Fiscal Year 2020

2020 ANNUAL REPORT

CFA Institute

CFA Institute

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MESSAGE FROM OUR CHAIR

Dear members and charterholders,

I want to thank you for your support of CFA Institute, its programs and societies, and our investment management industry as a whole. Along with my colleagues at the board of governors, I hope that you are healthy and safe alongside your family and friends.

As we reflect on FY20, we started our year, in September 2019, enjoying the momentum we had built from prior years, with record candidate numbers, society members, and revenue growth. Under a new CEO, we had embarked on a strategy refresh when our world changed dramatically and altered the course of our fiscal year. CFA Institute navigated through a time of extraordinary complexity and change triggered by the global pandemic, global economic crises, and major disruption to the investment management and educational industries.

"CFA Institute navigated through a time of extraordinary complexity and change."

The pandemic continues to hit close to home as we have lost relatives from many of our CFA Institute employees, society members, and volunteers. Our prayers are with all of them. During these times, we are also facing a trend of many professionals reconsidering our industry. We see colleagues retiring or reevaluating the future—especially those with fewer resources and less support—with some moving away from financial services to be close to home or to work in industries that support the work-life balance they seek. It remains a difficult time.

The pandemic's impact to the operations and finances of CFA Institute has been enormous. After many years of candidate and revenue growth, we had an operating loss in FY20. We administered the CFA Program exams to about one-fourth of the number of candidates to whom we administered the exams in FY19 as we had to cancel the June 2020 exam administration due to the pandemic. As such, we were unable to offer the CFA Level II and III exams in FY20.

I would like to briefly cover three priority areas tackled by the board in FY20: board governance and operations resilience, society and volunteer support, and CFA Institute relevance.

CFA Institute board governance and operations resilience

In working through FY20, the board of governors strengthened its governance by creating a Risk Committee, separate from the Audit and Finance Committee, to develop an enterprise risk management system and further develop its compliance and internal audit functions. We also added a Governance Committee to further improve board governance in support of the CEO, and we created a Strategy SWAT team to support a refresh of this strategy. We added culture and diversity, equity, and inclusion (DEI) into the mandate of a new People and Culture Committee, which replaced the Compensation Committee. We also strengthened our Society Partnership Advisory Council with more active engagement from Presidents Council Representatives.

Delivering CFA credentials is critical to fulfill our mission to lead our industry in education, ethics, and professional development. Thus, the Executive Committee of the board—alongside chairs of the committees, the CEO, and the CFA Institute leadership team—created a partnership to focus on navigating the changes needed to run our operations and evolve delivery of the CFA Program exams during the pandemic. The board approved computer-based testing for Level I to begin in February 2021 and for Levels II and III to begin in May 2021, one full year ahead of schedule. CFA Institute will also start testing the use of remote proctoring in areas with lockdowns due to COVID-19.

This partnership supported CFA Institute leadership in restructuring the organization. We also supported leadership in hiring key staff to carry out this new strategy.

Our decision making has become steadier and more assured, even as we acknowledge that we cannot know the precise consequences of our decisions. We are leveraging the committees effectively as they partner with staff to deliver the change agenda for CFA Institute.

Society and volunteer support

The pandemic affected our societies and volunteer model, including lower renewal rates; cancelation of in-person events, including the Society Leader Conference (SLC) and the annual conference; and uncertainty resulting from organizational changes by CFA Institute. By the end of FY20, we had conducted virtual regional SLCs and increased engagement between leadership of CFA Institute and CFA Societies.

The board of governors approved funding to cover operational budgets through FY22 to reduce uncertainty on CFA Societies and to stabilize our relationship. While this is progress, societies want to engage on our model with CFA Institute, that is, what CFA Institute does and what the role of societies is in fulfilling our mission. CFA Institute will prioritize development of our vision as well as how CFA Institute and its societies will leverage their respective strengths to deliver value to candidates, members, and society at large.

CFA Institute relevance

Our vision for the board of governors is to help lead an investment management profession that is evolving and changing rapidly. Investment management firms are seeking new areas of strategic growth, including mergers—with some acquiring new capabilities for alpha generation and some offering total portfolios as opposed to building blocks. Every asset manager is redefining its processes to generate new alpha sources through data sciences and the use of environmental, social, and governance (ESG) factors or is tapping into private markets as a precursor to public company exposures. In net, clients' demands are going beyond returns into transparency, cost efficiency, convenience, ESG outcomes, and more. It is clear that we continue to work in an ever-changing industry, and we strive to position CFA Institute at the vanguard of that change.

CFA charterholders and our candidates express evolving expectations, too. They want more content and professional learning, accessible in a variety of forms—from podcasts to webinars to online learning

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and computer-based testing. They look to us and our leadership position to help them stay on top of changes and trends in this dynamic industry.

I want to describe two more areas of board involvement in FY20. First, sustainability, including climate change and DEI, will continue to be an area of strategic priority with strong board endorsement. We supported the initiation of the transition of the CFA Society UK ESG credential to CFA Institute for global distribution and expansion. This credential will complement our advocacy efforts in creating ESG products standards for the industry. We also are supportive of the expansion of DEI initiatives, including gender in investment management.

Second, the board will help “connect the dots” among the different CFA Institute think tanks, such as Future of Finance, CFA Research Foundation, *Financial Analysts Journal*, and the Advocacy teams. It is our responsibility at the board of governors to identify those areas in which we could lead the industry with our intellectual capital and expertise.

I want to thank Marg Franklin and the CFA Institute leadership team in beginning the process to adapt CFA Institute to continue our mission, to lead the industry, and to expand our influence and relevance. In FY20, CFA Institute sought to instill

- the need to evolve and change;
- the need to be relevant and lead, not react; and
- the need to be more accountable and more responsive to our stakeholders.

Marg will describe the new strategic direction in her letter to you in this report. Without question, we are at a critical juncture for CFA Institute. We need our collective best thinking to help us manage these difficult and unprecedented events. Together, I am confident that we will do so.

Thank you for your support.

Daniel Gamba, CFA
Chair, Board of Governors

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MESSAGE FROM OUR PRESIDENT AND CEO

Dear colleagues,

Fiscal year 2020, which started on 1 September 2019—coinciding with my first day as president and CEO of CFA Institute—began with much promise.

We had come off a very strong FY19—a year marked by record numbers of candidates, members, societies, and revenues—and I was looking forward to this momentum continuing.

The early days of my tenure were marked by travel, meeting with members, societies, and industry influencers. Everywhere I went, I encountered people with so much enthusiasm for our mission, and I was consistently reminded how truly important, influential, and relevant our organization is in the investment management ecosystem—not only our CFA Program but also the entirety of our footprint, from advocacy, to standards, to ethics, and so much more. We hold a powerful voice for investors, for investment management professionals, and for the industry at large.

And even a global pandemic could not diminish our role and our voice in the industry.

But the advent of COVID-19 upended our plans and our business strategy for FY20. For the first time in our organization's history, since testing first began in 1963, we were unable to administer the CFA Program exams in June of 2020, much to the disappointment of hundreds of thousands of candidates around the world, and to our organization.

This public health crisis—a global pandemic the likes of which the world has not seen in more than a century—turned our world upside down. And it affected virtually every family and every business around the world; no one was immune.

In this letter, I will recap FY20 and the many challenges CFA Institute faced, noting that our fiscal year concluded on 31 August 2020. At that time, as I am sure you can well imagine, we faced more uncertainty about the months ahead and about our ability to administer exams in the future. I would also point our members to our upcoming proxy statement for more details about what transpired after we closed the fiscal year. This report and its accompanying financials cover the period from 1 September 2019 to 31 August 2020.

As I noted, our organization stood on very stable ground as FY20 began. We are fortunate that our board of governors and executive leadership had the foresight and wisdom to strengthen our financial position and build up our reserves over many years in case of an unexpected event. This proved prescient. We tapped our reserves by about $43 million in FY20, but dividends and gains nearly offset that decrease, resulting in a net decrease in the investments balance of only $0.7 million from FY19.

Our strong financial position allowed us to maintain our organizational stability and to look forward with confidence while the global economy went into a freefall. We took comfort in the fact that we had those significant reserves to cushion us through challenging times. I thank our leadership and governors, past and present, for their determination that we be prepared.

As you may know, registration fees for the exams constitute about 85 percent of our revenues, so not being able to administer the June exams represented a significant financial event: an ugly black swan, if you will.

From a financial perspective, our revenues obviously suffered. Total revenue for FY20 ended at $168 million, a decrease of $226 million over FY19. While we collected registration fees in advance of the June exams, postponing candidates to December 2020 and beyond meant that those revenues were not recognized in FY20. Thus, our financial loss is due to deferred income, which is not recognized until exam results are communicated to candidates. Driven by the exam postponement, total deferred revenue increased by approximately $169 million year-over-year. This financial impact will have a ripple effect for fiscal years to come as we will continue to have a lag in revenue recognition stemming from the pandemic and the June 2020 exam postponement.

Before the pandemic's onset, the board of governors and I had noted the need for the organization to take a fresh look at our overall strategy given the rapid pace of change and its impact on the investment management industry.

No organization can afford to stand still, particularly these days. Innovation remains a constant in our industry, and those who do not try to get ahead—or at least keep pace with it—suffer the consequences. We must grasp the opportunities and confront the challenges stemming from trends such as automation and artificial intelligence; passive fund growth; fee compression; industry consolidation; changing investor expectations; the continued rise of environmental, social, and governance (ESG) and sustainable investing; and so much more.

In late calendar year 2019, we launched a strategy review to guide how we should adapt CFA Institute to these changing circumstances. I challenged our team to see how we should evolve and to question our standing assumptions on the future of our organization and our place in the industry.

"Even a global pandemic could not diminish our role and our voice in the industry."

We began the strategy review before the coronavirus hit. As a glass-half-full person, looking back, I am grateful that we had initiated the strategy review. It allowed us to continue our important work while at the same time guiding the adjustments we needed to make to our organization in real time; the foundational work existed with a team in place.

I want to note here how proud I am of the way our organization responded to the pandemic. Our incredibly dedicated employees adapted to working from home rather quickly. Our IT infrastructure allowed us to function remotely at full capacity in short order.

We all know this period has had more than its share of personal challenges—caring for young children

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and, indeed, teaching them from home; looking in on elderly relatives and perhaps shopping for them or taking them to the doctor; and dealing with our own health and stress levels, solitude, and, sadly, so much more—and I am so proud of our team members for their hard work, resiliency, and dedication. My deep thanks go out to them.

Our strategy work resulted in redefining our way forward. As a test of its durability, our mission statement remains steadfast: Our mission at CFA Institute is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. That mission remains core to everything we do.

To inform the strategic planning process, we conducted interviews, surveys, and focus groups with various stakeholders, including societies, members, and other industry leaders and practitioners. Thank you to those of you who contributed to this process.

As part of the strategy review, we established three new strategic goals to address the challenges and opportunities we see:

1. increase our influence and relevance,
2. expand and diversify our constituent base, and
3. create greater scale and product diversity.

To achieve these goals, we devised the following four-pillar strategy:

1. modernize and grow the CFA Program,
2. build a diverse portfolio of learning products,
3. shape the future of the industry and profession, and
4. develop exceptional client experiences.

We believe we can serve a wider segment of the industry than we have in the past, not only by promoting the value of the CFA Program to potentially nontraditional organizations and roles within the investment industry, but also by expanding the range of products we have to offer. This will also provide revenue diversification.

Why is diversification so important? Currently, about 85 percent of CFA Institute revenue comes from one product: the CFA Program. COVID-19 acutely demonstrated the risk associated with over-reliance on one program, which historically has been delivered two times a year. Although moving to computer-based testing will mitigate some of the risks associated with delivering the CFA Program exams only twice a year, we clearly need to do more to diversify our revenue stream so that we can continue the important work of our mission. This work is in progress.

