



SOCIETY FOR HUMAN
RESOURCE MANAGEMENT

**SOCIETY FOR HUMAN RESOURCE
MANAGEMENT, AFFILIATES
AND SUBSIDIARIES**

**Consolidated Financial Statements and
Supplementary Information**

For the Years Ended December 31, 2019 and 2018

—◆—
and
Report Thereon
—◆—

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Society for Human Resource Management, Affiliates and Subsidiaries

Reports on the Financial Statements

We have audited the accompanying consolidated financial statements of the Society for Human Resource Management (SHRM), Affiliates and Subsidiaries (collectively "the Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Society for Human Resource Management, Affiliates and Subsidiaries as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Report on Supplementary Information

Our audit were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules (supplementary information) is presented for purposes of additional analysis and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marcum LLP

Washington, DC
June 3, 2020

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 25,706,847	\$ 30,550,168
Contracts receivable, net of allowance for doubtful accounts of \$806,211 and \$608,384, respectively	4,213,286	3,981,807
Contributions and grants receivable	388,279	310,700
Prepaid expenses, other assets and deposits	12,989,277	11,098,162
Investments	180,983,723	152,933,522
Inventory	479,450	379,555
Property and equipment, net	<u>37,454,192</u>	<u>35,477,704</u>
TOTAL ASSETS	<u><u>\$ 262,215,054</u></u>	<u><u>\$ 234,731,618</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 15,711,496	\$ 17,126,499
Deferred membership dues	32,591,070	30,705,904
Deferred conference and sponsorships	7,224,733	7,869,866
Deferred subscriptions and other	1,904,893	1,770,399
Deferred exam fees	3,876,784	3,317,713
Note payable	1,043,962	1,540,252
Accrued benefit cost	<u>32,286,181</u>	<u>24,626,707</u>
TOTAL LIABILITIES	<u>94,639,119</u>	<u>86,957,340</u>
Net Assets		
Without donor restrictions	164,174,199	146,065,315
With donor restrictions	<u>3,401,736</u>	<u>1,708,963</u>
TOTAL NET ASSETS	<u>167,575,935</u>	<u>147,774,278</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 262,215,054</u></u>	<u><u>\$ 234,731,618</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUE AND SUPPORT		
Membership dues	\$ 54,942,859	\$ 52,829,056
Annual conference	36,630,943	35,089,404
Seminars and educational programs	27,120,720	24,773,711
Publications, advertising and royalties	19,037,294	17,726,678
Certification program	12,320,871	12,743,242
Other conferences	7,171,547	5,928,958
Other	2,854,122	2,286,026
J-1 visa fees	1,533,589	1,299,196
Contributions, grants and sponsorships	1,103,159	1,015,913
Investment income allocated to operations	5,883,941	6,069,165
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>367,355</u>	<u>242,674</u>
TOTAL REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS	<u>168,966,400</u>	<u>160,004,023</u>
EXPENSES		
Program Services:		
Government and public affairs	19,524,828	15,214,240
Certification program	12,967,508	16,116,714
Education programs	48,930,678	40,225,484
Publications	14,592,669	13,970,667
Grants, awards and scholarships	622,147	1,237,686
Other	<u>1,283,560</u>	<u>984,938</u>
Total Program Services	<u>97,921,390</u>	<u>87,749,729</u>
Supporting Services:		
Management and general	38,609,263	35,755,105
Membership services	25,294,593	22,443,139
Fundraising	<u>348,051</u>	<u>243,600</u>
Total Supporting Services	<u>64,251,907</u>	<u>58,441,844</u>
TOTAL EXPENSES	<u>162,173,297</u>	<u>146,191,573</u>
Change in Net Assets Without Donor Restrictions from Operations	<u>6,793,103</u>	<u>13,812,450</u>
Nonoperating Activities		
Investment income (loss) in excess of amounts designated for operations:		
Investment income (loss), net	24,800,666	(8,748,096)
Investment income allocated to operations	<u>(5,883,941)</u>	<u>(6,069,165)</u>
Total Investment Income (Loss) in Excess of Amounts Designated for Operations	18,916,725	(14,817,261)
Provision for income tax expense	<u>(846,616)</u>	<u>(516,631)</u>
Total Nonoperating Activities	<u>18,070,109</u>	<u>(15,333,892)</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>24,863,212</u>	<u>(1,521,442)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2019 and 2018

(continued)

	<u>2019</u>	<u>2018</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS:		
REVENUE AND SUPPORT		
Contributions and sponsorships	\$ 1,784,750	\$ 337,800
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>(367,355)</u>	<u>(242,674)</u>
TOTAL REVENUE AND SUPPORT WITH DONOR RESTRICTIONS	<u>1,417,395</u>	<u>95,126</u>
Change in Net Assets With Donor Restrictions from Operations	<u>1,417,395</u>	<u>95,126</u>
Nonoperating Activities With Donor Restrictions		
Investment income (loss), net	<u>275,378</u>	<u>(130,075)</u>
Total Nonoperating Activities With Donor Restrictions	<u>275,378</u>	<u>(130,075)</u>
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>1,692,773</u>	<u>(34,949)</u>
CHANGE IN NET ASSETS	26,555,985	(1,556,391)
Postretirement and Pension-Related Changes, Including Net Periodic Benefit Cost		
Other than Service Cost	(6,757,326)	6,205,332
Foreign Currency Translation Gain (Loss)	2,998	(115,700)
NET ASSETS, BEGINNING OF YEAR	<u>147,774,278</u>	<u>143,241,037</u>
NET ASSETS, END OF YEAR	<u>\$ 167,575,935</u>	<u>\$ 147,774,278</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program Services						Supporting Services					
	Government and Public Affairs	Certification Program	Education Programs	Publications	Grants, Awards and Scholarships	Other Programs	Total Program Services	Management and General	Membership Services	Fundraising	Total Supporting Services	Total
Compensation and Benefits	\$ 10,054,369	\$ 2,749,245	\$ 10,724,412	\$ 7,395,874	\$ 177,853	\$ 737,386	\$ 31,839,139	\$ 21,511,285	\$ 7,303,227	\$ 113,179	\$ 28,927,691	\$ 60,766,830
Professional Fees	4,304,373	3,117,709	12,407,643	3,097,439	-	218,090	23,145,254	4,686,757	6,521,640	122,665	11,331,062	34,476,316
Advertising	561,277	1,365,007	3,197,258	68,906	-	-	5,192,448	278,023	3,585,412	-	3,863,435	9,055,883
Other Expense	271,062	57,373	3,228,487	104,054	440,975	72,996	4,174,947	3,985,042	502,232	24,767	4,512,041	8,686,988
Technology Services	1,438,934	420,702	1,308,436	1,003,170	-	41,897	4,213,139	2,943,174	987,256	-	3,930,430	8,143,569
Depreciation/Amortization	793,521	2,624,447	1,070,733	553,213	-	23,105	5,065,019	1,626,751	547,951	-	2,174,702	7,239,721
Postage and Printing	48,569	1,528,146	2,077,196	825,174	618	53,164	4,532,867	59,975	2,472,937	1,775	2,534,687	7,067,554
Cost of Resale	-	-	5,790,468	760,831	-	-	6,551,299	45,759	43,286	-	89,045	6,640,344
Food and Beverage	93,068	197,334	5,094,472	15,067	-	35,076	5,435,017	302,220	329,464	75,695	707,379	6,142,396
Travel	621,534	183,024	2,418,810	146,558	2,701	78,144	3,450,771	838,879	792,666	9,970	1,641,515	5,092,286
Occupancy	548,117	167,827	1,136,802	409,271	-	16,037	2,278,054	1,869,585	391,065	-	2,260,650	4,538,704
Contributions	100,000	410,000	56,644	-	-	-	566,644	201,000	1,612,205	-	1,813,205	2,379,849
Dues and Subscriptions	550,997	77,931	171,196	147,865	-	5,809	953,798	60,965	73,034	-	133,999	1,087,797
Temporary Help	139,007	68,763	248,121	65,247	-	1,856	522,994	199,848	132,218	-	332,066	855,060
TOTAL EXPENSES	\$ 19,524,828	\$ 12,967,508	\$ 48,930,678	\$ 14,592,669	\$ 622,147	\$ 1,283,560	\$ 97,921,390	\$ 38,609,263	\$ 25,294,593	\$ 348,051	\$ 64,251,907	\$ 162,173,297

