

Research Foundation of CFA Institute

Financial Statements

As of 31 August 2011 and 2010

And Report of Independent Auditors

Research Foundation of CFA Institute

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Report of Independent Auditors

To the Board of Trustees of
Research Foundation
of CFA Institute:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Research Foundation of CFA Institute (the Foundation) at 31 August 2011 and 2010, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

18 November 2011

**Research Foundation
of CFA Institute**
Statements of Financial Position
As of 31 August 2011 and 2010

(Rounded to Nearest Hundred)

	<u>2011</u>	<u>2010</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 40,700	\$ 49,300
Accounts receivable	2,100	800
Prepaid expenses	6,000	2,000
Publication inventory	67,300	54,300
Total current assets	<u>116,100</u>	<u>106,400</u>
Investments at fair value	10,335,300	9,657,600
Total assets	<u>\$ 10,451,400</u>	<u>\$ 9,764,000</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 31,900	\$ 5,400
Accounts payable - affiliated organization (CFA Institute)	4,700	200
Total current liabilities	<u>36,600</u>	<u>5,600</u>
Net assets		
Unrestricted		
Undesignated	8,690,200	7,945,800
Designated - 11 September Memorial Scholarship Fund	774,600	862,600
Designated - Other	950,000	950,000
Total net assets	<u>10,414,800</u>	<u>9,758,400</u>
Total liabilities and net assets	<u>\$ 10,451,400</u>	<u>\$ 9,764,000</u>

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

**Research Foundation
of CFA Institute
Statements of Activities
For the years ended 31 August 2011 and 2010**

(Rounded to Nearest Hundred)

	<u>2011</u>	<u>2010</u>
Changes in net assets		
Operating revenues		
Education products	\$ 139,900	\$ 111,400
Contributions - public	22,300	32,600
Contributions - affiliated organization (CFA Institute)	<u>588,500</u>	<u>361,700</u>
Total operating revenues	<u>750,700</u>	<u>505,700</u>
Expenses		
Operating expenses		
Educational content and products	268,300	192,200
Management and general	<u>815,900</u>	<u>495,600</u>
Total operating expenses	<u>1,084,200</u>	<u>687,800</u>
11 September Memorial Scholarship Fund expenses		
Scholarships granted	121,900	149,700
Management and general	<u>26,600</u>	<u>25,800</u>
Total 11 September Memorial Scholarship Fund expenses	<u>148,500</u>	<u>175,500</u>
Total expenses	<u>1,232,700</u>	<u>863,300</u>
Net loss from operations	(482,000)	(357,600)
Realized gains, interest and dividends	<u>356,700</u>	<u>257,800</u>
Change in net assets from operations	<u>(125,300)</u>	<u>(99,800)</u>
Other changes		
Unrealized gains on investments	<u>781,700</u>	<u>303,500</u>
Change in net assets	<u>656,400</u>	<u>203,700</u>
Net assets, beginning of year	<u>9,758,400</u>	<u>9,554,700</u>
Net assets, end of year	<u>\$ 10,414,800</u>	<u>\$ 9,758,400</u>

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

**Research Foundation
of CFA Institute**
Statements of Cash Flow, Direct Method
For the years ended 31 August 2011 and 2010