Delivering a high-quality and personalized membership experience remains a critical strategic focus. We continue to allocate significant resources to delivering products and services that help members navigate their careers. Our Future of Finance research helps to guide the industry and regularly receives significant media coverage. We are pressing onward with a new Professional Learning platform, and we have added cutting-edge Refresher Readings and online learning modules on topics such as "Organizing, Visualizing, and Describing Data" and "Machine Learning."

Our strategy also affirms the role we can play in serving a wider constituent base than only those who pursue the charter. We are recognized leaders in the industry with an international brand; we need to better leverage that strength and position.

We also implemented organizational changes as a result of the new strategy. In FY20, we welcomed a new chief financial officer and a new head of information technology/chief information officer. I also restructured some reporting lines to me and announced a search for a new position overseeing our regions and society relations. I am confident that shifting to one collective division, bringing together society relations and our regional outreach teams, will make us more cohesive, consistent, and efficient globally. This effort will improve collaboration between our society and institutional relations teams and enhance information flow from the regions to our leadership team. We continue to have highly capable regional teams who will remain focused on meeting the local needs of our stakeholders and bringing insight to our global organization.

You will see updates in the charts and graphs that follow on our numbers of CFA Program administrations, CFA Institute membership, Asset Manager Code (AMC) and Global Investment Performance Standards (GIPS) adoption and more. Obviously, as a result of the pandemic, some of these numbers do not show their typical growth rates. Yet AMC and GIPS continue apace, and we remain very proud of the adoption of our codes and standards globally. In terms of societies, we added CFA Society Israel and CFA Society Ghana in FY20—quite an accomplishment in trying times—and we supported 159 societies at the end of the fiscal year.

We pushed our advocacy agenda around the world, weighing in on many important regulatory developments. Our position as the noncommercial voice of the investor remains much respected, and we were pleased to have our views heard on such issues as financial reporting, capital-markets structure, ESG investing, a host of shareholder-rights issues, the perils of sales inducements, and much more.

The innately in-person exercise of advocating our policy views with key leaders who set the rules of our industry went virtual, too, and we were not immune from the same adjustments of any work-from-home environment. Yet, given the strength of our previously established relationships pre-pandemic, and familiarity with CFA institute as a known and respected contributor on the policy debates, our Advocacy team had significant access to leaders during the lockdown. The independent voice of CFA Institute combined with the broader advocacy platforms we have sponsored, such as the Systemic Risk Council, have amplified our ability to directly influence industry and government leaders who control actions affecting markets and our members worldwide. I remain very proud of these efforts.

As I mentioned, the pandemic's impact will again appear in our FY21 financials. Yet as you will see from the following tables and our audited financial statements, the deterioration in our financial position began in FY20. As a result, aside from the staffing reductions, we also implemented a host of cost-savings initiatives. Our travel and event budget shrunk dramatically as we, like so many other organizations, transitioned to virtual events. Total expenses therefore decreased by approximately $66 million year-over-year.

As I look ahead to FY21, I am optimistic about our strategy but cautious about our finances. Based upon current projections, we anticipate that an additional drawdown on our reserves may be necessary, and we will continue to reduce our expenses significantly. I remain hopeful that computer-based testing will improve our ability to administer the exams more consistently in the face

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of the risks that the pandemic poses. But as FY20 showed, we need to be prepared for the unexpected.

Our board's approach to risk management is robust and appropriately conservative. I am hesitant to describe the coronavirus as the only risk we face. Indeed, it is not. We regularly have in-depth conversations around risk with the board. The board has supported our efforts to maintain reserves sufficient to weather a significant disruption. That approach will keep us on track in FY21 despite the unforeseen. I am reassured that while we cannot see around corners, we can strive to be prepared.

My first year as your president and CEO has been nothing short of extraordinary. In these trying times, I have drawn strength from the support of our members, from the dedication of our volunteers, from the resiliency of our staff, and from our respected position in the industry. Yes, FY20 was a challenge. And it did not go according to plan. But we persevered in the face of adversity, and I stand very proud of our organization.

Thank you for your support and be well.

Margaret Franklin, CFA
President and CEO
CFA Institute

For More Information

Mission & Vision

https://www.cfainstitute.org/en/about/vision

Governance

https://www.cfainstitute.org/en/about/governance

Corporate Documents & Policies

https://www.cfainstitute.org/en/about/governance/policies

Professional Learning

https://www.cfainstitute.org/en/membership/professional-development/collection

Office Locations

https://www.cfainstitute.org/en/utility/office-locations

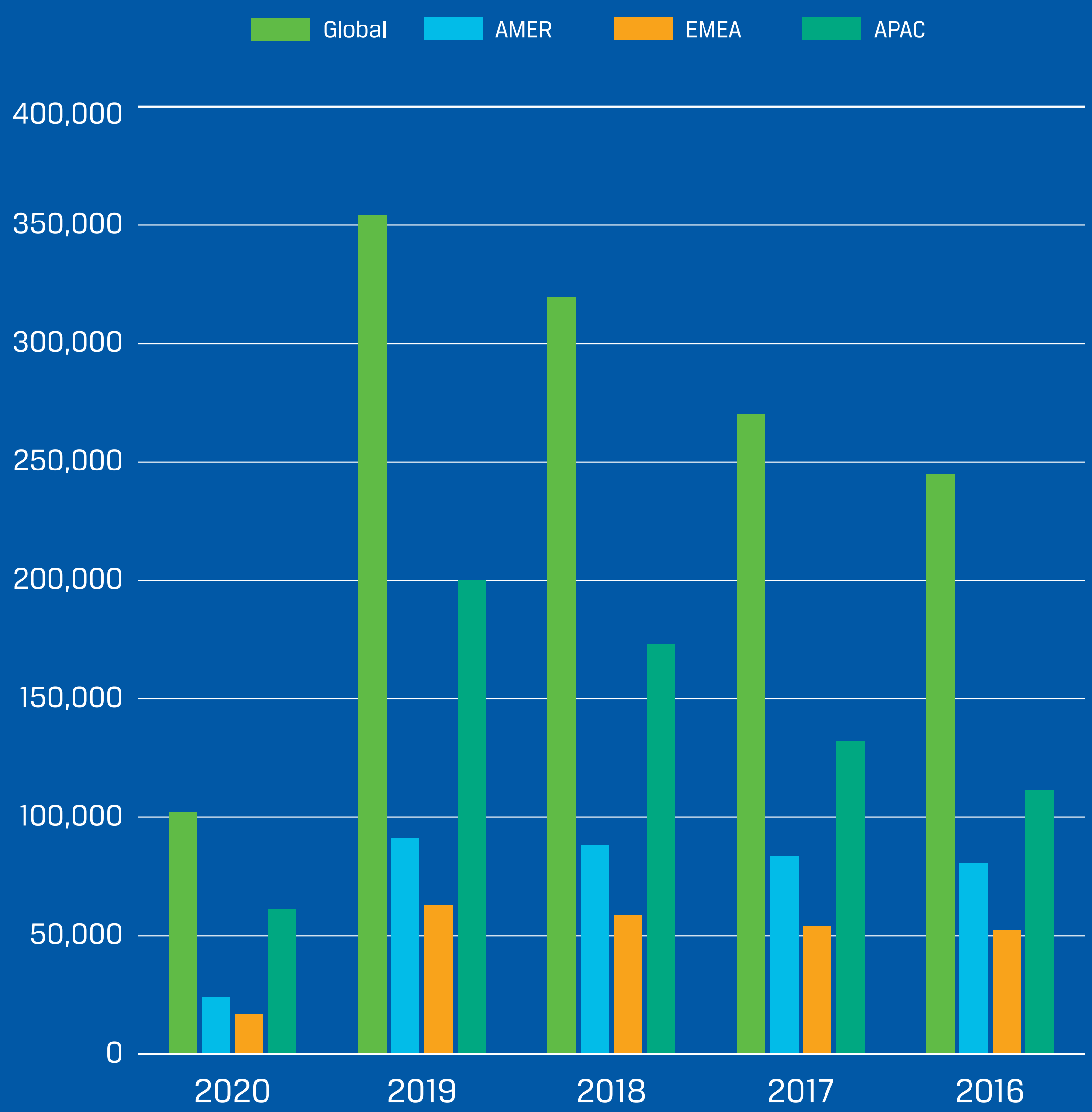
OVERVIEW

Credentialing Exam Administrations by Region

CFA PROGRAM	FY2020	FY2019	FY2018	FY2017	FY2016
Global	102,200	354,300	319,300	270,100	244,900
AMER	24,100	91,100	88,000	83,500	80,900
EMEA	16,800	63,000	58,400	54,200	52,500
APAC	61,300	200,200	172,900	132,400	111,500
CIPM PROGRAM	**FY2020**	**FY2019**	**FY2018**	**FY2017**	**FY2016**
Global	950	1,600	1,800	2,130	1,350
AMER	400	700	900	1,140	730
EMEA	250	500	500	500	400
APAC	300	400	400	490	220
INVESTMENT FOUNDATIONS PROGRAM	**FY2020**	**FY2019**	**FY2018**	**FY2017**	**FY2016**
Global	85,900	34,500	5,500	5,440	4,400
AMER	13,500	8,000	2,500	2,210	1,990
EMEA	31,000	12,400	1,300	1,420	1,320
APAC	41,400	14,100	1,700	1,810	1,090