The accompanying notes are an integral part of these consolidated financial statements.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Program Services						Supporting Services					Total
	Government and Public Affairs	Certification Program	Education Programs	Publications	Grants, Awards and Scholarships	Other Programs	Total Program Services	Management and General	Membership Services	Fundraising	Total Supporting Services	
Compensation and Benefits	\$ 9,085,091	\$ 2,674,983	\$ 9,604,151	\$ 7,076,479	\$ 492,167	\$ 793,386	\$ 29,726,257	\$ 21,167,686	\$ 8,296,222	\$ 168,057	\$ 29,631,965	\$ 59,358,222
Professional Fees	1,834,413	3,098,772	9,028,309	2,817,630	1,250	39,862	16,820,236	3,518,296	5,061,358	34,507	8,614,161	25,434,397
Advertising	784,082	3,983,797	1,001,645	54,385	-	-	5,823,909	330,511	1,794,033	-	2,124,544	7,948,453
Other Expense	143,162	62,134	2,628,445	125,158	700,550	20,689	3,680,138	3,649,100	599,603	10,659	4,259,362	7,939,500
Technology Services	878,521	266,690	810,293	667,307	-	7,352	2,630,163	2,021,141	760,290	-	2,781,431	5,411,594
Depreciation/Amortization	714,825	2,796,783	1,347,602	542,967	-	8,366	5,410,543	1,647,116	627,421	-	2,274,537	7,685,080
Postage and Printing	26,786	1,703,577	2,169,372	1,181,780	993	48,359	5,130,867	77,664	2,131,184	7,373	2,216,221	7,347,088
Cost of Resale	-	-	5,484,860	763,702	-	-	6,248,562	49,322	46,682	-	96,004	6,344,566
Food and Beverage	127,300	209,930	4,603,819	16,336	14,371	1,706	4,973,462	272,466	251,042	14,682	538,190	5,511,652
Travel	413,449	132,634	2,216,867	113,050	28,355	45,298	2,949,653	630,575	627,413	8,322	1,266,310	4,215,963
Occupancy	467,609	265,219	1,025,095	362,278	-	3,887	2,124,088	1,623,301	417,469	-	2,040,770	4,164,858
Contributions	75,000	616,000	44,750	-	-	-	735,750	212,000	1,598,990	-	1,810,990	2,546,740
Dues and Subscriptions	601,962	195,073	158,929	168,162	-	16,033	1,140,159	90,416	103,714	-	194,130	1,334,289
Temporary Help	62,040	111,122	101,347	81,433	-	-	355,942	465,511	127,718	-	593,229	949,171
TOTAL EXPENSES	\$ 15,214,240	\$ 16,116,714	\$ 40,225,484	\$ 13,970,667	\$ 1,237,686	\$ 984,938	\$ 87,749,729	\$ 35,755,105	\$ 22,443,139	\$ 243,600	\$ 58,441,844	\$ 146,191,573

The accompanying notes are an integral part of these consolidated financial statements.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 26,555,985	\$ (1,556,391)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Postretirement and pension-related changes other than net periodic benefit costs	(6,757,326)	6,205,332
Foreign currency translation gain (loss)	2,998	(115,700)
Depreciation and amortization	7,239,721	7,685,080
Unrealized losses (gains) on investments	(18,923,421)	15,983,914
Realized gains on investments	(2,657,306)	(3,633,570)
Provision for doubtful accounts receivable	197,827	292,909
Loss on disposal of property and equipment	34,090	51,707
Changes in assets and liabilities:		
Contracts receivable	(429,306)	(608,755)
Contributions receivable	(77,579)	(99,840)
Prepaid expenses, other assets and deposits	(2,404,478)	778,631
Inventory	(99,895)	(78,664)
Accounts payable and accrued expenses	(1,415,003)	3,011,862
Deferred membership dues	1,885,166	2,752,902
Deferred conference and sponsorships	(645,133)	480,339
Deferred subscriptions and other	134,494	171,307
Deferred exam fees	559,071	497,620
Accrued benefit cost	<u>7,659,474</u>	<u>(16,345,644)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10,859,379</u>	<u>15,473,039</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(8,736,936)	(4,977,642)
Purchases of investments	(73,760,472)	(66,711,437)
Proceeds from sale of investments	<u>67,290,998</u>	<u>63,869,067</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(15,206,410)</u>	<u>(7,820,012)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	<u>(496,290)</u>	<u>(479,914)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(496,290)</u>	<u>(479,914)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,843,321)	7,173,113
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>30,550,168</u>	<u>23,377,055</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 25,706,847</u>	<u>\$ 30,550,168</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for interest	<u>\$ 49,291</u>	<u>\$ 65,667</u>
Actual cash payments for income taxes	<u>\$ 742,500</u>	<u>\$ 377,722</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies

Organization

The Society for Human Resource Management (SHRM), Affiliates and Subsidiaries' (collectively "the Organization") mission is to empower people and workplaces by advancing human resources (HR) practices and by maximizing human potential. SHRM works to serve the needs of human resource professionals by providing the most essential and comprehensive resources available and to advance the human resource profession to ensure that human resources is recognized as an essential partner in developing and executing organizational strategy. The Organization has more than 300,000 members, more than 600 affiliated chapters and councils within the United States, members in more than 165 countries worldwide, and impacts more than 115 million workers and families globally. The activities of the Organization are funded primarily through membership dues, advertising and publication sales, registration fees for conferences, seminars, educational programs and certification program fees.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Principles of Consolidation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and include the accounts of the Society for Human Resource Management (SHRM); its Affiliates, the SHRM Foundation (the Foundation), the Council for Global Immigration (CGI) (through September 30, 2018), and HR People and Strategy, Inc. (HRPS); and its wholly owned subsidiaries, Strategic Human Resource Management India Private Limited (SHRM-India) and SHRM Corporation. All material inter-company balances and transactions have been eliminated in the consolidation. The activities of SHRM Corporation include its wholly owned subsidiaries, SHRM Management Consulting (Beijing) Co., Ltd. (SHRM-China) and SHRM MEA FZ LLC (SHRM-MEA).

SHRM was incorporated on June 3, 1949, under the laws of the state of Ohio, in the United States of America. SHRM is the world's largest association devoted to human resource management.

The Foundation was incorporated on December 1, 1966, under the laws of Ohio, in the United States of America. The Foundation is a values-based charity organization whose mission is to champion workforce and workplace transformation. The Foundation provides research-based HR solutions for challenging inclusion issues facing current and potential employees, scholarships to educate and develop HR professionals and opportunities for HR professionals to make a difference in their local communities. These activities are funded primarily through contributions from SHRM, foundations and individuals.

SHRM-India was incorporated on October 10, 2005, under The Companies Act, 1956 of India. SHRM-India collaborates closely with human resource professionals and educational organizations to learn about human resource practices in India, conduct joint research and bring educational programs to human resource professionals.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

SHRM-MEA was incorporated by SHRM-India on June 19, 2012, as a Free Zone Company with Limited Liability under the provisions of the Dubai Technology & Media Free Zone Private Companies Regulations 2003 issued under Law No. 1 of 2000 of the Emirate of Dubai establishing the Dubai Technology and Media Free Zone. SHRM-MEA was created by SHRM to establish operations in Dubai, UAE, so that SHRM can collaborate closely with HR professionals and educational organizations to learn about HR practices in the Middle East, conduct joint research and bring educational programs to human resource professionals. On June 30, 2014, SHRM-MEA was sold by SHRM-India to SHRM Corporation. The activities of SHRM-MEA are included in the consolidated balances of SHRM Corporation.

SHRM Corporation was incorporated on September 26, 2006, under the laws of the Commonwealth of Virginia, United States of America. SHRM Corporation was formed to take over certain activities of SHRM, principally SHRM's on-line human resource jobs advertising program. SHRM Corporation also serves as the registered agent for SHRM's office in China.

