

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 with and without donor restrictions, 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 6.1%.

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.

Project Management Institute Educational Foundation

Notes to Financial Statements

Note 10. Liquidity and Availability of Financial Assets

As of December 31, 2018, the following reflects the Foundation's financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions and board designations, that are available for general expenditures within one year of the statement of financial position date. As described in Note 9, the endowment fund has a spending policy of 4%. Appropriations of \$75,850 for the year ended December 31, 2018 are available to be transferred for operations and included in the financial assets available below. Appropriations of \$100,961 from the endowment fund will be available within the next 12 months and are included in financial assets available below.

Cash and cash equivalents	\$ 198,402
Investments	3,125,596
Contributions without donor restrictions due in one year or less	7,653
Endowment spending-rate distributions and appropriations	176,811
Less: endowment funds (Note 9)	<u>(2,973,029)</u>
	535,433
Less: operating reserve (Note 11)	<u>(110,974)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 424,459</u>

The Foundation manages its cash available to meet general expenditures by forecasting its future cash flows and monitoring liquidity on a recurring basis. The Foundation receives the majority of its funding from Project Management Institute and monitors the status of funding from Project Management Institute relative to the amounts required to meet its annual operating needs and other contractual commitments, including grants. The Project Management Institute Board of Directors approved \$6,165,500 in funding for the Foundation's general operations and programs for 2019, which is not reflected in the above.

Note 11. Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 1, 2019, the date the financial statements were available to be issued.

On January 1, 2019, the Foundation established the operating and opportunity reserves from the following amounts included in net assets without donor restrictions as of December 31, 2018.

Operating reserve:	
Cash and cash equivalents (from balances in undesignated)	\$ 44,361
Investments (from balances in undesignated)	<u>66,613</u>
	<u>\$ 110,974</u>
Opportunity reserve:	
Investments (from balances in quasi-endowment)	<u>\$ 101,211</u>

Investment income related to these amounts will be maintained as part of the reserve funds.