AMER = Americas; EMEA = Europe, Middle East, and Africa; APAC = Asia Pacific

CFA PROGRAM EXAM ADMINISTRATIONS BY REGION



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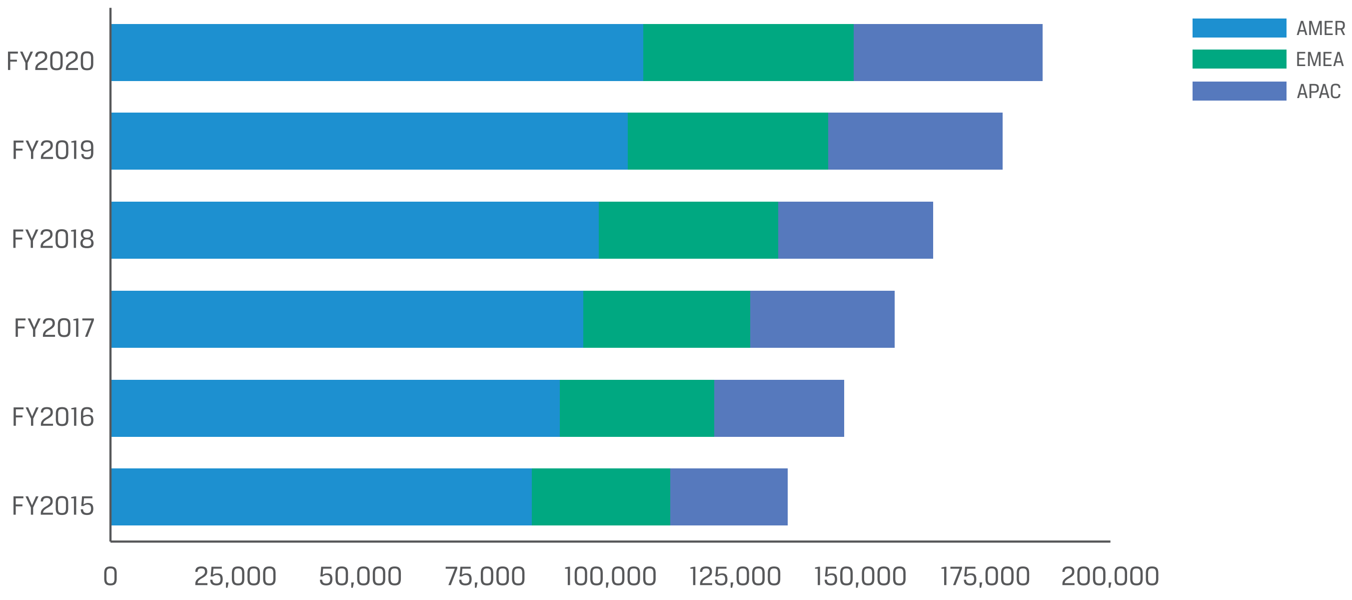
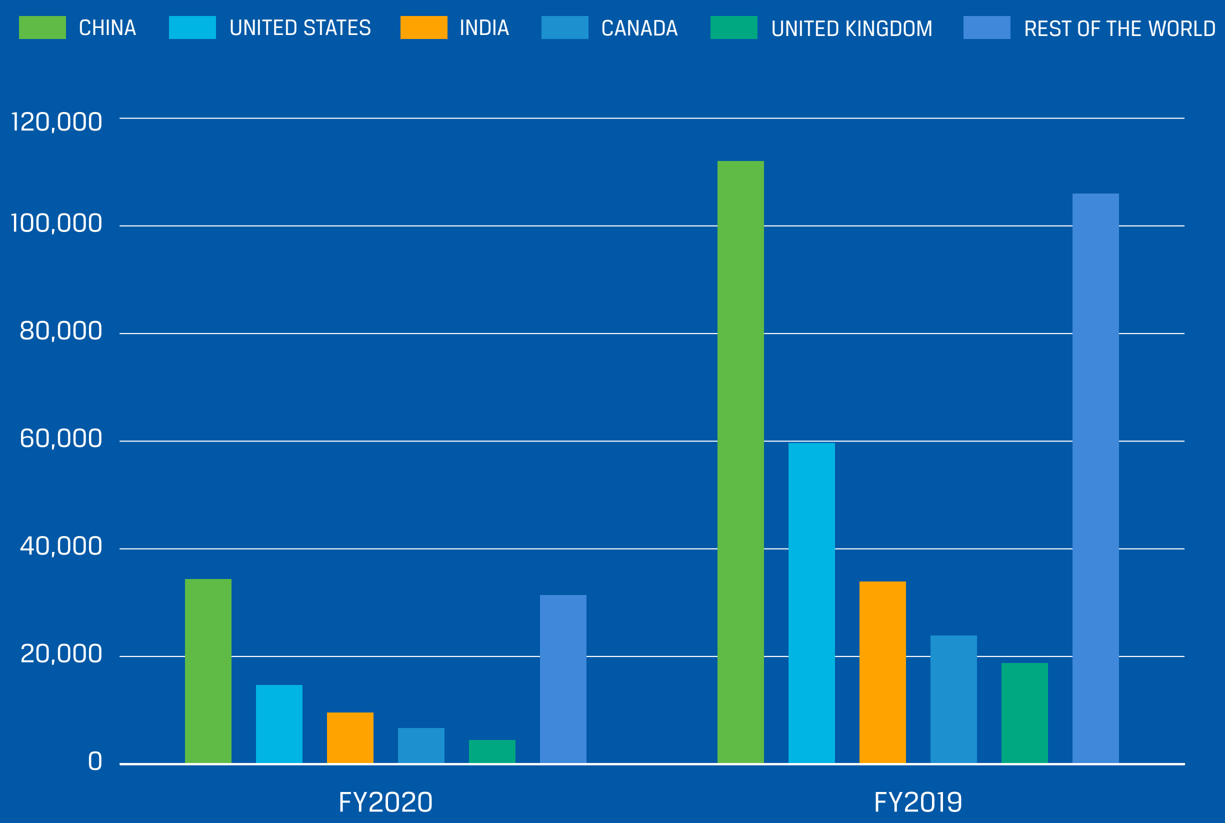
CFA INSTITUTE MEMBERSHIP BY REGION

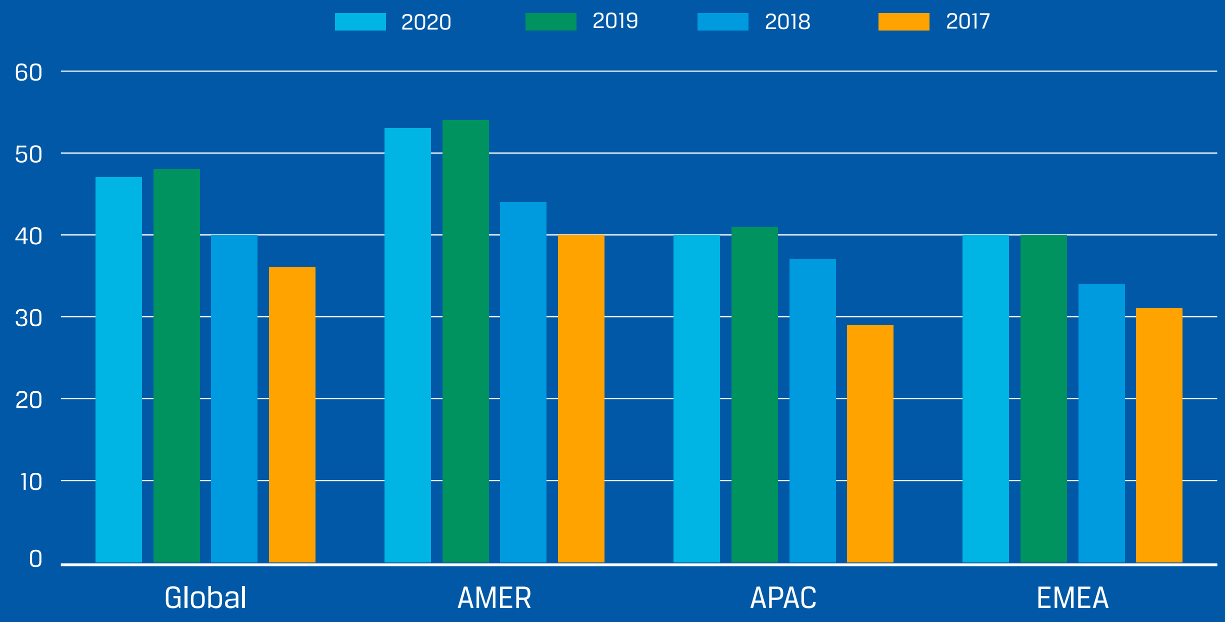


AMER = Americas; EMEA = Europe, Middle East, and Africa; APAC = Asia Pacific

CFA PROGRAM EXAM ADMINISTRATIONS: TOP FIVE MARKETS

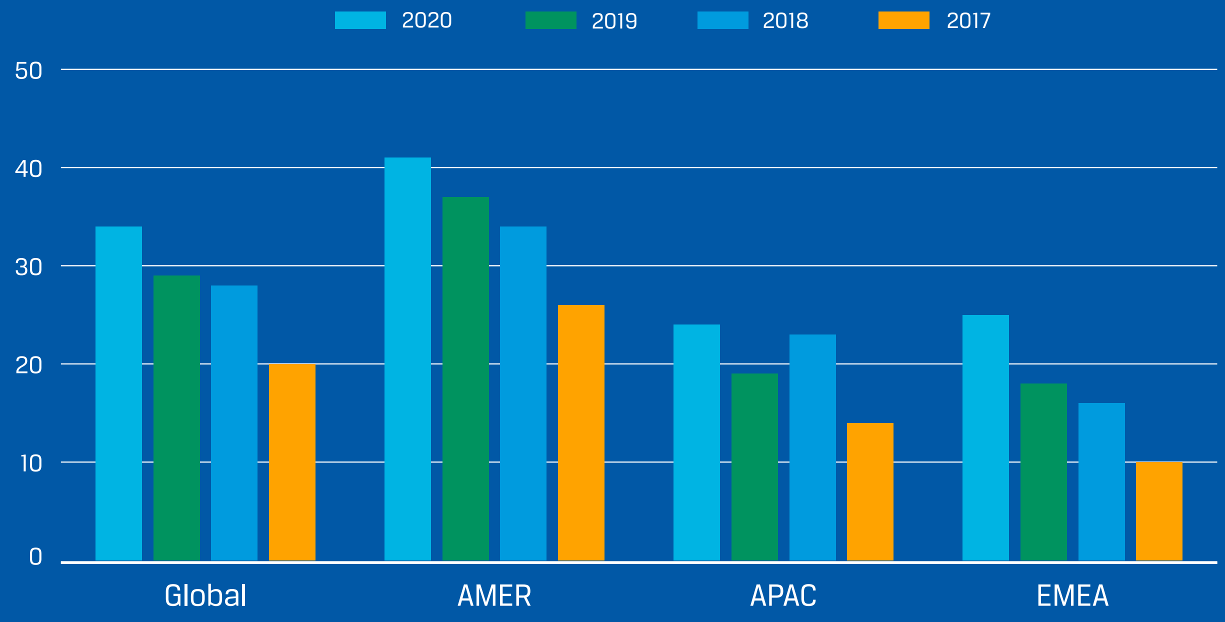


CFA INSTITUTE MEMBERSHIP NPS



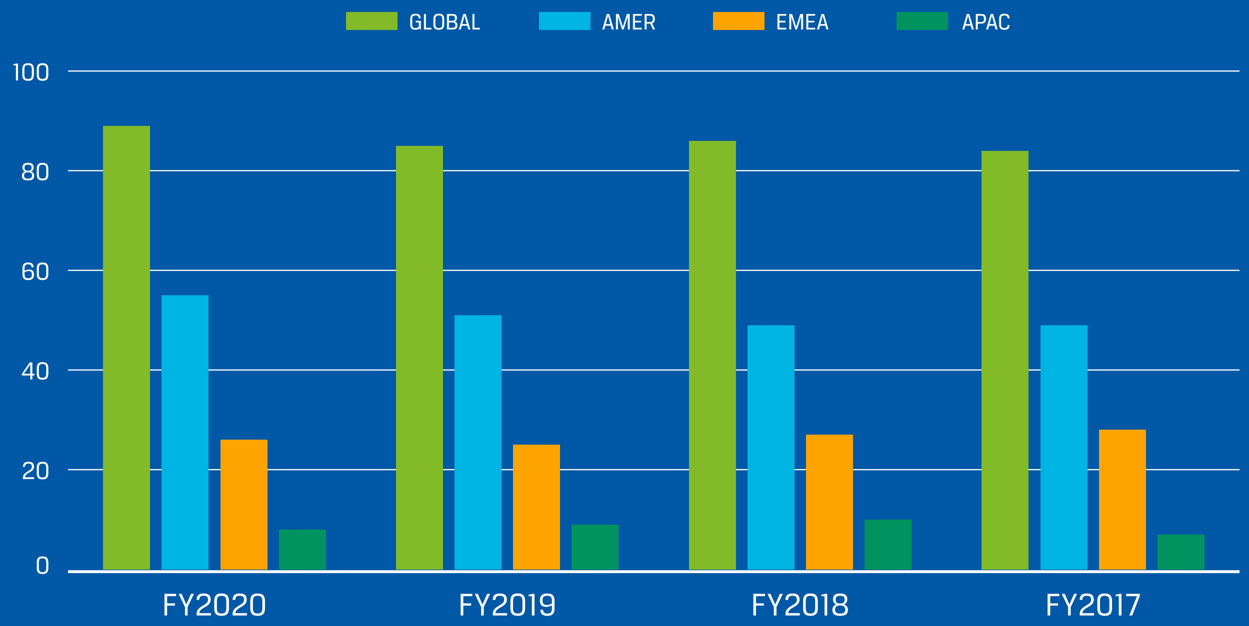
Note: The NPS methodology has been updated to be standard and FY2019 is restated with comparable values.
NPS = Net Promoter Score
AMER = Americas; APAC = Asia Pacific; EMEA = Europe, Middle East, and Africa