(Rounded to Nearest Hundred)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash inflows		
Educational products	\$ 13,000	\$ 9,500
Interest and dividends	274,100	245,700
Affiliated organization (CFA Institute)	160,600	85,500
Total cash inflows from operating activities	<u>447,700</u>	<u>340,700</u>
Cash outlays		
Program services		
Educational products	316,200	250,300
Scholarships	126,400	148,800
Support Services		
Financial operations and executive	143,000	15,500
Office of general counsel	26,100	-
Fundraising	12,100	19,500
Affiliated organization (CFA Institute)	19,000	35,500
Total cash outlays from operating activities	<u>642,800</u>	<u>469,600</u>
Net cash used in operating activities	<u>(195,100)</u>	<u>(128,900)</u>
Cash flows from investing activities:		
Proceeds from investments	1,198,600	960,900
Purchases of investments	(1,012,100)	(823,900)
Net cash provided by investing activities	<u>186,500</u>	<u>137,000</u>
Net (decrease) increase in cash and cash equivalents	(8,600)	8,100
Cash and cash equivalents, beginning of year	49,300	41,200
Cash and cash equivalents, end of year	<u>\$ 40,700</u>	<u>\$ 49,300</u>
Reconciliation of net income to net cash used in operating activities:		
Change in net assets	\$ 656,400	\$ 203,700
Adjustment to reconcile change in net assets to net cash used in operating activities		
Unrealized gains on investments	(781,600)	(303,500)
Realized gains on investments	(82,600)	(12,100)
Changes in		
Pledges and accounts receivable	(1,300)	(100)
Prepaid expenses	(4,000)	(2,000)
Publication inventory	(13,000)	(2,700)
Accounts payable	26,500	(15,000)
Accounts payable - affiliated organization (CFA Institute)	4,500	2,800
Net cash used in operating activities	<u>\$ (195,100)</u>	<u>\$ (128,900)</u>

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

Research Foundation of CFA Institute

Notes to Financial Statements 31 August 2011 and 2010

1. Organization

Research Foundation of CFA Institute (the Foundation) is a not-for-profit organization based in Charlottesville, Virginia, USA. The Foundation is a wholly-owned subsidiary of CFA Institute, a not-for-profit professional organization with a mission of leading the investment profession globally by setting high standards of ethics, education and professional excellence. The purpose of the Foundation is to sponsor, publish, and distribute research on topics that contribute to or improve the global investment community and the CFA Institute Global Body of Investment Knowledge used by investment professionals around the world. The Foundation also periodically delivers cutting-edge research through in-person conferences and online webinars and recognizes excellence in contributions to the global investment community through the James R. Vertin Award. In addition, the Foundation sponsors and administers the CFA Institute 11 September Memorial Scholarship Fund which benefits disabled survivors and families of the casualties of the 11 September terrorist attacks.

2. Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Measure of operations

Operating revenues include educational product sales and contributions. Realized gains and losses and income from investments are reported separately and are included in the change in net assets from operations. Unrealized gains and losses on investments are reported as non-operating revenue. Changes in temporarily restricted net assets are considered non-operating revenues.

Net assets

The Foundation classifies net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions with donor restrictions are recorded as temporarily restricted or permanently restricted depending on the nature of the restrictions.

Temporarily restricted net assets are contributions with donor-imposed program restrictions. Temporarily restricted net assets become unrestricted when the funds are used for their restricted purposes and are reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are fulfilled in the same fiscal year that the contributions are received are reported in the statements of activities as temporarily restricted contributions and as contributions released from restrictions. The program restrictions relate to the 11 September Memorial Scholarship Fund. As of 31 August 2011 and 2010, the Foundation had no temporarily restricted net assets.

Permanently restricted net assets represent donor-restricted endowments to be held in perpetuity. As of 31 August 2011 and 2010, the Foundation had no permanently restricted net assets. Investment income from both temporarily and permanently restricted net assets is recorded as unrestricted

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Notes to Financial Statements
31 August 2011 and 2010**

income unless otherwise restricted by the donor.

Designated net assets

In 1990, AIMR (Association for Investment and Research) was formed as a result of the combination of the Institute of Chartered Financial Analysts (ICFA) and the Financial Analysts Federation (FAF). In 2004, AIMR changed its name to CFA Institute. Prior to the combination, the ICFA contributed \$950,000 to the Foundation Research Fund. These net assets are shown on the Statements of Financial Position as Designated – Other Net Assets.

CFA Institute contributed \$1,000,000 to the 11 September Memorial Scholarship Fund in October 2001. This contribution is designated solely for scholarship funding. Because of the relationship between CFA Institute and the Foundation, this contribution is required by the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), to be reported as a designated net asset rather than restricted.