In March 2012, SHRM Corporation established SHRM Management Consulting (Beijing) Co., Ltd. (SHRM-China), a wholly owned subsidiary of SHRM Corporation, with a registered address in Beijing, China, in accordance with the *Law of the People's Republic of China on Wholly Foreign-Owned Enterprises, Implementing Rules for the Law of the People's Republic of China on Wholly Foreign Owned Enterprises*. SHRM-China is a Chinese Limited Liability Company. SHRM-China was created by SHRM to establish operations in China so SHRM can collaborate closely with HR professionals and educational organizations to learn about HR practices in China, conduct joint research and bring educational programs to HR professionals. The activities of SHRM-China are included in the consolidated balances of SHRM Corporation.

CFGF was originally organized as a nonprofit organization under the New York Not-For-Profit Act on November 30, 1970. On November 16, 2005, it was re-incorporated in Washington, D.C., under the D.C. Non-Profit Corporation Act. CFGF's purpose was to provide the resources and support necessary to advance employment-based immigration of highly educated professionals worldwide. By maintaining the highest standards of practice and compliance, CFGF bridged the private and public sectors to promote sensible, forward-thinking employment-based immigration policies. The activities of CFGF were funded primarily through J-1 visa fees, membership dues and registration fees for conferences. In June 2018, CFGF and SHRM Boards of Directors approved the dissolution of CFGF and merger of its employees and activities into SHRM, effective September 30, 2018.

HRPS was chartered under the Not-For-Profit Corporation Law of the State of New York in 1977 and operates exclusively for educational purposes to foster professional development and to promote standards that enhance the expertise and status of HR professionals worldwide. The activities of HRPS are funded primarily through conference registrations, membership dues, contributions from SHRM and corporate sponsorships.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents reflect amounts that approximate fair value due to the short maturity (average of 90 days or less) of these instruments. Operating checking accounts, commercial paper, short-term bonds and money market funds not part of the Organization's investment portfolio are included in cash and cash equivalents.

Contracts Receivable

Contracts receivable consist primarily of amounts billed for advertising in the Organization's periodicals and website, convention and seminar registrations, exhibit fees and J-1 visa fees. The Organization uses the allowance method to record potentially doubtful accounts.

Prepaid Expenses, Other Assets and Deposits

Prepaid expenses, other assets and deposits included \$4,950,449 and \$5,726,777 as of December 31, 2019 and 2018, respectively, related to the development of SHRM's certification program. These costs are amortized over four years, which is the estimated useful life of the costs incurred. Amortization expense was \$1,911,872 and \$2,108,343 for the years ended December 31, 2019 and 2018, respectively.

Investments

Investments consist of various domestic and international equity mutual funds, common stocks, government securities, corporate bonds, certificates of deposit and fixed-income funds, as well as money market funds awaiting longer-term investment. These investments are recorded in the accompanying consolidated financial statements at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Also included in investments are alternative investment funds. These funds invest with hedge fund managers who enter into short/long transactions, option contracts, future contracts, forward contracts and swap contracts. As part of their risk management and control procedures, these funds may hold derivatives and certain other financial instruments to hedge or manage risks associated with foreign currency fluctuations, interest rate changes, commodity price fluctuations and equity market movements. These investments are recorded in the accompanying consolidated financial statements at their estimated fair value, as provided by the external investment managers. The estimated fair value for these investments is based on net asset value (NAV) as a practical expedient as permitted under accounting standards. The fund's NAV is provided by the fund's management using a variety of methodologies relevant to the particular investment portfolio that combine primary market data available from national securities exchanges for underlying securities that are actively traded as well as other factors that lead to a determination of a fair value at a different amount. Because of the inherent uncertainty of valuation for these alternative investments or their underlying investments, values for those investments may differ from values that would have been used had a ready market for the investment existed.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurement

In accordance with the accounting standards for fair value measurement for assets and liabilities which are measured at fair value on a recurring basis, the Organization has categorized its applicable financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access. This classification is applied to any investment of the Organization that has a readily available quoted market price from an active market where there is significant transparency in the executed/quoted market price.

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability, such as quoted prices for similarly structured securities in active markets. This classification is applied to investments of the Organization that have evaluated prices received from fixed-income vendors, which includes certificates of deposit and certain government securities and corporate bonds, where the data inputs to these valuations do not represent quoted prices from an active market but do represent quoted prices of similarly structured securities.

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Property and Equipment and Related Depreciation

Property and equipment are stated at cost. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the respective assets, which range from two to five years for furniture, equipment and computer software and thirty-nine years for the building and building improvements. Maintenance and repairs are charged to expense when incurred; major improvements are capitalized. Upon the retirement or disposal of assets, the accounts are relieved of the cost and accumulated depreciation, with any resulting gain or loss included in revenue or expense.

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Classification of Net Assets

The Organization's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Organization at the discretion of the Organization's management and the Board of Directors (the Board). The Board has designated a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has designated \$1,150,000 of net assets without donor restrictions to be used as described in Note 5.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Translation of Foreign Currencies

Foreign currency transactions and financial statements are translated into U.S. dollars at current exchange rates, except for revenue and expenses that are translated at average exchange rates during each reporting period. Exchange gains and losses resulting from foreign currency transactions are included in the accompanying consolidated statements of activities and changes in net assets, whereas adjustments resulting from translations of financial statements are reflected as a separate component of net assets.

Revenue Recognition

Membership dues are recognized as revenue in the period to which the dues relate. The performance obligation consists of providing various benefits that are made available to the members throughout the year. As a result, membership dues are recognized ratably over the membership periods as services are simultaneously received and consumed by the members throughout the dues period. The Organization's membership term is based upon each members' anniversary date. Accordingly, membership dues paid by members in advance of the period to which they pertain are reflected as deferred membership dues in the accompanying consolidated statements of financial position. All of the deferred membership dues are expected to be recognized in the following year.

Conference fees, including registrations and exhibit fees, sponsorships, seminars and educational programs are all related to a specific conference and/or event and are recognized as revenue in the period in which the related event takes place. Revenue from these activities received in advance of the conference is reported as deferred conference and sponsorships in the accompanying consolidated statements of financial position. With the cancellation of SHRM's 2020 annual conference, registrations and sponsorships will either be refunded or deferred to 2021.

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Advertising revenue is recorded based upon issue date. Publication revenue is recorded when the publication is shipped; and certification program revenue is recognized based on the exam date. Revenue from these activities received in advance of the period to which they pertain are reflected as deferred subscriptions and deferred exam fees in the accompanying consolidated statements of financial position. All of the deferred revenue related to these categories are expected to be recognized in the following year.

Other revenue consists of rental income, mailing list rental and research income. Rental income and mailing list rental is recognized as revenue in the period in which the rental period pertains. Research income which represent services performed are recognized at the time the services are provided based on deliverables established in the contracts.

Unconditional contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. The Organization reports gifts of cash and other assets as with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. 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 accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions. Revenue with donor restrictions that is spent in the same year as it was earned is shown as revenue without donor restrictions in the accompanying consolidated statements of activities and changes in net assets. Unconditional contributions that have been promised but not yet received are reflected as contributions and grants receivable in the accompanying consolidated statements of financial position. Conditional promises to give, that is those with a measureable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

J-1 visa fees are recognized as revenue in the period in which the services are performed to provide the visa. A J-1 visa is a non immigrant visa issued by the United States to exchange visitors participating in programs that promote cultural exchange, especially to obtain medical or business training within the U.S. All applicants must meet eligibility criteria and be sponsored by a private sector or government program.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of functional expenses. Expenses directly attributed to specific functional areas of SHRM are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Shared costs, including compensation and benefits, technology services and occupancy costs, are allocated based on a time study which is done annually.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. Organization and Summary of Significant Accounting Policies (continued)

Impairment of Long-Lived Assets

The Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss had been recognized as of December 31, 2019 and 2018.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investment Income Allocation to Operations

SHRM and the Foundation have adopted spending policies related to the amount of investment income that can be transferred to operations. Each organization's policy allows an annual allocation for investment income to support operations while preserving the long-term earning power of the investments.

SHRM's spending policy allows the Board of Directors an annual allocation of up to 4% of the three-year moving average balance of the investment reserve market value as of December 31 of the prior year. For each of the years ended December 31, 2019 and 2018, SHRM allocated to operations 4% of the three-year moving average balance.

The Foundation's spending policy allows the Board of Directors an annual allocation up to 4% of the five-year moving average balance of the investment reserve market value as of December 31 of the prior year. For each of the years ended December 31, 2019 and 2018, the Foundation allocated to operations 4% of the five-year moving average balance.