CFA SOCIETY NPS



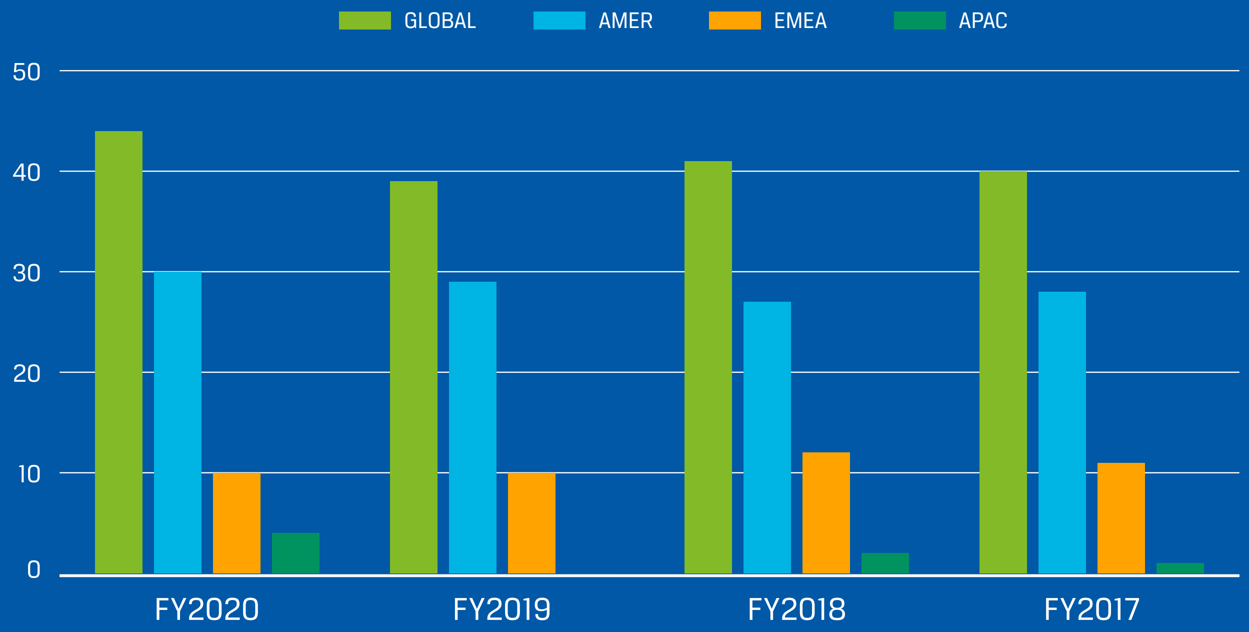
Note: The NPS methodology has been updated to be standard and FY2019 is restated with comparable values.
NPS = Net Promoter Score
AMER = Americas; APAC = Asia Pacific; EMEA = Europe, Middle East, and Africa

GIPS ADOPTION BY TOP 100 ASSET MANAGERS



GIPS = Global Investment Performance Standards
AMER = Americas; EMEA = Europe, Middle East, and Africa; APAC = Asia Pacific

AMC ADOPTION BY TOP 100 ASSET MANAGERS



AMC = Asset Manager Code
AMER = Americas; EMEA = Europe, Middle East, and Africa; APAC = Asia Pacific

PERFORMANCE

YEAR IN SUMMARY

Consolidated Financial Results for Fiscal Years Ended 31 August 2020 and 2019

	FY2020	FY2019
Members and Exam Administrations [1]		
CFA Institute Members	186,400	178,400
CFA Program Administrations	102,200	354,300
CIPM Program Administrations	950	1,600
CFA Institute Investment Foundations Administrations	85,900	34,500
Financial Performance ***($ in millions)*** [2]	**FY2020**	**FY2019**
Operating revenues	$168.0	$393.9
Operating expenses	306.6	372.6
(Loss) income from operations	**(138.6)**	**21.3**
Other changes	42.9	19.4
Change in net assets without donor restrictions	**$(95.7)**	**$40.7**

[1] Administrations defined as exam registrations for which we recognize revenue, realized net of adjustments.
[2] Numbers are rounded.

REVENUES

Revenues for Fiscal Years Ended 31 August 2020 and 2019

($ IN MILLIONS) [1]	FY2020	FY2019
Credentialing programs, net	$117.9	$337.5
Member value programs	48.0	49.9
Industry engagement and other	0.3	0.4
Contributions	1.8	6.1
Total operating revenues	**$168.0**	**$393.9**

[1] Numbers are rounded.

EXPENSES

Expenses for Fiscal Years Ended 31 August 2020 and 2019

($ IN MILLIONS) [1]	FY2020	FY2019
Operating expenses		
Program services		
Credentialing programs	$84.0	$122.5
Member value programs	110.7	142.8
Industry engagement	21.6	23.5
Scholarships—11 September Memorial Fund	0.1	0.1
Management and general	90.2	83.7
Total operating expenses	**$306.6**	**$372.6**

[1] Numbers are rounded.

PERFORMANCE

FINANCIAL CONDITION

Financial Position as of 31 August 2020 and 2019

($ IN MILLIONS) [1]	FY2020	FY2019
Cash and cash equivalents	$197.0	$99.5
Other current assets	13.1	22.5
Total current assets	210.1	122.0
Noncurrent investments, at fair value	481.6	482.3
Other noncurrent assets	62.0	69.0
Total noncurrent assets	543.6	551.3
Total assets	**$753.7**	**$673.3**
Accounts payable and accrued liabilities	$18.0	$21.1
Deferred revenue	335.8	164.2
Other current liabilities	35.6	22.1
Total current liabilities	389.4	207.4
Accrued liabilities	1.2	1.4
Deferred revenue	54.0	56.1
Other noncurrent liabilities	17.6	16.7
Total noncurrent liabilities	72.8	74.2
Total liabilities	462.2	281.6
Net assets	291.5	391.7
Total liabilities and net assets	**$753.7**	**$673.3**

[1] Numbers are rounded.

CASH AND INVESTMENT DETAIL

Cash and Investment Portfolio Balance as of 31 August 2020 and 2019

($ IN MILLIONS) [1]	FY2020	FY2019
Cash and cash equivalents	$197.0	$99.5
Noncurrent investments, at fair value	481.6	482.3
Total cash and noncurrent investments	**$678.6**	**$581.8**

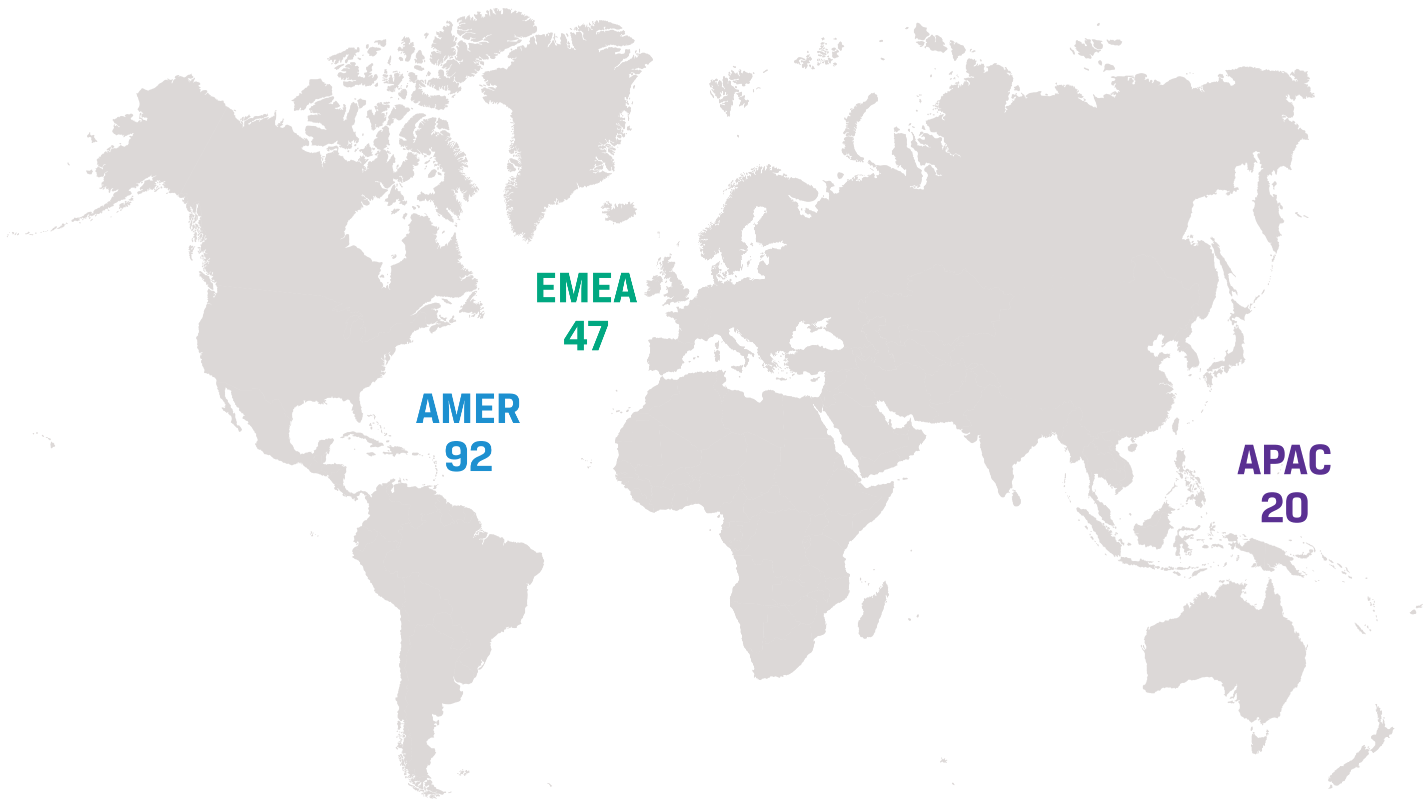
[1] Numbers are rounded.

Cash Flow for Fiscal Years Ended 31 August 2020 and 2019

($ IN MILLIONS) [1]	FY2020	FY2019
Change in net assets	$(95.7)	$40.7
Noncash items	(16.6)	7.8
Changes in assets and liabilities	188.3	5.2
Net cash provided by operating activities	76.0	53.7
Capital expenditures	(8.3)	(13.3)
Maturities and proceeds (purchases) of investments, net	31.7	(29.0)
Net cash provided by (used in) investing activities	23.4	(42.3)
Payments on borrowings, net	(1.4)	(1.4)
Distributions to non-controlling interests	(0.1)	(0.1)
Redemption of capital — non-controlling interests	(0.4)	-
Net cash used in financing activities	(1.9)	(1.5)
Net increase in cash and cash equivalents	97.5	9.9
Cash and cash equivalents, beginning of year	99.5	89.6
Cash and cash equivalents, end of year	**$197.0**	**$99.5**

[1] Numbers are rounded.