Cash and cash equivalents

Cash and cash equivalents include short-term liquid investments with original maturities of three months or less and consist of the following at 31 August 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Foundation cash	\$ 33,300	\$ 25,500
11 September Memorial Scholarship Fund cash	7,400	23,800
Total cash and cash equivalents	<u>\$ 40,700</u>	<u>\$ 49,300</u>

Publication inventory

Inventory, which consists primarily of publications, is stated at the lower of cost or market determined by the first-in, first-out method.

Fundraising expenses

Fundraising expenses for the Foundation were \$12,100 and \$14,000 for fiscal years ended 31 August 2011 and 2010, respectively, and are included in management and general expenses on the statement of activities as operating expenses. No fundraising expenses were incurred on behalf of the 11 September Memorial Scholarship Fund in fiscal years 2011 or 2010.

Income taxes

The Foundation is exempt from United States federal income taxes under Internal Revenue Code (IRC) §501(c)(3) except for unrelated business income, which is subject to United States federal and Virginia state income taxes. The Foundation has no unrelated business income, therefore, no income taxes are payable for the years ended 31 August 2011 and 2010. The Foundation has no uncertain tax positions.

Subsequent events

The Foundation has assessed the impact of subsequent events through 18 November 2011, the date the audited financial statements were issued, and has concluded that there are no such events that require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

New accounting pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance to develop common requirements for measuring fair value and for disclosing information about fair value

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measurements in accordance with U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Non-public entities must adopt the new guidance for annual periods beginning after 15 December 2011. The Foundation anticipates that the adoption of the guidance will not impact its financial statements.

In January 2010, the FASB issued authoritative guidance regarding additional fair value disclosures, which include (1) information about transfers to and from Level 1 and 2 measures, and (2) greater disaggregation of items in the Level 3 reconciliation. These disclosures are effective for fiscal years beginning after 15 December 2010. The Foundation anticipates that the adoption of this guidance will not impact its financial statements.

In September 2009, the FASB issued authoritative guidance providing companies with the ability to use net asset value as a practical expedient in determining the fair value of alternative investments that do not have a readily determinable fair value. The guidance is effective for annual periods ending after 15 December 2009. The adoption of this guidance did not impact the financial statements of the Foundation.

3. Investments

The Foundation records its investments at fair value and any change is reflected in the statements of activities.

Investments, at fair value (note 4) as of 31 August 2011 and 2010, consist of the following:

	<u>2011</u>	<u>2010</u>
Research Foundation	\$ 9,568,100	\$ 8,818,800
11 September Memorial Scholarship Fund	<u>767,200</u>	<u>838,800</u>
Total investments	<u>\$ 10,335,300</u>	<u>\$ 9,657,600</u>

As of 31 August 2011 and 2010, investments consisted of U.S. registered mutual funds that invest in U.S. and non-U.S. equity securities, U.S. fixed-income securities, and U.S. government securities. The following table details the fair value for the Foundation's major types of investments as of 31 August:

	<u>2011</u>	<u>2010</u>
Equity investments	\$ 6,928,800	\$ 6,247,700
Fixed-income investments	2,891,200	2,826,600
U.S. government securities	<u>515,300</u>	<u>583,300</u>
Total investments	<u>\$ 10,335,300</u>	<u>\$ 9,657,600</u>

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Total investment gains, interest and dividends consist of the following:

	<u>2011</u>	<u>2010</u>
Realized gains, interest, and dividends		
Research Foundation	\$ 331,200	\$ 222,000
11 September Memorial Scholarship Fund	25,500	35,800
Total realized gains, interest, and dividends	356,700	257,800
Unrealized gains		
Research Foundation	773,300	293,700
11 September Memorial Scholarship Fund	8,400	9,800
Total unrealized gains	781,700	303,500
Total investment gains, interest and dividends	<u>\$ 1,138,400</u>	<u>\$ 561,300</u>