Measure of Operations

The Organization considers investment income (loss) in excess of the amount allocated to operations or programs, and the provision for income tax expense, to be nonoperating in nature.

Pension and Retiree Medical Benefits

SHRM sponsors a noncontributory defined benefit pension plan and a contributory defined contribution savings plan covering substantially all of its full-time employees, as well as those of the Foundation, CFGI and HRPS. In addition, SHRM sponsors a supplemental retirement plan that covers certain employees. SHRM also sponsors a retiree medical program for current and future retirees. Liabilities and expenses under the defined benefit pension plan, supplemental retirement plan and retiree medical program are actuarially determined.

Advertising

Advertising costs are expensed as incurred.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018**

1. Organization and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Organization adopted ASU 2014-09 and related amendments on January 1, 2019, using the modified retrospective method and elected to apply the standard only to program service contracts that were not completed as of that date. The adoption of the standard did not impact the Organization's results of operations or change in net assets.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, subject to other guidance, and determining whether a contribution is conditional. The Organization adopted ASU 2018-08 on January 1, 2019, using the modified prospective basis and the adoption of the standard did not result in a material change to the consolidated financial statements or the timing of revenue recognition for the Organization's' grants and contributions.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires the Organization to present the service cost component of net benefit cost in the consolidated statements of activities and changes in net assets line item where compensation costs are reported and that the remaining components be presented separately from those line items and outside of operations. The Organization adopted ASU 2017-07 as of January 1, 2019, with retrospective application. There were no reclassifications to the year ended December 31, 2018, as the net impact is not significant to the consolidated financial statements taken as a whole.

2. Investments

The following table summarizes the Organization's investments measured at fair value on a recurring basis as of December 31, 2019, aggregated by the fair value hierarchy level with which those measurements were made:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money market funds ^(a)	\$ 1,984,921	\$ 1,984,921	\$ -	\$ -
Fixed income ^(b) :				
Core	12,116,386	12,116,386	-	-
Government securities	927,539	927,539	-	-

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

2. Investments (continued)

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed income ^(b) (continued):				
Intermediate	\$ 21,232,824	\$ 375,443	\$ 20,857,381	\$ -
International/ emerging markets	12,351,495	12,351,495	-	-
High yield	613,331	613,331	-	-
U.S. equities ^(c) :				
All-cap	504,087	504,087	-	-
Large-cap	31,758,272	31,758,272	-	-
Small- to mid-cap	6,713,416	6,713,416	-	-
International equities ^(c) :				
Developed	18,405,964	18,405,964	-	-
Emerging markets	9,234,961	9,234,961	-	-
Alternative strategies ^(d) :				
Real assets	<u>9,951,845</u>	<u>9,951,845</u>	<u>-</u>	<u>-</u>
Total Investments Held at Fair Value	<u>125,795,041</u>	<u>\$ 104,937,660</u>	<u>\$ 20,857,381</u>	<u>\$ -</u>
U.S. large-cap equities ^(e)	9,849,893			
International equity fund ^(e)	16,917,491			
Real assets ^(e)	4,867,217			
Event driven hedge ^(e)	3,047,937			
Fixed income hedge ^(e)	4,942,861			
Private equity ^(e)	1,315,086			
Defensive hedge ^(e)	7,397,779			
Directional hedge ^(e)	<u>6,850,418</u>			
Investments Held at NAV	<u>55,188,682</u>			
Total Investments	<u>\$ 180,983,723</u>			

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

2. Investments (continued)

The following table summarizes the Organization's investments measured at fair value on a recurring basis as of December 31, 2018, aggregated by the fair value hierarchy level with which those measurements were made:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money market funds ^(a)	\$ 17,036,813	\$ 17,036,813	\$ -	\$ -
Certificates of deposit	691,636	-	691,636	-
Fixed income ^(b) :				
Short-term bond fund	205,996	205,996	-	-
Core	11,186,845	11,186,845	-	-
Intermediate	14,531,490	182,787	14,348,703	-
International/emerging markets	10,624,017	10,624,017	-	-
High yield	446,028	446,028	-	-
U.S. equities ^(c) :				
All-cap	392,187	392,187	-	-
Large-cap	20,437,287	20,437,287	-	-
Small- to mid-cap	5,339,953	5,339,953	-	-
International equities ^(c) :				
Developed	14,217,028	14,217,028	-	-
Emerging markets	7,128,883	7,128,883	-	-
Alternative strategies ^(d) :				
Absolute return hedge	4,634,173	4,634,173	-	-
Real assets	<u>6,923,302</u>	<u>6,923,302</u>	<u>-</u>	<u>-</u>
Total Investments Held at Fair Value	<u>113,795,638</u>	<u>\$ 98,755,299</u>	<u>\$ 15,040,339</u>	<u>\$ -</u>
U.S. large-cap equities ^(e)	7,705,274			
International equity fund ^(e)	13,569,477			
Real assets ^(e)	3,554,140			
Absolute return hedge ^(e)	118,874			
Private equity ^(e)	398,474			
Defensive hedge ^(e)	7,408,913			
Directional hedge ^(e)	<u>6,382,732</u>			
Investments Held at NAV	<u>39,137,884</u>			
Total Investments	<u>\$ 152,933,522</u>			

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

2. Investments (continued)

- (a) Money market funds are held in accounts that are actively traded, are priced using independent market prices in the primary trading market and are classified as Level 1 based on the availability of quotes for identical assets.
- (b) Fixed income consists of bond mutual funds, which are valued based on quoted prices in active markets, and government securities and corporate bonds, which are valued based upon current yields available on comparable securities and bonds of issuers with similar ratings, terms and conditions; interest rate; and credit risk.
- (c) U.S. equities and international equities consist of mutual funds and common stocks which are valued based on quoted prices in active markets.
- (d) Alternative strategies include both U.S. and non-U.S. funds that are actively managed, employing various strategies including hedge, market neutral and arbitrage, and consist of mutual funds that pursue their investment objective by investing in other publicly traded mutual funds.
- (e) These alternative investments funds are measured at NAV or its equivalent as a practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

At initial investment, the Organization's alternative investment funds valued at NAV are subject to lockup periods of one to three years. The alternative investment funds may suspend the right of redemption if the fund cannot liquidate its own underlying shares or interest-bearing instruments or if the board of the fund suspends the right of redemption if it believes it is reasonably prudent to do so.

The table below details the Organization's ability to redeem investment funds valued at NAV or its equivalent as of December 31, 2019:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
U.S. large-cap equities	\$ 9,849,893	\$ -	Monthly	30 days
International equity fund	16,917,491	-	Monthly	10 days
Event driven hedge	3,047,937	-	Quarterly	65 days
Fixed income hedge	4,942,861	-	Quarterly	60-90 days
Defensive hedge	7,397,779	-	Daily to Quarterly	1-90 days
Directional hedge	6,850,418	-	Quarterly to Annually	45-95 days
Real assets	4,867,217	-	Monthly	5 days
Private equity	<u>1,315,086</u>	<u>2,769,745</u>	Not eligible for redemption	N/A
Total	<u>\$ 55,188,682</u>	<u>\$ 2,769,745</u>		

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

2. Investments (continued)

The table below details the Organization's ability to redeem investment funds valued at NAV or its equivalent as of December 31, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
U.S. large-cap equities	\$ 7,705,274	\$ -	Monthly	30 days
International equity fund	13,569,477	-	Monthly	10 days
Absolute return hedge	118,874	-	(a)	(a)
Defensive hedge	7,408,913	-	Daily to Quarterly	1- 90 days
Directional hedge	6,382,732	-	Quarterly	95 days
Real assets	3,554,140	-	Monthly	5 days
Private equity	<u>398,474</u>	<u>1,601,525</u>	Not eligible for redemption	N/A
Total	<u>\$ 39,137,884</u>	<u>\$ 1,601,525</u>		

Information with respect to the investment strategies of these funds is as follows:

- The strategy of the U.S. large-cap equities is to invest in publicly traded U.S. equity securities to achieve long-term capital growth for the portfolio.
- The strategy of the international equity fund is to invest in publicly traded equity securities domiciled outside of the U.S. to achieve long-term capital growth for the portfolio.
- The strategy of the event driven hedge and directional hedge funds is to provide investors with maximum appreciation of capital while incurring reasonable risk by investing in a diversified group of equity-oriented strategies.
- The strategy of the fixed income hedge is to provide a deflation hedge and a source of capital preservation during market correction periods for equity-oriented investments.
- The strategy of the defensive hedge fund is to achieve long-term growth of capital with reduced volatility by employing a variety of investment techniques and strategies with little or no correlation to the equity markets.
- The strategy of the real assets fund is to provide an inflation hedge in addition to improving overall portfolio diversification by using commodities and commodity-based equities lowly- to negatively-correlated with the remaining asset classes.
- The strategy of the private equity is to invest in privately held, illiquid global equity securities to achieve long-term capital growth for the portfolio.
- The strategy of the absolute return hedge fund is to achieve long-term growth of capital with reduced volatility by allocating its capital among various money managers that, as a group, employ a variety of investment techniques and strategies.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

3. Property and Equipment and Accumulated Depreciation and Amortization

SHRM's property and equipment consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 5,883,311	\$ 5,883,311
Buildings and building improvements	37,799,757	36,391,643
Computer software	26,715,504	22,214,103
Computer equipment	6,385,429	6,000,515
Furniture and equipment	<u>1,253,294</u>	<u>1,020,502</u>
Total Property and Equipment	78,037,295	71,510,074
Less: Accumulated Depreciation and Amortization	<u>(40,583,103)</u>	<u>(36,032,370)</u>
Property and Equipment, Net	<u>\$37,454,192</u>	<u>\$35,477,704</u>

Depreciation and amortization expense related to property and equipment was \$4,987,167 and \$4,921,218, respectively, for the years ended December 31, 2019 and 2018.

4. Note Payable

In September 2000, SHRM obtained a \$10 million construction loan from a bank to construct and furnish one of its office buildings in Alexandria, Virginia. Upon completion of construction in December 2001, SHRM converted the construction loan to a mortgage loan. The note is secured by SHRM's land and building in Alexandria, Virginia. The note had a ten-year term and interest accrued at an annual rate of 6.9%. Payments of interest and principal were due monthly.

The note was scheduled to mature in December 2011 but was amended as of December 1, 2011. The amended note has a ten-year term which expires on November 30, 2021, and interest accrues at an annual rate of 3.36% plus a floating rate equal to the London Interbank Offered Rate plus 1.4%, which was 3.10% and 3.75% as of December 31, 2019 and 2018, respectively. Payments of interest and principal are due monthly.

As of December 31, 2019, the schedule of future principal payments under the amended note was as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2020	\$ 513,224
2021	<u>530,738</u>
Total	<u>\$ 1,043,962</u>

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018**

4. Note Payable (continued)

Under the terms of the amended loan agreement, SHRM is required to maintain certain financial ratios. For the years ended December 31, 2019 and 2018, all required financial ratios were maintained. SHRM has obtained a waiver for a period of one year from the date of the consolidated statements of financial position for the requirement to submit the audited financial statements three months after SHRM's year end.

5. Net Assets

Net Assets Without Donor Restrictions

The Organization's net assets without donor restrictions are composed of undesignated amounts and board-designated amounts for fellowship funds. As of December 31, 2019 and 2018, the Organization's net assets without donor restrictions were as follows:

	<u>2019</u>	<u>2018</u>
Undesignated – operating	\$163,024,199	\$144,915,315
Board-designated – fellowship fund	<u>1,150,000</u>	<u>1,150,000</u>
Total Net Assets Without Donor Restrictions	<u>\$164,174,199</u>	<u>\$146,065,315</u>

Board-Designated

The Board of Directors of the Foundation and the Board of Directors of SHRM have established three separate funds; the M.R. Losey Fund, the Susan R. Meisinger Fellowship Fund and the Foundation general endowment fund. The funds of the board-designated M.R. Losey Fund are to provide additional support to fund the annual M.R. Losey Fund award. This award is currently funded by existing funds with donor restrictions as described in the net assets with donor restrictions section of this note. The funds in the board-designated Susan R. Meisinger Fellowship Fund are to be used to support the related restricted fund of the same name as described in the net assets with donor restrictions section of this note. Such funds are reflected as board-designated net assets without donor restrictions in the accompanying consolidated statements of financial position. The Foundation's general endowment was established in 2007 from a contribution from SHRM. Board-designated funds and the investment earnings on those funds may only be spent upon specific appropriation by the Board of Directors of the Foundation.

Net Assets With Donor Restrictions

As of December 31, 2019 and 2018, net assets with donor restrictions were restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
M.R. Losey Fund award and earnings	\$ 1,098,040	\$ 933,229
Programs for incarcerated individuals	507,556	-
Scholarship Fund	212,451	188,475

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018**

5. Net Assets (continued)

Net Assets With Donor Restrictions (continued)

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose (continued):		
Veteran Employment Initiatives	\$ 113,366	\$ 147,713
Susan R. Meisinger Fellowship Fund earnings	<u>52,013</u>	<u>68,561</u>
Total Subject to Expenditure for Specified Purpose	<u>1,983,426</u>	<u>1,337,978</u>
Endowment funds:		
Ram Charan CHRO HR Innovation Fund	1,000,000	-
Susan R. Meisinger Fellowship Fund	197,325	150,000
Endowed Scholarship Funds	<u>220,985</u>	<u>220,985</u>
Total Endowment Funds	<u>1,418,310</u>	<u>370,985</u>
Total Net Assets With Donor Restrictions	<u>\$ 3,401,736</u>	<u>\$ 1,708,963</u>

6. Availability and Liquidity

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Organization's financial assets available within one year of the consolidated statements of financial position date for general expenditures at December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 25,706,847	\$ 30,550,168
Contributions and grants receivable	388,279	310,700
Contracts receivable	4,213,286	3,981,807
Investments	<u>180,983,723</u>	<u>152,933,522</u>
Total Financial Assets as of December 31, 2019 and 2018	211,292,135	187,776,197
Less:		
Amounts unavailable for general expenditures within one year due to donors' restriction for specified purpose	(1,983,426)	(1,337,978)
Amounts unavailable for general expenditures within one year due to donors' restriction for endowment funds	(1,418,310)	(370,985)
Amounts unavailable to management without Board approval:		
Investments in excess of operation allocation for next year	(171,437,825)	(147,616,222)
Board-designated to support award fund programs	<u>(1,150,000)</u>	<u>(1,150,000)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 35,302,574</u>	<u>\$ 37,301,012</u>

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

6. Availability and Liquidity (continued)

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. The Organization's working capital and cash flows have seasonal variations during the year attributable to the annual collection of cash receipts for membership dues, event sponsorships and registrations, certification fees and other member-related revenue sources that recur on an annual basis at various times throughout the year. The Organization monitors cash flow needs regularly. As a result, management is aware of the cyclical nature of the Organization's cash flow related to the Organization's various activities and, therefore, is able to ensure there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in various types of investments. The Organization has an investment spending policy which has a formula for determining how much of investment income can be used during the year. As part of the annual budget process, management may request and the Board may approve an additional draw from investments that may be required for a special project. The Organization has only considered the amounts that have been budgeted to be drawn from investments as financial assets available to meet general expenditures within one year. However, additional investment income could be allocated to operations by the Board during the year if necessary.

7. Commitments and Contingencies

Contractual Commitments

The Organization has entered into various letters of agreement for commitments for hotel accommodations for its future planned conferences. In the event the Organization were to cancel these conferences or fail to use a specified percentage of the total space reserved, the Organization would be required to pay liquidated damages based upon the date the hotel was notified of the cancellation or reduction in requested rooms as well as the hotel's ability to fill the resulting vacancies. Management of the Organization does not believe that any of these commitments will result in a loss due to liquidated damages. Accordingly, no amount for this potential liability has been reflected in the accompanying consolidated financial statements. The Organization has also purchased cancellation insurance for all of these contracts to cover potential losses should it need to pay liquidated damages.

Concentration of Credit Risk

The Organization maintains its cash and cash equivalents at a number of financial institutions, which aggregate balances may exceed, at times, the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2019 and 2018, the Organization had approximately \$24,830,000 and \$29,873,000, which exceeded the maximum limit insured by the FDIC by approximately \$23,778,000 and \$28,607,000, respectively.