SOCIETY LOCATIONS BY REGION



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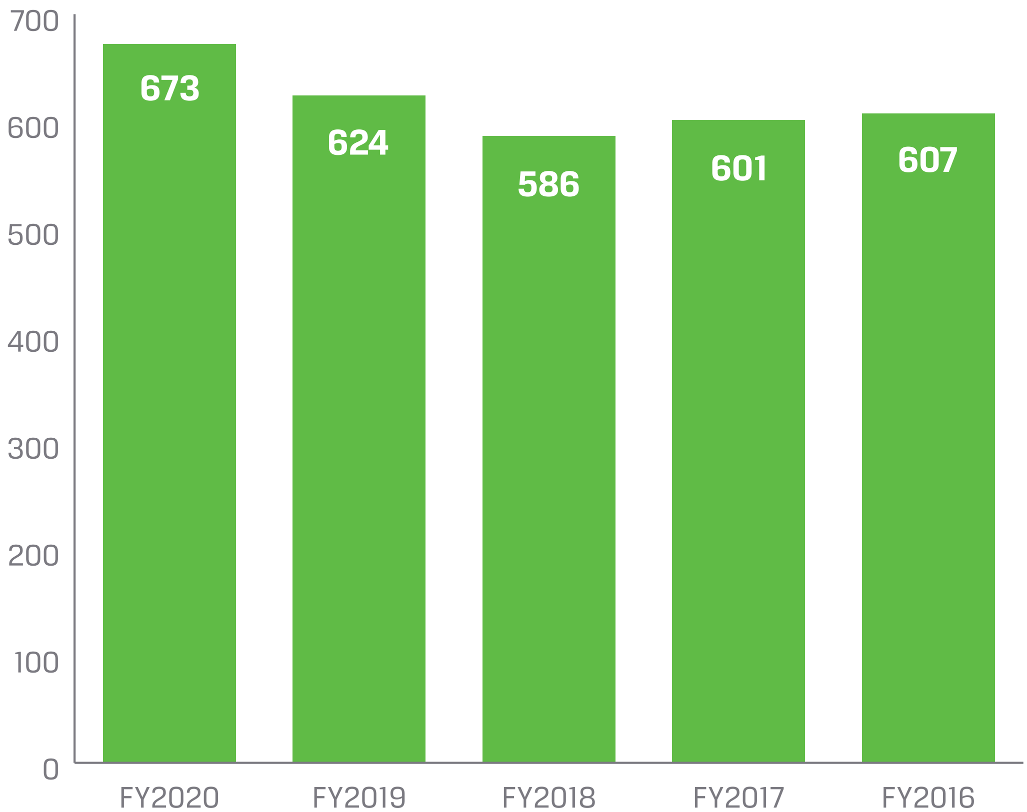
TOTAL NUMBER OF CFA INSTITUTE STAFF



INDEPENDENT AUDITORS' REPORT AND AUDITED FINANCIAL STATEMENTS

CFA Institute

Consolidated Financial Statements

and Accompanying Consolidating Information
As of 31 August 2020 and 2019
and Independent Auditors' Report

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KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Governors
CFA Institute:

We have audited the accompanying consolidated financial statements of CFA Institute and its subsidiaries, which comprise the consolidated statements of financial position as of August 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CFA Institute and its subsidiaries as of August 31, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 2 to the consolidated financial statements, CFA Institute adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (ASC 606),* on September 1, 2019. Our opinion is not modified with respect to this matter.

Other Matter – Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis and 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Richmond, Virginia
December 15, 2020

CFA Institute
Consolidated Statements of Financial Position
As of 31 August 2020 and 2019

(in thousands)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 196,990	$ 99,493
Accounts receivable, net	1,914	1,090
Prepaid expenses and other assets	10,449	19,695
Publication inventory	745	1,690
Total current assets	210,098	121,968
Non-current assets		
Investments, at fair value	481,616	482,257
Prepaid expenses and other assets	3,042	4,988
Property and equipment, net	39,514	40,724
Intangibles, net	19,384	23,342
Total non-current assets	543,556	551,311
Total assets	$ 753,654	$ 673,279
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	$ 18,044	$ 21,056
Deferred revenue	335,782	164,210
Employee-related liabilities	11,854	17,355
Refund liability	19,610	—
Funds held for others	2,357	3,190
Derivative contract	253	59
Notes payable	1,490	1,450
Interest payable	13	14
Total current liabilities	389,403	207,334
Non-current liabilities		
Accrued liabilities	1,235	1,371
Deferred revenue	53,977	56,102
Employee-related liabilities	3,895	1,896
Derivative contract	838	520
Notes payable	12,824	14,311
Total non-current liabilities	72,769	74,200
Total liabilities	462,172	281,534
Net assets		
Net assets without donor restrictions		
Undesignated	290,302	373,851
Designated	1,180	1,239
Non-controlling interests	—	16,655
Total net assets	291,482	391,745
Total liabilities and net assets	$ 753,654	$ 673,279

See accompanying notes to consolidated financial statements.

CFA Institute
Consolidated Statements of Activities
For the Years Ended 31 August 2020 and 2019

(in thousands)

	2020	2019
Change in net assets without donor restrictions		
Operating revenues		
Credentialing programs, net	$ 117,889	$ 337,506
Member value programs	48,012	49,940
Industry engagement and other	300	371
Contributions	1,794	6,061
Total operating revenues	167,995	393,878
Operating expenses		
Program services		
Credentialing programs	84,004	122,473
Member value programs	110,709	142,802
Industry engagement	21,558	23,444
Scholarships – 11 September Memorial Fund	83	85
Supporting services		
Management and general	90,236	83,732
Fundraising	3	4
Total operating expenses	306,593	372,540
(Loss) income from operations	(138,598)	21,338
Interest and dividends (net)	12,859	14,024
Change in net assets without donor restrictions from operations	(125,739)	35,362
Other changes		
Gains on investments (net)	31,035	6,759
Return of capital – non-controlling interests	(135)	(137)
Redemption of capital – non-controlling interests	(346)	—
Unrealized loss on derivative contract	(512)	(1,236)
Change in net assets without donor restrictions	(95,697)	40,748
Net assets, beginning of year	391,745	350,997
Change in accounting standards	(4,566)	—
Net assets, end of year	$ 291,482	$ 391,745

See accompanying notes to consolidated financial statements.

CFA Institute
Consolidated Statements of Cash Flow
For the Years Ended 31 August 2020 and 2019

(in thousands)

	2020	2019
Cash flows provided by operating activities		
Reconciliation of change in net assets without donor restrictions to net cash provided by operating activities		
Change in net assets	$ (95,697)	$ 40,748
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	12,220	11,347
Losses on disposition of property and equipment	—	123
Losses on disposition of intangible assets	1,228	1,668
Gains on investments (net)	(31,035)	(6,759)
Unrealized loss on derivative contract	512	1,236
Return of capital – non-controlling interests	135	137
Redemption of capital – non-controlling interests	346	—
Changes in:		
Accounts receivable, net	(824)	(106)
Prepaid expenses and other assets	10,863	(5,584)
Publication inventory	945	(94)
Accounts payable and accrued liabilities	(2,801)	2,005
Deferred revenue	164,881	12,536
Employee related liabilities	(3,502)	(2,538)
Refund liability	19,610	—
Funds held for others	(833)	(1,019)
Interest payable	(1)	(1)
Net cash provided by operating activities	76,047	53,699
Cash flows provided by (used in) investing activities		
Purchases of property and equipment	(833)	(2,350)
Purchases of intangible assets	(7,466)	(11,004)
Purchases of investments	(43,099)	(178,920)
Proceeds from investments	74,775	149,960
Net cash provided by (used in) investing activities	23,377	(42,314)
Cash flows used in financing activities		
Loan repayments	(1,446)	(1,404)
Return of capital – non-controlling interests	(135)	(137)
Redemption of capital – non-controlling interests	(346)	—
Net cash used in financing activities	(1,927)	(1,541)
Net increase in cash and cash equivalents	97,497	9,844
Cash and cash equivalents, beginning of year	99,493	89,649
Cash and cash equivalents, end of year	$ 196,990	$ 99,493

See accompanying notes to consolidated financial statements.

1. Organization

CFA Institute is a not-for-profit professional association, incorporated in Virginia, with a mission of leading the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program and serves more than 186,000 members, as well as 159 member societies around the world. CFA Institute also administers the Certificate in Investment Performance Measurement (CIPM®) Program and the CFA Institute Investment Foundations™ certificate program (formerly known as the Claritas® Investment Certificate). CFA Institute has offices in Abu Dhabi; Beijing; Brussels; Charlottesville, Virginia; Hong Kong; London; Mumbai; New York City; Singapore; Shanghai; and Washington, D.C.

CFA Institute qualifies as a tax-exempt organization under Internal Revenue Code (IRC) § 501(c)(6). CFA Institute was incorporated in 1990 as the Association for Investment Management and Research (AIMR) as a result of the combination of the Financial Analysts Federation (FAF) and the Institute of Chartered Financial Analysts (ICFA). The FAF and ICFA have histories dating back to 1947 and 1962, respectively. AIMR changed its name to CFA Institute in 2004.

The organization administers the CFA Program, the objective of which is to enhance the professionalism of those involved globally in the investment decision-making process. CFA Institute awards the CFA charter to those who successfully complete three levels of examination and meet stipulated standards of professional conduct and work experience. The organization provides comprehensive continuing professional development opportunities—through conferences, events, publications, and personalized virtual resources—that empower members and other constituents to practice ethically and competently in dynamic global financial markets. The organization also promotes the use of professional standards for self-regulatory organizations, ethical conduct in the investment profession through the Code of Ethics and Standards of Professional Conduct, and other best practice guidance in conferences, publications, and webcasts.

CFA Institute Research Foundation (the Foundation), a wholly-owned and controlled subsidiary of CFA Institute, is a not-for-profit organization, incorporated in Virginia, that qualifies as a tax-exempt organization under IRC § 501(c)(3). The purpose of the Foundation is to sponsor, publish, and distribute cutting-edge research on topics that contribute to or improve global investment practices and the CFA Institute Global Body of Investment Knowledge used by investment professionals around the world. The Foundation also periodically delivers research through in-person conferences and online webinars and recognizes excellence in contributions to the global investment community through the James R. Vertin Award.

The 11 September Memorial Scholarship Fund (the Scholarship Fund) is owned and operated by the Foundation. It was established in October 2001 to benefit disabled survivors and families of the casualties of the 11 September terrorist attacks. The Scholarship Fund awards college and university scholarships to certain qualified individuals pursuing university-level education in finance, economics, accounting, or business ethics.

CFA Institute China Limited (CFA Institute China), a wholly-owned subsidiary of CFA Institute, is a limited company incorporated in 2008 in Hong Kong. CFA Institute China has a representative office located in the People's Republic of China in Shanghai. CFA Institute China and its representative office provide auxiliary services in China, including continuing professional development such as education, conferences, workshops, exhibitions, and other networking events.

Cville Operations Hub, LLC (HUB), Cville Operations Holdings, Inc. (Holdings), and Cville Master Tenant, LLC (CMT), all Virginia corporations, are wholly-owned entities of CFA Institute formed in 2012 to establish a legal entity relationship qualifying for the capture and use of Historic Rehabilitation Tax Credits pursuant to I.R.C. §§ 47-48 and Virginia Code § 58.1-339.2, relating to the acquisition and construction of the Charlottesville, Virginia property.

During the year ended 31 August 2013, partial interests in HUB and CMT were conveyed to unrelated third parties. HUB granted a ten percent (10%) non-preferred equity interest to certain unrelated third parties. CMT granted a ninety-nine and ninety-nine one-hundredths percent (99.99%) non-preferred equity interest to an unrelated third party. During the year ended 31 August 2020, Holdings purchased all of the non-preferred equity interests in HUB and CMT from the unrelated third parties.

CFA Institute India Private Limited (CFA Institute India) is a private corporation incorporated under the laws of India whose function is to provide marketing, promotional, and outreach services to CFA Institute for a fee, as well as to provide limited auxiliary services to CFA Institute members in India, including continuing professional development such as education, conferences, workshops, exhibitions, and other networking events.

CFA Global Holdings, LLC (Global Holdings), a wholly-owned subsidiary of CFA Institute, is a private corporation incorporated in 2014 under the laws of Virginia whose function is to act as a holding company for a one one-hundredths percent (0.01%) share of CFA Institute India. CFA Institute retained a ninety-nine and ninety-nine one-hundredths percent (99.99%) share of CFA Institute India.

Si Wei Beijing Enterprise Management Consulting Company Limited (Si Wei), a wholly-owned subsidiary of CFA Institute China, is a private corporation incorporated under the laws of the People's Republic of China whose function is to provide marketing, promotional, and outreach services to CFA Institute for a fee, as well as to provide limited auxiliary services to CFA Institute members in China, including continuing professional development such as education, conferences, workshops, exhibitions, and other networking events.

CFA Institute Singapore Private Limited (CFA Institute Singapore), a wholly-owned subsidiary of CFA Institute, is a private corporation incorporated under the laws of Singapore whose function is to provide consulting and training services on capital markets general knowledge and professional ethics, conference services, social and economic consulting services, market intelligence consultation, enterprise management consultation services, marketing strategy and market research services to CFA Institute for a fee, as well as to provide limited auxiliary services to CFA Institute members in Singapore, including continuing professional development such as education, conferences, workshops, exhibitions, and other networking events.