Description of major investments that represent more than 5% of total investments:

1. Vanguard Total Bond Market Index Fund Institutional Shares – Goal is to keep pace with U.S. bond market returns. Invests in more than 3,000 bonds representative of the broad U.S. investment-grade market.
2. Vanguard Total Stock Market Index Fund Institutional Shares – Goal is to keep pace with U.S. stock market returns. Invests in more than 3,000 stocks representative of the whole U.S. market.
3. Vanguard FTSE All-World ex-US Index Fund Institutional Shares – Goal is to track the performance of the FTSE All-World ex US Index. Provides a way to get broad exposure across developed and emerging non-U.S. equity markets around the world.
4. Vanguard Inflation-Protected Securities Fund Institutional Shares – Goal is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Invests in high-quality inflation-indexed bonds issued by the U.S. Treasury, government agencies and domestic corporations.
5. US Treasury STRIPS – Zero coupon long-term Government securities.

4. Fair value measurements

All financial instruments are accounted for at fair value on a recurring basis. Per the Fair Value Measurements Topic of the FASB ASC, a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. This Topic also established a three-tiered hierarchy that draws a distinction between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2), and (iii) unobservable inputs that require CFA Institute to use present value and other valuation techniques in the determination of fair value (Level 3). The following table presents information about assets and liabilities required to be carried at fair value on a recurring basis as of 31 August 2011:

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	Fair value as of 31 August 2011	Fair value measurements as of 31 August 2011 Using:		
		Quoted market prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Mutual Funds (note 3)	\$ 9,820,000	\$ 9,820,000	\$ -	\$ -
U.S. government securities (note 3)	515,300	515,300	-	-
	<u>\$ 10,335,300</u>	<u>\$ 10,335,300</u>	<u>\$ -</u>	<u>\$ -</u>

For assets that are measured using quoted prices in active markets, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs.

5. Major contributions and sales

CFA Institute allocates certain operating expenses to the Foundation and the 11 September Memorial Scholarship Fund based on time spent by CFA Institute personnel on the respective activities. Corresponding contributions are made by CFA Institute to cover these allocated expenses in their entirety. These contributions consist primarily of contributed goods and services. CFA Institute also reimburses the 11 September Memorial Scholarship Fund for all administrative expenses, except for the payout of scholarships.

	<u>2011</u>	<u>2010</u>
<u>CFA Institute contributions</u>		
Contribution for operating and administrative expenses	\$ 583,000	\$ 356,000
Purchases of monographs	86,400	74,200
Contribution for 11 September Scholarship administrative expenses	<u>5,500</u>	<u>5,700</u>
Total revenue from CFA Institute	674,900	435,900
CFA Institute allocated operating expenses	<u>583,000</u>	<u>356,000</u>
Net revenue from CFA Institute	<u>\$ 91,900</u>	<u>\$ 79,900</u>
	<u>2011</u>	<u>2010</u>
<u>Expenses paid by the contributions</u>		
Research expenses	\$ 353,000	\$ 147,000
Administrative expenses	209,000	188,000
11 September Scholarship administrative expenses	21,000	21,000
11 September Scholarship other expenses	<u>5,500</u>	<u>5,700</u>
Total expenses paid by the contributions	<u>\$ 588,500</u>	<u>\$ 361,700</u>

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The Foundation sells publications both to CFA Institute and the general public.

	<u>2011</u>	<u>2010</u>
Publication sales to CFA Institute	\$ 86,500	\$ 74,300
Publication sales to the public	33,100	19,700
Total publication sales	119,600	94,000
Conference registrations	20,300	17,400
Total education products revenue	<u>\$ 139,900</u>	<u>\$ 111,400</u>

For the fiscal year ended 31 August 2011, conference registrations of \$20,300 were included in Education products revenue, and conference expenses of \$63,800 were included in Education content and products expenses. For the fiscal year ended 31 August 2010, conference registrations of \$17,400 were included in Education products revenue, and conference expenses of \$36,800 were included in Education content and products expenses.