Foreign Operations

The Organization has offices in India, the United Arab Emirates and China, and maintains cash accounts in those countries. The future of certain programs may be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate. As of December 31, 2019 and 2018, the Organization had cash in these countries totaling approximately \$771,000 and \$604,000, respectively.

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

8. Pension Plans

The Organization maintains the SHRM Pension Plan and Trust, a noncontributory defined benefit pension plan for the employees of SHRM, the Foundation, HRPS and CFGI. Employees must meet certain eligibility requirements. Below are the required disclosures related to the Pension Plan and Trust for the years ended December 31, 2019 and 2018.

The measurement date for the following actuarial information was December 31.

Obligations and Funded Status

	<u>2019</u>	<u>2018</u>
Projected benefit obligation at December 31	\$ (100,894,780)	\$ (82,244,598)
Fair value of plan assets at December 31	<u>77,741,163</u>	<u>65,189,072</u>
Funded Status	<u>\$ (23,153,617)</u>	<u>\$ (17,055,526)</u>

The accumulated benefit obligation was \$86,146,872 and \$67,749,284 as of December 31, 2019 and 2018, respectively.

Amounts recognized in the accompanying consolidated statements of financial position consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accrued benefit cost (noncurrent)	\$ (23,153,617)	\$ (17,055,526)

Amounts not yet recognized as a component of net periodic pension cost and included in net assets without donor restrictions as of December 31, 2019 and 2018, include the following:

	<u>2019</u>	<u>2018</u>
Net loss	\$ 26,253,010	\$ 20,134,544
Prior service cost	<u>157,512</u>	<u>177,475</u>
Total	<u>\$ 26,410,522</u>	<u>\$ 20,312,019</u>

Amounts recognized in the accompanying consolidated statements of activities and changes in net assets consisted of the following for the years ended December 31, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Net periodic pension cost	\$ 5,119,588	\$ 5,775,512

Total contributions and benefits paid for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Employer contributions	\$ 5,120,000	\$ 7,775,512
Benefits paid	\$ 2,236,842	\$ 6,260,480

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

8. Pension Plans (continued)

Assumptions

Weighted average assumptions used in determining the net periodic pension cost for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	4.06%	3.41%
Expected long-term return on plan assets	7.00%	7.00%
Rate of compensation increase	3.50%	3.50%

Weighted average assumptions used in determining the benefit obligation for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	3.03%	4.06%
Expected long-term return on plan assets	7.00%	7.00%
Rate of compensation increase	3.50%	3.50%

The Organization's approach to determine the overall expected long-term rate of return is to use its best estimate based upon the historical average of the real rate of return, net of inflation.

Plan Assets

The plan's weighted average asset allocation as of December 31, 2019 and 2018, by asset category, was as follows:

	<u>2019</u>	<u>2018</u>
Fixed income	48%	50%
Equity	42%	38%
Other ⁽¹⁾	9%	11%
Real estate ⁽¹⁾	<u>1%</u>	<u>1%</u>
Total Plan Assets	<u>100%</u>	<u>100%</u>

The Organization's target asset allocation is as follows:

	<u>2019</u>	<u>2018</u>
Fixed income	43%	43%
Equity	41%	41%
Other ⁽¹⁾	11%	11%
Real estate ⁽¹⁾	<u>5%</u>	<u>5%</u>
Total Target Asset Allocation	<u>100%</u>	<u>100%</u>

⁽¹⁾ All "real estate" and "other" investments are made via publicly traded mutual funds, exchange-traded funds or exchange-traded notes and are Level 1 securities.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

8. Pension Plans (continued)

Plan Assets (continued)

The Organization uses a long-term risk controlled approach using diversified investment options in a prudent manner for the purpose of meeting future benefit payment obligations.

The fair values of the Organization's pension plan assets at December 31, 2019 and 2018, by asset class, were as follows:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>At December 31, 2019</u>				
Equities:				
Large-cap	\$ 17,212,429	\$ 17,212,429	\$ -	\$ -
Small- to mid-cap	6,387,702	6,387,702	-	-
International	9,063,881	9,063,881	-	-
Fixed income:				
Bond mutual funds	24,571,348	24,571,348	-	-
Corporate bonds	4,601,981	-	4,601,981	-
Marketable alternative investment funds	<u>8,098,229</u>	<u>8,098,229</u>	<u>-</u>	<u>-</u>
Total Investments in the Fair Value Hierarchy	69,935,570	<u>\$ 65,333,589</u>	<u>\$ 4,601,981</u>	<u>\$ -</u>
Cash and cash equivalents	<u>7,805,593</u>			
Total Investments	<u>\$ 77,741,163</u>			
<u>At December 31, 2018</u>				
Equities:				
Large-cap	\$ 12,682,940	\$ 12,682,940	\$ -	\$ -
Small- to mid-cap	4,625,116	4,625,116	-	-
International	7,236,170	7,236,170	-	-
Fixed income:				
Bond mutual funds	17,697,815	17,697,815	-	-
Corporate bonds	5,380,138	-	5,380,138	-
Marketable alternative investment funds	<u>8,130,962</u>	<u>8,130,962</u>	<u>-</u>	<u>-</u>
Total Investments in the Fair Value Hierarchy	55,753,141	<u>\$ 50,373,003</u>	<u>\$ 5,380,138</u>	<u>\$ -</u>
Cash and cash equivalents	<u>9,435,931</u>			
Total Investments	<u>\$ 65,189,072</u>			

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018**

8. Pension Plans (continued)

Contributions

Generally, the Organization's funding policy is, at a minimum, to contribute annually an amount in accordance with the guidelines of the Employee Retirement Income Security Act of 1974. Based upon projections from its actuary, management of the Organization expects to contribute \$4,636,584 to the SHRM Pension Plan and Trust during the year ending December 31, 2020.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the next ten years:

<u>For the Year Ending December 31,</u>	
2020	\$ 4,854,385
2021	\$ 2,531,240
2022	\$ 5,891,617
2023	\$ 4,693,016
2024	\$ 7,187,013
2025-2029	\$ 40,805,379

Other Information

Other changes in plan assets and benefit obligations recognized in other than net periodic pension cost were as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Net (gain) loss	\$ 6,118,466	\$ (4,434,959)
Interest cost	3,265,630	2,887,895
Expected return on plan assets	(4,496,239)	(4,349,328)
Amortization of gain	926,134	1,199,544
Prior service credit	(19,963)	(27,906)
Total	<u>\$ 5,794,028</u>	<u>\$ (4,724,754)</u>

Amounts in net assets without donor restrictions expected to be amortized into net periodic pension cost during the year ending December 31, 2020, consist of:

Net loss	\$ 1,231,977
Prior service cost	<u>19,963</u>
Total	<u>\$ 1,251,940</u>

No plan assets are expected to be returned to the Organization during 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

8. Pension Plans (continued)

Supplemental Executive Retirement Plans

Effective November 1, 1997, the Organization adopted a defined benefit pension plan to provide supplemental benefits to executives whose benefits under the SHRM Pension Plan and Trust are limited by the Internal Revenue Service (IRS) compensation limitations. There was one participant in this plan as of December 31, 2019. The benefit for vested participants under the plan is equal to the present value of the monthly benefit payable under the SHRM Pension Plan and Trust without regard to the compensation limitation, less the present value of the actual monthly benefit payable under the SHRM Pension Plan and Trust, taking into account the compensation limit. An individual becomes vested in the supplemental defined benefit plan upon reaching sixty years of age, upon completing ten years of service and when employment with the Organization terminates. The total projected benefit obligation as of December 31, 2019 and 2018, was \$899,196 and \$1,069,639, respectively, and is included in accrued benefit cost in the accompanying consolidated statements of financial position, representing the accrued liabilities under the supplementary executive retirement plan. The amount recognized in other than net periodic pension cost for the years ended December 31, 2019 and 2018, was a gain of \$0 and \$0, respectively. The amount recognized in net periodic benefit cost for the years ended December 31, 2019 and 2018, was \$280,595 and \$243,230, respectively. The Organization does not expect to contribute anything to the plan during the year ending December 31, 2020. The key assumptions used to develop the accrued benefit cost are the same assumptions used for SHRM's Pension Plan and Trust except for the discount rates for the net periodic pension cost and disclosure purposes which were 2.92% and 1.90% for the year ended December 31, 2019, and 2.50% and 2.92% for the year ended December 31, 2018.