CFA Institute Limited (CFA Institute Abu Dhabi), a wholly-owned subsidiary of CFA Institute, is a private company limited under the laws of the United Arab Emirates whose function is to provide marketing, promotional, and outreach services to CFA Institute for a fee, as well as to provide limited auxiliary services to CFA Institute members in the United Arab Emirates, including continuing professional development such as education, conferences, workshops, exhibitions, and other networking events.

2. Summary of significant accounting policies

Basis of accounting

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). All monetary values are presented in US dollars ($) throughout these consolidated financial statements.

Consolidation
The consolidated financial statements include the accounts of the CFA Institute Operations group, CFA Institute Research Foundation, and the Cville Building Operations group. The CFA Institute Operations group consolidates the accounts of CFA Institute, CFA Institute China, CFA Institute India, CFA Institute Singapore, CFA Institute Abu Dhabi, Global Holdings, and Si Wei given each entity is wholly-owned either by CFA Institute or by a wholly-owned subsidiary. CFA Institute Research Foundation is consolidated given that it is a wholly-controlled entity. The Cville Building Operations group consolidates the accounts of Holdings, CMT, and HUB given that at 31 August 2020 each entity is wholly-owned either by CFA Institute or by a wholly-owned subsidiary and at 31 August 2019 CFA Institute maintained a controlling financial interest in the entities. All intercompany transactions and balances have been eliminated in consolidation.

Use of estimates
The preparation of consolidated financial statements in conformity with US GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Measure of operations
Operating revenues include candidate fees, educational product sales, member dues, and contributions. Interest and dividend income from investments are reported separately net of investment expenses and are included in the change in net assets without donor restrictions from operations. Gains and losses on investments are reported as other changes in net assets without donor restrictions.

Concentration of credit risk
CFA Institute maintains cash balances in global bank and financial institution accounts that exceed insured limits established by the Federal Deposit Insurance Corporation in the US and other national deposit protection programs. To mitigate credit risk exposure, CFA Institute deposits funds in financially sound institutions and targets a maximum daily US operating cash balance of $15,000,000 to support operational and business continuity needs. Short-term operating cash needs in excess of the $15,000,000 ceiling are invested in US government securities until required for disbursement purposes. Working capital is also maintained in non-US bank accounts to support international operations. Global cash and short-term investment balances that are in excess of the deposit protection limits are subject to some degree of credit risk.

Net assets
CFA Institute classifies net assets into two categories: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are available for use at the discretion of the Board of Governors (the Board) and management for general operating purposes. The Board may designate a portion of these net assets for specific purposes.

Net assets with donor restrictions consist of assets subject to donor imposed stipulations. A donor stipulation specifies a use for a contributed asset that is more specific than the broad limits resulting from the nature of the nonprofit organization, the environment in which it operates, and the purposes specified in its articles of incorporation.

As of 31 August 2020 and 2019, all of CFA Institute's net assets were net assets without donor restrictions.

Prior to 31 August 2020, net assets included an element of non-preferred, non-controlling equity interests related to the Charlottesville Building Operations group. The consolidated schedule of changes in net assets is as follows (in thousands):

31 August 2020	CFA Institute	Non-controlling interests	Consolidated
Net assets, beginning of year	$ 375,090	$ 16,655	$ 391,745
Change in net assets from operations	(125,897)	158	(125,739)
Gains on investments	31,035	—	31,035
Distributions	—	(135)	(135)
Redemption of non-controlling interest	16,332	(16,678)	(346)
Unrealized loss on derivative contract	(512)	—	(512)
Change in accounting standards	(4,566)	—	(4,566)
Net assets, end of year	$ 291,482	$ —	$ 291,482

31 August 2019	CFA Institute	Non-controlling interests	Consolidated
Net assets, beginning of year	$ 334,894	$ 16,103	$ 350,997
Change in net assets from operations	34,673	689	35,362
Gains on investments	6,759	—	6,759
Distributions	—	(137)	(137)
Unrealized loss on derivative contract	(1,236)	—	(1,236)
Net assets, end of year	$ 375,090	$ 16,655	$ 391,745

Board designated net assets

In 1990, AIMR (now CFA Institute) was formed as a result of the combination of ICFA and FAF. Prior to the combination, ICFA contributed $950,000 to the Foundation. The contribution is a non-cumulative preferred claim of CFA Institute on the Foundation's net assets should the Foundation become unable to carry out its exempt purposes by reason of dissolution or otherwise. The claim is for $950,000 or the Foundation's net assets, whichever is less. CFA Institute contributed $1,000,000 to the Foundation to establish the Scholarship Fund in October 2001. Because of the control relationship between CFA Institute and the Foundation, both contributions are reported as board designated net assets.

The Scholarship Fund is recorded as a board designated net asset. Contributions by CFA Institute to the Foundation for the Scholarship Fund are recorded as net assets without donor restrictions.

The Foundation grants initial funding to authors for their proposed research projects. Upon completion and final approval of the research product, the remaining grant funding is paid. The amount of committed and unpaid research grants are shown in designated net assets in the consolidated statements of financial position.

The consolidated schedule of board designated net assets is as follows (in thousands):

	2020	2019
ICFA contribution	$ 950	$ 950
11 September Memorial Fund	143	221
Unpaid research grants	87	68
Total designated net assets	$ 1,180	$ 1,239

Contributed services

CFA Institute receives contributed services from volunteers for contributions of their time grading CFA examinations and serving on various task forces and committees. The organization utilizes the committees and task forces for governance and to address different aspects of the CFA examinations, the CFA Program curriculum, continuing education, industry standards-setting, and other areas for its membership. For the years ended 31 August 2020 and 2019, CFA Institute recorded the value of the contribution of volunteers' time of $1,511,000 and $5,760,000, respectively, as contribution revenue with a corresponding amount to consulting expense.

Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform to the current year presentation. CFA Institute reclassified realized gains on investments of $16,600,000 from change in net assets without donor restrictions from operations to other changes in net assets without donor restrictions and combined realized and unrealized gains (losses) as one line item on the consolidated statement of activities and the consolidated statement of cash flows.

Cost classification

Operating expenses are classified as either program services or supporting services. Program services are those operating expenses that directly advance the mission of CFA Institute. Supporting services are general and administrative costs. A portion of general and administrative costs that benefit multiple functions are allocated from supporting services to program services. See Note 14 for more information on the functional expense allocation.

Cash and cash equivalents

Cash and cash equivalents include short-term liquid investments with original maturities of ninety days or less following the date of purchase. Credit card transactions that have been authorized by fiscal year-end but have not settled into operating accounts by 31 August are classified as cash and cash equivalents.

Accounts receivable

The accounts receivable aging report is reviewed periodically. All accounts over 90 days past due are wholly reserved unless arrangements have been made with the debtor.

Investments

CFA Institute records its investments, current and non-current, at fair value and any change in such value is reflected in the consolidated statements of activities. Gains and losses are determined using the weighted average per share cost basis.

Publication inventory

Inventory, which consists primarily of the CFA Program candidate curriculum, is recorded using the first-in, first-out method and measured at the lower of cost or net realizable value.

Derivative contract

CFA Institute is subject to risk from potential increases in interest rates associated with note payable pertaining to the acquisition and construction of the Charlottesville property. This risk is mitigated through the use of a pay fixed receive float interest rate swap that economically hedges the exposure associated with variable-rate debt. The objective of CFA Institute is to manage exposure to this risk by limiting the impact of changes in interest rates on operations and cash flow. CFA Institute does not actively invest in derivative instruments for speculative purposes.

The 16.5-year interest rate swap agreement was executed concurrently with the note payable. HUB pays a fixed rate of two and ninety-one one-hundredths percent (2.91%) on a descending notional amount of $14,314,000, as of 31 August 2020, in return for a variable-rate interest of 30-day LIBOR plus ninety basis points. There is no prepayment penalty on the variable-rate loan, and the swap can be exited at any time. The interest rate swap was in a net liability position with a fair value of $1,091,000 and $579,000 as of 31 August 2020 and 2019, respectively.

CFA Institute's outstanding derivative financial instrument is recognized in the consolidated statements of financial position at its fair value. The change in fair value is recognized as an unrealized loss in the consolidated statements of activities and was $512,000 and $1,236,000 for the years ended 31 August 2020 and 2019, respectively.

Property and equipment
Property and equipment are recorded at cost, are initially classified as construction in progress, and are depreciated when available for use. Maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated life of the related asset or the remaining term of the lease.

The asset life ranges for each asset class are as follows:

Buildings	30 to 40 years
Computer hardware and equipment	3 to 5 years
Furniture and fixtures	3 to 10 years
Leasehold improvements	3 to 10 years

CFA Institute evaluates long-lived assets for impairment if an indicator exists that the estimated fair market value of the asset has declined below its carrying value. As of 31 August 2020 and 2019, no long-lived assets have been impaired.

Intangibles
CFA Institute capitalizes certain costs related to software and implementation in connection with its internal-use software systems and costs related to website development. CFA Institute also capitalizes certain costs related to the acquisition of intellectual property and other contractual rights. These costs are initially classified as construction in progress and are amortized when available for use. The amortization period is based on the expected useful life of the asset.

The asset life ranges for each asset class are as follows:

Computer software	1 to 5 years
Other intangibles	3 to 10 years

Deferred revenue
Unearned registration, enrollment, member dues, and Learning Ecosystem (LES) curriculum are included in deferred revenue on the accompanying consolidated statements of financial position (see Revenue paragraph below and Note 13).

Health and welfare benefit liabilities
CFA Institute sponsors health and welfare benefit programs and, as of 1 January 2016, began partially self-funding medical and prescription benefits for US-based employees. CFA Institute purchases specific and aggregate stop-loss insurance to mitigate the risk of catastrophic losses on the health insurance plans.

CFA Institute recognizes health and welfare benefit liabilities at the time in which the liability is both probable and the amount of the liability is estimable by evaluating certain uninsured risk related to incidents occurring on or before the date of the consolidated statements of financial position. As of 31 August 2020 and 2019, the gross medical claims liability consisted of claims incurred but not reported of $295,000 and $525,000, respectively, and claims paid by a third party administrator and not yet paid by CFA Institute of $83,000 and $45,000, respectively, resulting in a medical claims liability of $378,000 and $570,000, respectively.

Notes payable
Notes payable is classified as either current or non-current. The current portion is equal to the amount of principal due within twelve months of the end of the reporting period. The full balance of current and non-current notes payable relates to the loan utilized to construct the Charlottesville, VA premises.

Revenue
CFA Institute earns its primary revenue from examination registration fees, enrollment fees, member dues, and educational product sales. Revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration CFA Institute expects to be entitled to in exchange for those goods or services. These revenues are recognized net of scholarships. Scholarships awarded were $7,848,000 and $8,527,000 for the year ended 31 August 2020 and 2019, respectively. These scholarship awards are separate and distinct from the scholarships awarded by the 11 September Memorial Scholarship Fund (see Note 10).

The membership year for CFA Institute runs from 1 July to 30 June. Accordingly, CFA Institute recognizes membership dues on a pro-rata basis over the membership year. As a result, CFA Institute recorded deferred revenue for membership fees collected but not earned.

Revenue allocated to LES curriculum is recognized ratably from the time a candidate registers for an exam through the grade release date of the exam. As a result, CFA Institute recorded deferred revenue for fees allocated to LES curriculum collected but not earned.

See Note 13 for more information on revenue recognition.

Grants
CFA Institute makes grants to various organizations where such funding supports its mission. For the years ended 31 August 2020 and 2019, CFA Institute provided direct operational, growth and partnership funding in the amount of $20,115,000 and $20,318,000, respectively, to the aforementioned member societies. CFA Institute also provided other services and funding to each society to leverage their outreach into local communities. Other services include, but are not limited to, society leader training, increasing engagement with stakeholders, and collecting and remitting society dues and events.

As of 31 August 2020 and 2019, current accounts payable and accrued liabilities included accrued grants in the amount of $366,000 and $513,000, respectively.