Due to a procedural change, beginning in fiscal year 2010 CFA Institute collects third party contributions and other revenue on behalf of the Foundation. CFA Institute also makes payments on behalf of the Foundation and settles the net amount with the Foundation. This amount is included in the Statement of Cash Flow as an intercompany transaction under Affiliated organization.

6. Commitments and contingencies

The Foundation awards grants to individuals subject to completion of their respective research projects. Unpaid grants, subject to this condition, totaled \$79,600 and \$125,900 as of 31 August 2011 and 2010, respectively. Due to the conditional nature of these unpaid grants, they are not accrued for in the accompanying statements of financial position.

7. 11 September Memorial Scholarship Fund

CFA Institute established the 11 September Memorial Scholarship Fund (the Scholarship Fund) in October 2001, to benefit disabled survivors and families of the casualties of the 11 September terrorist attacks. CFA Institute made an initial contribution of \$1,000,000 to the Scholarship Fund.

College and university scholarships up to \$25,000 each will be awarded to individuals who were permanently disabled in the attacks, or who were the spouses, domestic partners or dependents of anyone killed or permanently disabled in the attacks, and who will pursue university-level education in finance, economics, accounting, or business ethics.

Contributions to the Scholarship Fund, which is intended to be a twenty-year, self-liquidating fund, are recorded as temporarily restricted, except for the contribution from CFA Institute which is presented in accordance with the Not-for-Profit Entities Topic of the FASB ASC. According to the standard, the contribution by CFA Institute is not temporarily restricted because of the relationship between CFA Institute and the Foundation (note 1). The contribution from CFA Institute is designated solely for the Scholarship Fund's funding requirements. All contributions and investment income are considered available for scholarship funding requirements. CFA Institute reimburses the Scholarship Fund for all non-scholarship expenses. The Scholarship Fund awarded scholarships of \$121,900 and \$148,700 for the years ended 31 August 2011 and 2010, respectively. CFA Institute contributed \$26,500 and \$26,700 to cover non-scholarship operating expenses of the Scholarship Fund for the years ended 31 August 2011 and 2010, respectively.

**Research Foundation
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Notes to Financial Statements
31 August 2011 and 2010**

The activity in the Scholarship Fund for the years ended 31 August 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Net assets, beginning of year	\$ 862,600	\$ 965,700
Realized gains, interest and dividends	25,500	35,800
Unrealized gains on investments	8,400	9,800
Scholarships awarded	<u>(121,900)</u>	<u>(148,700)</u>
Net assets, end of year	<u>\$ 774,600</u>	<u>\$ 862,600</u>

Net assets for the Scholarship Fund are shown on the Statements of Financial Position as follows:

	<u>2011</u>	<u>2010</u>
Designated	<u>\$ 774,600</u>	<u>\$ 862,600</u>
Net assets, end of year	<u>\$ 774,600</u>	<u>\$ 862,600</u>

8. Management and General Expenses

Management and general expenses as shown on the Statements of Activities as operating expenses are as follows (rounded to the nearest hundred):

	<u>2011</u>	<u>2010</u>
Financial operations and executive	\$ 215,700	\$ 146,600
Office of general counsel	26,100	-
Fundraising	12,100	14,000
Other support services	562,000	335,000
Total management and general expenses	<u>\$ 815,900</u>	<u>\$ 495,600</u>

Management and general expenses as shown on the Statements of Activities as operating expenses of the 11 September Memorial Scholarship Fund are as follows (rounded to the nearest hundred):

	<u>2011</u>	<u>2010</u>
Financial operations and executive	\$ 1,000	\$ -
Scholarship administration	4,600	4,800
Other support services	21,000	21,000
Total management and general expenses	<u>\$ 26,600</u>	<u>\$ 25,800</u>