Effective October 1, 2008, the Organization adopted a second supplemental executive retirement plan for its President and Chief Executive Officer at the time for the same purpose. Upon reaching sixty years of age, vesting in the second plan is 50% after three years of service, 75% after four years of service and 100% after completing five years of service. The plan is unfunded. As of December 31, 2019 and 2018, there were no participants in the plan and no accrued liability required under the plan.

Effective January 1, 2005, the Organization adopted an enhanced supplemental executive retirement plan to provide certain executives who retire from the Organization before attaining the normal retirement age of sixty-five with a supplemental benefit designed to offset the reduction in their accrued benefit under the SHRM Pension Plan and Trust. Participants include executives approved by the Board of Directors, who have attained the age of 60, who have completed 20 years of service and whose accrued benefit under the SHRM Pension Plan and Trust is reduced due to retiring before the normal retirement age of sixty-five years. This plan is unfunded. As of December 31, 2019 and 2018, there were no participants in the plan and no accrued liability required under this plan.

Incentive Savings 401(k) Plans

The Organization offers a defined contribution plan under Section 401(k) of the Internal Revenue Code (the IRC), which covers substantially all employees of the Organization, as well as, the employees of the Foundation, HRPS and CFGI. Under the 401(k) plan, effective February 1, 1985, eligible employees may elect to contribute up to the federal tax limitation.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

8. Pension Plans (continued)

Incentive Savings 401(k) Plans (continued)

The plan requires an annual employer contribution of 50% of the first 6% of each participant's contribution to the 401(k) plan. The Organization made additional discretionary employer contributions of 1.00% and 2.00% for the years ended December 31, 2019 and 2018, respectively. The Organization's total contributions to the 401(k) plan for the years ended December 31, 2019 and 2018, were \$1,412,546 and \$1,563,511, respectively.

Effective January 1, 2005, the Organization adopted a 401(k) Excess Plan to provide supplemental benefits to eligible employees whose benefits under the Incentive Savings Plan are limited by IRS limitations on compensation that may be taken into account for purposes of calculating contributions or the IRC's nondiscrimination tests with respect to matching contributions. An eligible participant is any executive approved by the Board of Directors of SHRM. There were no participants or contributions to this plan for the years ended December 31, 2019 and 2018.

Effective October 1, 2008, the Organization adopted a second 401(k) Excess Plan for its President and Chief Executive Officer at the time for the same purpose. The annual employer contribution is equal to the employer contribution which would have been made under the Organization's Incentive Savings 401(k) Plan based upon the maximum match without regard to applicable Code limitations on compensation less the actual employer contribution made. Upon reaching sixty years of age, the participant is 50% vested after three years of service, 75% vested after four years of service and 100% vested after completing five years of service. There were no participants or contributions to this plan for the years ended December 31, 2019 and 2018.

9. Postretirement Benefits

The Organization sponsors a defined benefit postretirement health care plan that covers substantially all employees hired on or before April 25, 2018. Effective July 1, 2018, SHRM adopted changes to the benefits provided under the plan. This amendment to the plan resulted in a decrease to the accumulated postretirement obligation of \$1,986,943. This will be amortized over 17 years, which represents the average number of years of future service to full eligibility date of the active employees included in the actuarial valuation. The plan is unfunded. The measurement date for the following actuarial information was December 31.

Obligations and Funded Status

	<u>2019</u>	<u>2018</u>
Accumulated postretirement benefit obligation at December 31	\$ (8,233,368)	\$ (6,501,542)
Fair value of plan assets at December 31	<u>-</u>	<u>-</u>
Funded Status	<u>\$ (8,233,368)</u>	<u>\$ (6,501,542)</u>

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018**

9. Postretirement Benefits (continued)

Obligations and Funded Status (continued)

The Organization sponsors a defined benefit postretirement health care plan that covers amounts recognized in the accompanying consolidated statements of financial position consisted of the following as of December 31, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Accrued benefit cost	\$ (8,233,368)	\$ (6,501,542)

Amounts not yet recognized as a component of net periodic postretirement benefit cost and included in net assets without donor restrictions as of December 31, 2019 and 2018, include the following:

	<u>2019</u>	<u>2018</u>
Cumulative unrecognized actuarial loss	\$ 677,693	\$ 299,950

Of the cumulative unrecognized actuarial gain of \$677,693 as of December 31, 2019, \$0 is expected to be included in net periodic postretirement benefit cost for the year ending December 31, 2020.

Benefit cost, contributions and benefits paid for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Net periodic postretirement cost	\$ 725,105	\$ 785,409
Employer contribution	\$ 93,948	\$ 65,297
Benefits paid	\$ 93,948	\$ 65,297

Assumptions

Weighted average assumptions as of December 31:

	<u>2019</u>	<u>2018</u>
Discount rate	4.06%	3.41%
Initial health care cost trend rate	7.00%	7.00%
Rate to which the health care cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year in which the rate reaches the ultimate trend rate	2023	2022

Contributions

Benefits are funded on a pay-as-you-go basis. Management of the Organization, based upon projections from its actuary, expects to contribute approximately \$272,000 to its defined benefit postretirement health plan during the year ending December 31, 2020.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018

9. Postretirement Benefits (continued)

Estimated Future Benefit Payments

Benefit payments are expected to be paid during the next ten years as follows:

<u>For the Years Ending</u> <u>December 31,</u>	
2020	\$ 272,000
2021	\$ 239,000
2022	\$ 151,000
2023	\$ 135,000
2024	\$ 139,000
2025-2029	\$ 1,498,000

10. Income Taxes

SHRM is exempt from federal income taxes under Section 501(c)(6) of the IRC. However, income from certain activities not directly related to SHRM's tax-exempt purpose is subject to taxation as unrelated business income. SHRM generates unrelated business income principally from advertising and rental income from debt financed property.

The provision for income tax for SHRM was \$610,289 and \$411,569 for the years ended December 31, 2019 and 2018, respectively, and is included in provision for income tax expense in the accompanying consolidated statements of activities and changes in net assets.

The Foundation and HRPS are both exempt from federal income taxes under Section 501(c)(3) of the IRC. No provision for federal income taxes is required for the years ended December 31, 2019 and 2018, as the Foundation and HRPS had no significant net unrelated business income.

CFGF qualified as a tax-exempt organization under Section 501(c)(6) of the IRC. There is no provision for federal income taxes required for the year ended December 31, 2019 and the nine months ended September 30, 2018, as CFGF had no net unrelated business income. As discussed in Note 1 to the financial statements, CFGF merged its operations into SHRM effective October 1, 2018. CFGF filed its final tax return in 2019.

SHRM-India is subject to tax under the regulations of India. There was no provision for income tax for the years ended December 31, 2019 and 2018, as there was no significant amount owed.

SHRM Corporation is subject to federal and state income taxes and files separate federal and applicable state income tax returns. The provision for income tax for SHRM Corporation for the years ended December 31, 2019 and 2018, was \$236,327 and \$105,062, respectively, and is included in the provision for income tax expense in the accompanying consolidated statements of activities and changes in net assets.

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

10. Income Taxes (continued)

SHRM-MEA is subject to tax regulations under the provisions of the Dubai Technology and Media Free Zone Private Companies Regulators of Dubai, UAE. No significant provision for income taxes was made, as there was no significant taxable net income in Dubai.

SHRM-China is subject to tax regulations under the laws of the People's Republic of China. No provision for income tax for SHRM-China was made as there was no significant taxable net income for the years ended December 31, 2019 and 2018.

The Organization adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in FASB Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization evaluated its uncertainty in income taxes for the years ended December 31, 2019 and 2018, and determined that there were no matters that would require recognition in the consolidated financial statements or which might have any effect on the Organization's tax-exempt status. As of December 31, 2019, there are no audits for any tax periods in progress. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax or interest expense. There are currently no examinations pending or in progress regarding the Organization's income tax returns.

11. Reclassifications

Certain 2018 amounts have been reclassified to conform to the current year presentation.

12. Subsequent Events

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. The Organization has been able to continue most of its operations in a remote environment and is making plans to adjust activities that cannot; however, at this point, the extent to which COVID-19 may impact the Organization's financial condition or results of operations is evolving and uncertain.