Advertising costs
Advertising costs are expensed as incurred. Total advertising expense was $4,886,000 and $18,362,000 for the years ended 31 August 2020 and 2019, respectively.

Income taxes

CFA Institute and the Foundation are exempt from US federal income taxes under IRC §§ 501(c)(6) and 501(c)(3), respectively, and Virginia state income taxes, except for unrelated business income. Unrelated business income is subject to US federal and Virginia state income taxes. Unrelated business income is generated from advertising revenue from CFA Institute publications and its website, as well as from revenue from online career development resources. Lobbying activities engaged in by CFA Institute generate US federal proxy tax. Federal income tax estimated payments made by CFA Institute, inclusive of unrelated business income tax and proxy tax, were $215,000 and $200,000 for the years ended 31 August 2020 and 2019, respectively. The Foundation had no unrelated business income for the years ended 31 August 2020 and 2019, respectively.

CFA Institute and the Foundation have performed evaluations of all unrelated business income and have maintained their tax-exempt status. CFA Institute and the Foundation have determined that they have adequately provided for all open tax years and have no uncertain tax positions.

HUB and CMT have elected to be taxed as partnerships pursuant to Regs. § 301.7701-3 of the IRC. Accordingly, all profits and losses of these partnerships are passed-through to and recognized by each member on its respective tax return. Holdings has elected to be taxed as a “C” corporation under that same section. Therefore, any tax effect on the results of operations will be taxed on Holdings' tax return. Holdings reported $996,000 and $1,049,000 in taxable income for the periods ended 31 December 2019 and 2018, respectively. Federal income tax estimated payments made by Holdings were $102,000 and $270,000 for the years ended 31 August 2020 and 2019, respectively.

Interest costs

CFA Institute incurred interest costs for the note payable of $440,000 and $479,000 for the years ended 31 August 2020 and 2019, respectively. No portion of interest expense for either period presented has been capitalized.

New accounting pronouncements adopted

On 1 September 2019, CFA Institute adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (ASC 606)* ("ASC 606" or "the new revenue standard"). The new revenue standard eliminates the transaction and industry-specific revenue recognition guidance under current US GAAP and replaces it with a principles-based approach for determining revenue recognition. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Entities will recognize revenue according to the following five-step model: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when the performance obligation is satisfied.

CFA Institute adopted ASC 606 using the modified retrospective approach. CFA Institute elected to apply the standard only to contracts that were not completed at the date of initial adoption. In addition, CFA Institute elected to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

The adoption of ASC 606 resulted in a cumulative adjustment of $4,566,000 to decrease net assets on 1 September 2019. This adjustment is primarily related to the deferral of LES revenue, the reallocation of transaction price between registration and related curriculum items, and a change in merchant fee capitalization policy, partially offset by a timing difference of enrollment revenue recognition.

The following presents the effect of the adoption of ASC 606 on the consolidated statement of financial position as of 1 September 2019 (in thousands):

	31 August 2019	Adoption of ASC 606	1 September 2019
Prepaid expenses and other assets (current)	$ 19,695	$ (4,799)	$ 14,896
Prepaid expenses and other assets (non-current)	4,988	(1,749)	3,239
Total assets	673,279	(6,548)	666,731
Deferred revenue (current)	164,210	9,154	173,364
Deferred revenue (non-current)	56,102	(11,136)	44,966
Total liabilities	281,534	(1,982)	279,552
Undesignated net assets	373,851	(4,566)	369,285
Total net assets	391,745	(4,566)	387,179
Total liabilities and net assets	$ 673,279	$ (6,548)	$ 666,731

The following presents the impact of adoption of ASC 606 to the consolidated statement of financial position as of 31 August 2020 (in thousands):

	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher (Lower)
Prepaid expenses and other assets (current)	$ 10,449	$ 20,352	$ (9,903)
Prepaid expenses and other assets (non-current)	3,042	5,028	(1,986)
Total assets	753,654	765,543	(11,889)
Deferred revenue (current)	335,782	317,388	18,394
Deferred revenue (non-current)	53,977	63,651	(9,674)
Total liabilities	462,172	453,452	8,720
Undesignated net assets	290,302	310,911	(20,609)
Total net assets	291,482	312,091	(20,609)
Total liabilities and net assets	$ 753,654	$ 765,543	$ (11,889)

The following presents the impact of adoption of ASC 606 to the consolidated statement of activities for the period ended 31 August 2020 (in thousands):

	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher (Lower)
Operating revenues			
Credentialing programs, net	$ 117,889	$ 128,590	$ (10,701)
Total operating revenues	167,995	178,696	(10,701)
Operating expenses			
Program services			
Credentialing programs	84,004	80,114	3,890
Member value programs	110,709	109,257	1,452
Total operating expenses	306,593	301,251	5,342
Loss from operations	(138,598)	(122,555)	(16,043)
Change in net assets without donor restrictions	(95,697)	(79,654)	(16,043)
Net assets, beginning of year	391,745	396,311	(4,566)
Net assets, end of year	$ 291,482	$ 312,091	$ (20,609)

On 1 September 2019, CFA Institute adopted ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash*. The new guidance requires restricted cash or restricted cash equivalents to be included as cash and cash equivalents when reconciling beginning of period and end of period total amounts shown on the statement of cash flows. There was no adoption impact on either the current or prior period consolidated financial statements.

On 1 September 2019, CFA Institute adopted ASU No. 2016-15, *Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments.* The main provisions of the update add or clarify guidance on the classification of eight types of cash flows: debt prepayment or debt extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies and bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and the application of the predominance principle. There was no adoption impact on either the current or prior period consolidated financial statements.

On 1 September 2019, CFA Institute adopted ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* for recipient transactions. The main provisions of the update clarify how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction and provide guidance to help not-for-profit organizations determine whether a contribution is conditional. CFA Institute determined that all external resource providers do not receive commensurate value in return. Therefore, the transactions are deemed nonreciprocal and should be accounted for as contributions. All of the contributions received by CFA Institute are unconditional, recognized immediately, and classified as net assets without donor restrictions.

New accounting pronouncements issued but not adopted

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement*. The ASU modifies the disclosure of fair market value measurement by removing, adding, and modifying aspects of the current disclosure requirements. CFA Institute is required to adopt the ASU on 1 September 2020 and is evaluating the impact on its consolidated financial statements.

In June 2018, The FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU helps entities evaluate whether they should account for a grant as a contribution or exchange transaction. It also clarifies and expands the criteria for determining whether a contribution is conditional. For resource provider transactions, CFA Institute is required to adopt the ASU on 1 September 2020 and is evaluating the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software.* The new guidance impacts the accounting for implementation, setup, and other upfront costs related to the customer in a cloud computing hosting arrangement that qualifies as a service contract. The guidance aligns the costs incurred under the hosting arrangement to the requirements for capitalizing acquisition or development costs of internal-use software. CFA Institute is required to adopt the ASU on 1 September 2021, with early adoption permitted. CFA Institute is evaluating the impact of the standard on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new guidance requires that all leases be recognized at inception as a right-to-use lease asset and a corresponding lease liability. CFA Institute is required to adopt the ASU on 1 September 2022, with early adoption permitted. CFA Institute is evaluating the impact of the guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. The new guidance replaces the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. CFA Institute is required to adopt the ASU on 1 September 2023 but expects minimal impact on its consolidated financial statements.

3. Accounts receivable

Accounts receivable as of 31 August 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Accounts receivable	$ 2,150	$ 1,518
Allowance for bad debt	(236)	(428)
Total accounts receivable	$ 1,914	$ 1,090

4. Investments

Investments, at fair value (see Note 5) as of 31 August 2020 and 2019 consisted of the following (in thousands):

	2020	2019
CFA Institute	$ 464,762	$ 466,934
The Foundation – Endowment	16,726	15,115
The Foundation – The Scholarship Fund	128	208
Total investments	$ 481,616	$ 482,257

As of 31 August 2020 and 2019, investments at fair value consisted of US registered mutual funds and collective trusts that invest in global equity, global fixed-income, emerging market debt, global real estate investment trusts, other real assets, high-yield corporate bonds, inflation-protected securities, and US government securities.

The following table details the fair value and cost for the major types of investments of CFA Institute as of 31 August (in thousands):

	2020		2019	
	Fair value	**Cost**	**Fair value**	**Cost**
Global equity	$ 226,642	$ 164,403	$ 209,291	$ 166,897
Global fixed-income	104,925	98,275	110,563	106,881
Inflation-protected securities	85,297	78,263	87,612	83,978
High-yield corporate bonds	23,243	23,227	23,759	23,600
Emerging market debt	23,329	21,378	23,648	21,678
US government securities	128	126	208	208
Global real estate investment trusts	18,052	18,026	19,324	16,653
Other real assets	—	—	7,852	8,276
Total investments	$ 481,616	$ 403,698	$ 482,257	$ 428,171

Investment gains, interest, and dividends (net) for CFA Institute consisted of the following (in thousands):

	2020	2019
Interest and dividends	$ 12,998	$ 14,170
Investment expenses	(139)	(146)
Total interest and dividends (net)	12,859	14,024
Investment gains (net)	31,035	6,759
Total investment gains, interest and dividends (net)	$ 43,894	$ 20,783

5. Fair value measurements

Fair value is determined based on the price a market participant would receive to sell an asset or pay to transfer a liability in an orderly arms-length transaction-the exit price. Fair value is disclosed using 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) significant inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2), and (iii) unobservable inputs that require the use of present value and other valuation techniques in the determination of fair value (Level 3).

For Level 1 assets and liabilities 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.

For Level 2 assets and liabilities, fair value is measured primarily using information obtained from independent third parties. This third-party information is subject to review by management as part of a validation process, which includes obtaining an understanding of the underlying assumptions and the level of market participant information used to support those assumptions.

CFA Institute has no assets or liabilities classified as Level 3, whose fair value is derived from significant unobservable inputs.

The following tables present information about assets and liabilities measured at fair value on a recurring basis as of 31 August 2020 and 2019 (in thousands):

	Fair value as of 31 August 2020	Fair value measurements as of 31 August 2020 using: Level 1	Level 2	Level 3
Assets				
Global equity	$ 226,642	$ 226,642	$ —	$ —
Global fixed-income	104,925	104,925	—	—
Inflation-protected securities	85,297	85,297	—	—
High-yield corporate bonds	23,243	23,243	—	—
US government securities	128	128	—	—
Global real estate investment trusts	18,052	18,052	—	—
Emerging market debt (NAV) (1)	23,329	—	—	—
Investments, at fair value	481,616	458,287	—	—
Mutual funds - IRC § 457 accounts	2,037	2,037	—	—
Liabilities				—
Deferred compensation (see Note 11)	(2,037)	(2,037)	—	—
Derivative contract	(1,091)	—	(1,091)	—
Net assets and liabilities subject to fair value measurement	$ 480,525	$ 458,287	$ (1,091)	$ —

	Fair value as of 31 August 2019	Fair value measurements as of 31 August 2019 using: Level 1	Level 2	Level 3
Assets				
Global equity	$ 209,291	$ 209,291	$ —	$ —
Global fixed-income	110,563	110,563	—	—
Inflation-protected securities	87,612	87,612	—	—
High-yield corporate bonds	23,759	23,759	—	—
US government securities	208	208	—	—
Global real estate investment trusts	19,324	19,324	—	—
Other real assets	7,852	7,852	—	—
Emerging market debt (NAV) (1)	23,648	—	—	—
Investments, at fair value	482,257	458,609	—	—
Mutual funds - IRC § 457 accounts	1,896	1,896	—	—
Liabilities				
Deferred compensation (see Note 11)	(1,896)	(1,896)	—	—
Derivative contract	(579)	—	(579)	—
Net assets and liabilities subject to fair value measurement	$ 481,678	$ 458,609	$ (579)	$ —

(1) Emerging market debt that is measured at fair value using the NAV per share (or its equivalent) practical expedient has not been categorized 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 financial statements. CFA Institute had no unfunded commitments related to the investment in this fund at 31 August 2020 and 2019. CFA Institute has the ability to redeem its investment in this fund at the valuation date.