SHRM's management has evaluated subsequent events through June 3, 2020, the date the consolidated financial statements were available to be issued. Except as disclosed above there were no subsequent events that require recognition or disclosure in these consolidated financial statements.

SUPPLEMENTARY INFORMATION

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

December 31, 2019

	SHRM	SHRM-India	Consolidated SHRM Corporation	HRPS	SHRM Foundation	Eliminations	Total
ASSETS							
Cash and cash equivalents	\$ 22,940,898	\$ 230,877	\$ 576,392	\$ 502,221	\$ 1,456,459	\$ -	\$ 25,706,847
Contracts receivable, net	3,089,942	851,456	193,440	8,448	70,000	-	4,213,286
Contributions and grants receivable	-	-	-	-	388,279	-	388,279
Due from subsidiaries and affiliates	7,126,069	37,166	-	48,550	-	(7,211,785)	-
Prepaid expenses, other assets and deposits	12,583,361	77,707	115,339	126,406	86,464	-	12,989,277
Investments	160,100,726	-	-	-	20,882,997	-	180,983,723
Investment in SHRM-India	(4,028,974)	-	-	-	-	4,028,974	-
Investment in SHRM Corporation	(989,501)	-	-	-	-	989,501	-
Inventory	454,310	25,140	-	-	-	-	479,450
Goodwill	-	-	355,047	-	-	(355,047)	-
Property and equipment, net	37,391,771	24,193	38,228	-	-	-	37,454,192
TOTAL ASSETS	\$ 238,668,602	\$ 1,246,539	\$ 1,278,446	\$ 685,625	\$ 22,884,199	\$ (2,548,357)	\$ 262,215,054
LIABILITIES AND NET ASSETS							
Liabilities							
Accounts payable and accrued expenses	\$ 14,086,953	\$ 723,686	\$ 279,666	\$ 247,581	\$ 373,610	\$ -	\$ 15,711,496
Due to SHRM, affiliates and subsidiaries	466,530	4,383,289	1,988,281	302,821	70,864	(7,211,785)	-
Deferred membership dues	32,136,593	-	-	454,477	-	-	32,591,070
Deferred conference and sponsorships	7,065,538	-	-	159,195	-	-	7,224,733
Deferred subscriptions and other	1,700,455	168,538	-	35,900	-	-	1,904,893
Deferred exam fees	3,876,784	-	-	-	-	-	3,876,784
Note payable	1,043,962	-	-	-	-	-	1,043,962
Accrued benefit cost	31,272,275	-	-	501,335	512,571	-	32,286,181
TOTAL LIABILITIES	91,649,090	5,275,513	2,267,947	1,701,309	957,045	(7,211,785)	94,639,119
Net Assets							
Without donor restrictions	147,019,512	-	-	(1,015,684)	18,028,093	142,278	164,174,199
With donor restrictions	-	-	-	-	3,899,061	(497,325)	3,401,736
TOTAL NET ASSETS	147,019,512	-	-	(1,015,684)	21,927,154	(355,047)	167,575,935
Stockholder's Equity							
Common stock	-	19,221,843	1,000	-	-	(19,222,843)	-
Dividends	-	-	(18,879,876)	-	-	18,879,876	-
Foreign currency translation (loss) gain	-	(755,612)	43,958	-	-	711,654	-
Retained earnings (deficit)	-	(22,495,205)	17,845,417	-	-	4,649,788	-
TOTAL STOCKHOLDER'S EQUITY	-	(4,028,974)	(989,501)	-	-	5,018,475	-
TOTAL LIABILITIES AND NET ASSETS	\$ 238,668,602	\$ 1,246,539	\$ 1,278,446	\$ 685,625	\$ 22,884,199	\$ (2,548,357)	\$ 262,215,054

See independent auditors' report on supplementary information.

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2019

	SHRM	SHRM-India	Consolidated SHRM Corporation	HRPS	SHRM Foundation	Eliminations	Total
REVENUE AND SUPPORT							
Membership dues	\$ 54,117,378	\$ 31,854	\$ -	\$ 793,627	\$ -	\$ -	\$ 54,942,859
Annual conference	34,953,840	784,782	-	908,406	-	(16,085)	36,630,943
Seminars and educational programs	25,525,816	1,075,748	543,021	106,785	-	(130,650)	27,120,720
Publications, advertising and royalties	17,145,143	-	1,840,830	51,321	-	-	19,037,294
Certification program	12,354,011	-	-	-	-	(33,140)	12,320,871
Other conferences	5,822,621	723,993	203,603	425,410	-	(4,080)	7,171,547
Other	3,538,627	1,145,261	4,135	-	249,065	(2,082,966)	2,854,122
J-1 visa fees	1,533,589	-	-	-	-	-	1,533,589
Contributions, grants and sponsorships	-	-	-	-	2,887,909	-	2,887,909
Contributions from affiliates	-	-	-	2,156,000	1,216,326	(3,372,326)	-
Investment income allocated to operations	5,317,400	-	-	-	566,541	-	5,883,941
TOTAL REVENUE AND SUPPORT	160,308,425	3,761,638	2,591,589	4,441,549	4,919,841	(5,639,247)	170,383,795
EXPENSES							
Program Services:							
Government and public affairs	19,524,828	-	-	-	-	-	19,524,828
Certification program	12,967,508	-	-	-	-	-	12,967,508
Education programs	45,162,483	1,856,834	733,787	2,458,739	-	(1,281,165)	48,930,678
Publications	13,908,492	-	865,183	295,184	-	(476,190)	14,592,669
Grants, awards and scholarships	-	-	-	-	886,774	(264,627)	622,147
Other	449,241	-	-	-	1,183,836	(349,517)	1,283,560
Total Program Services	92,012,552	1,856,834	1,598,970	2,753,923	2,070,610	(2,371,499)	97,921,390
Supporting Services:							
Management and general	39,732,775	1,024,958	102,644	526,057	300,243	(3,077,414)	38,609,263
Membership services	23,542,198	969,554	91,723	826,370	-	(135,252)	25,294,593
Fundraising	-	-	-	-	403,133	(55,082)	348,051
Total Supporting Services	63,274,973	1,994,512	194,367	1,352,427	703,376	(3,267,748)	64,251,907
TOTAL EXPENSES	155,287,525	3,851,346	1,793,337	4,106,350	2,773,986	(5,639,247)	162,173,297
EQUITY IN EARNINGS OF SUBSIDIARIES							
HRM-India	(70,464)	-	-	-	-	70,464	-
SHRM Corporation	562,116	-	-	-	-	(562,116)	-
TOTAL EQUITY IN EARNINGS OF SUBSIDIARIES	491,652	-	-	-	-	(491,652)	-
Change in Net Assets from Operations	5,512,552	(89,708)	798,252	335,199	2,145,855	(491,652)	8,210,498

See independent auditors' report on supplementary information.

Continued

SOCIETY FOR HUMAN RESOURCE MANAGEMENT, AFFILIATES AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2019

(continued)

	<u>SHRM</u>	<u>SHRM-India</u>	<u>Consolidated SHRM Corporation</u>	<u>HRPS</u>	<u>SHRM Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Nonoperating Activities							
Investment income in excess of amounts designated for operations:							
Investment income (loss), net	\$ 22,638,987	\$ 19,007	\$ 192	\$ -	\$ 2,417,858	\$ -	\$ 25,076,044
Investment income allocated to operations	<u>(5,317,400)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(566,541)</u>	<u>-</u>	<u>(5,883,941)</u>
 Total Investment Income (Loss) in Excess of Amounts Designated for Operations	 17,321,587	 19,007	 192	 -	 1,851,317	 -	 19,192,103
 Provision for income tax expense	 <u>(610,289)</u>	 <u>-</u>	 <u>(236,327)</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>(846,616)</u>
 Total Nonoperating Activities	 <u>16,711,298</u>	 <u>19,007</u>	 <u>(236,135)</u>	 <u>-</u>	 <u>1,851,317</u>	 <u>-</u>	 <u>18,345,487</u>
 CHANGE IN NET ASSETS	 <u>\$ 22,223,850</u>	 <u>\$ (70,701)</u>	 <u>\$ 562,117</u>	 <u>\$ 335,199</u>	 <u>\$ 3,997,172</u>	 <u>\$ (491,652)</u>	 <u>\$ 26,555,985</u>

See independent auditors' report on supplementary information.