The derivative instrument is valued by a third party using a model based on factors including: (1) liquidity, (2) market conditions as of the measurement date, and (3) non-performance or credit risk.

6. Property and equipment

Property and equipment, including construction in progress, as of 31 August 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Land	$ 3,487	$ 3,487
Buildings	36,725	36,500
Computer hardware and equipment	13,629	13,256
Furniture and fixtures	4,248	4,208
Leasehold improvements	6,353	6,030
Total property and equipment	64,442	63,481
Accumulated depreciation and amortization	(24,928)	(22,757)
Property and equipment, net	$ 39,514	$ 40,724

Construction in progress, included in the schedule above, as of 31 August 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Buildings	$ 273	$ 48
Computer hardware and equipment	60	164
Leasehold improvements	13	17
Total construction in progress	$ 346	$ 229

Depreciation expense was $2,351,000 and $3,078,000 for the years ended 31 August 2020 and 2019, respectively.

Property and equipment assets of $180,000 and $2,656,000 were disposed during the years ended 31 August 2020 and 2019, respectively. Loss on disposition of property and equipment assets were $0 and $123,000 for the years ended 31 August 2020 and 2019, respectively, and are shown in operating expenses on the consolidated statements of activities.

7. Intangibles

Intangibles, including work in process, as of 31 August 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Computer software (developed)	$ 42,255	$ 42,633
Computer software (website development)	8,755	8,755
Computer software (packaged)	6,300	6,505
Other intangibles	5,550	4,499
Total intangibles	62,860	62,392
Accumulated amortization	(43,476)	(39,050)
Intangibles, net	$ 19,384	$ 23,342

Work in process, included in the schedule above, as of 31 August 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Computer software (developed)	$ 1,736	$ 5,847
Other intangibles	1,295	317
Total work in process	$ 3,031	$ 6,164

Amortization expense was $9,869,000 and $8,269,000 for the years ended 31 August 2020 and 2019, respectively.

Intangible assets other than software or website development are considered other intangibles. “Other intangibles” includes copyrighted materials, Investment Research Challenge rights, assigned rights used in a textbook, intellectual property consisting of materials used in the CFA Program curriculum, and a top-level internet domain.

Intangible software assets of $6,671,000 and $17,456,000 were disposed during the years ended 31 August 2020 and 2019, respectively. Loss on disposition of intangible assets were $1,228,000 and $1,668,000 for the years ended 31 August 2020 and 2019, respectively and are shown in operating expenses on the consolidated statements of activities.

For the following fiscal years, future intangible amortization for assets placed in service as of 31 August 2020 is as follows (in thousands):

	Intangible amortization
2021	$ 8,770
2022	5,272
2023	2,274
2024	19
2025	18
Thereafter	—
Total intangible amortization	$ 16,353

8. Commitments and contingencies

CFA Institute has entered into various operating leases with original terms ranging from three to fourteen years that expire on various dates through September 2030. These operating leases cover office space in various cities in which CFA Institute operates as well as leased office equipment.

CFA Institute recognizes minimum rent payments with fixed rental step-ups associated with an operating lease on a straight-lined basis over the lease term. The difference between the straight-line rent expense and rent paid is recorded as deferred rent.

Rental expense related to these operating leases was $5,263,000 and $5,046,000 for the years ended 31 August 2020 and 2019, respectively.

For the following fiscal years, future minimum payments and sublease rental income under these operating leases at 31 August 2020 are as follows (in thousands):

	Lease payments	Sublease rental income	Net lease payments
2021	$ 5,453	$ 73	$ 5,380
2022	2,818	78	2,740
2023	1,925	73	1,852
2024	1,133	31	1,102
2025	882	—	882
Thereafter	4,594	—	4,594
Total future minimum payments	$ 16,805	$ 255	$ 16,550

The Foundation awards grants to individuals subject to completion of their respective research projects. Unpaid grants, subject to this condition, totaled $87,000 and $68,000 as of 31 August 2020 and 2019, respectively. Due to the conditional nature of these unpaid grants, they are not accrued in the accompanying consolidated statements of financial position. (see Note 2, designated net assets.)

9. Retirement plans

In the United States, the 401(k) Retirement Plan (Plan) allows for discretionary employer and employee contributions, and fixed employer contributions, subject to IRS limits. Per the Plan's vesting schedule through 31 December 2019, participants became fully vested after one year of service. As of 1 January 2020, participants become fully vested immediately. Employee contributions are always 100% vested. Plan oversight is the responsibility of the Chief Operating Officer (COO), including appointment, monitoring, and replacement of the members of the Retirement Investment Policy Committee (RIPC). The RIPC, which is comprised of qualified CFA Institute employees, selects and monitors plan investments. The COO will retain fiduciary responsibility for all Plan administration matters other than Plan investments.

A third-party investment management company is the trustee for the plan and is the custodian. CFA Institute is both the plan sponsor and the plan administrator. Each eligible employee may direct the investment of his or her balance in up to twenty-three mutual fund alternatives offered by the Plan. Contribution expense for the 401(k) Plan totaled $6,472,000 and $6,259,000 for the years ended 31 August 2020 and 2019, respectively. No plan forfeitures were netted against contribution expenses for the year ended 31 August 2020. Plan forfeitures of $12,000 were netted against contribution expenses for the year ended 31 August 2019. CFA Institute accrues for incentive compensation and the related

401(k) contribution. Accruals for the related 401(k) contribution of $47,000 and $710,000 were made for the years ended 31 August 2020 and 2019, respectively.

CFA Institute also has defined contribution plans for employees in its international operations. Contribution expense for these defined contribution plans totaled $1,865,000 and $1,669,000 for the years ended 31 August 2020 and 2019, respectively.

10. 11 September Memorial Scholarship Fund

The Scholarship Fund, owned and operated by the Foundation, was established 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 Foundation to establish the Scholarship Fund.

College and university scholarships of up to $25,000 each are 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.

The contribution from CFA Institute to the Scholarship Fund, which is a twenty-year, self-liquidating fund, is recorded as net assets without donor restrictions because of the control relationship between CFA Institute and the Foundation (see Notes 1 and 2). The contribution from CFA Institute is designated to fund scholarships granted by the Scholarship Fund. All of the Scholarship Fund's contributions and investment income are available to meet the scholarship funding requirements. CFA Institute reimburses the Scholarship Fund for all other expenses. The Scholarship Fund awarded scholarships of $83,000 and $85,000 for the years ended 31 August 2020 and 2019, respectively. CFA Institute contributed $14,000 and $18,000 to cover operating expenses of the Scholarship Fund for the years ended 31 August 2020 and 2019, respectively.

The activity in the Scholarship Fund for the years ended 31 August 2020 and 2019 was as follows (in thousands):

	2020	2019
Designated net assets, beginning of year	$ 221	$ 297
Interest and dividends	3	4
Gains on investments (net)	2	5
Scholarships awarded	(83)	(85)
Designated net assets, end of year	$ 143	$ 221

11. Deferred compensation

CFA Institute maintains a deferred compensation program for participating key employees. Liabilities for the deferred compensation program of $2,037,000 and $1,896,000 were recorded as of 31 August 2020 and 2019, respectively, and are classified as non-current employee-related liabilities in the consolidated statements of financial position.

12. Notes payable

In the year ended 31 August 2013, CFA Institute acquired downtown Charlottesville real property that provided the opportunity to consolidate multiple local operations into one primary facility. The property, a designated historic structure, was refurbished during fiscal years 2013 and 2014 in such a manner to allow CFA Institute to take advantage of federal and state historic tax credits as a means to reduce the cost of the construction and renovation of the facility. To compliantly accomplish this objective, CFA Institute created three new legal entities—Holdings, HUB, and CMT—in the year ended 31 August 2012.

Acquisition of the property and the rehabilitation of the building by HUB was financed by a 16.5 year term note, maturing March, 2029, with an original amount of $22,900,000 and a remaining balance of $14,314,000 as of 31 August 2020, with a variable interest rate of 30-day LIBOR plus ninety basis points. CFA Institute is the unconditional guarantor of the term note. Monthly interest-only payments were made for the first eighteen months of the loan period, with principal and interest payments made thereafter based on a predetermined amortization schedule ending in 2029. To mitigate the interest rate risk associated with a variable interest rate note, HUB also entered into a 16.5 year pay fixed, receive float interest rate swap.

Under the financial covenants of the loan, HUB must maintain a debt service ratio of 1.2 through the life of the loan. Further, CFA Institute must maintain unrestricted and unencumbered liquidity of $125,000,000 through the life of the loan or face increases in the interest rate. CFA Institute may avoid the requirements of the unrestricted and unencumbered liquidity covenant by depositing with the lender cash collateral equal to the sum of the principal and interest payments due for the remaining term of the loan. CFA Institute is in compliance with all loan covenants, and no event of default exists.

Minimum principal payments are as follows (in thousands):

	Principal payments
2021	$ 1,489
2022	1,533
2023	1,579
2024	1,625
2025	1,674
Thereafter	6,414
Total principal payments	$ 14,314

13. Revenue

CFA Institute earns its primary revenue from examination fees, enrollment fees, member dues, and educational product sales. Substantially all of CFA Institute's revenues, with the exception of contributions, are generated from contracts with customers. Revenues are recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration CFA Institute expects to be entitled to in exchange for those goods or services.

CFA Institute determines revenue recognition through the five-step model prescribed by ASC 606 as follows: (1) identify the contract, or contracts, with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when, or as, CFA Institute satisfies a performance obligation.

Credentialing programs, as reflected on the consolidated statement of activities, are net of CFA and CIPM certificate examination scholarships. CFA Institute has made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by governmental authorities that are both imposed on and concurrent with specific revenue-producing transactions and collected by the entity from customers (e.g. sales, use, value added, and excise taxes). Fees paid by candidates are due at time of registration and are nonrefundable. However, due to the impact of COVID-19, candidates impacted by two exam cancellations were offered refunds and as such, CFA Institute has established a refund liability of $19,610,000 as of 31 August 2020, of which $18,086,000 relates to deferred revenue. These refunds are considered a one-time exception to CFA Institute's refund policy. Variable consideration related to these refunds is not considered to be constrained, as the refund liability primarily impacts deferred revenue rather than revenue.

The following table disaggregates CFA Institute's revenue from contracts with customers based on the timing of satisfaction of performance obligations for the year ended 31 August 2020 (in thousands):

	2020
Performance obligations satisfied at a point in time	$ 83,259
Performance obligations satisfied over time	82,942
Total operating revenues from contracts with customers	$ 166,201

Performance obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of accounting in ASC 606. A contract's transaction price is allocated to each performance obligation identified in the arrangement based on the relative standalone selling price of each distinct good or service in the contract and recognized as revenue when, or as, the performance obligation is satisfied. When not directly observable, the primary method used to estimate standalone selling price is the market assessment approach, under which CFA Institute evaluates the market and estimates the price that a customer would be willing to pay for the goods and services provided.

Performance obligations for CFA Program and CIPM Program examination fees (included in operating revenue from credentialing programs in the accompanying consolidated statement of activities) are recognized at a point in time when the candidates' grades are delivered. LES curriculum revenue is recognized over time from the date of purchase to the respective exam's grade release date. Other educational product sales are recognized as revenue when those products are shipped or otherwise made available to the customer regardless of the associated examination date.

One-time candidate enrollment fees (included in credentialing programs on the accompanying consolidated statement of activities) are non-refundable upfront fees granting candidates a material right in the form of options to register for an unlimited number of CFA Program exams. Management has determined to use the practical alternative to determine the standalone selling price of the option. Under the practical alternative, the enrollment fee is recognized according to the standalone selling price of each of the expected performance obligations. Enrollment revenue is recognized proportionally to the number of exams the average candidate is expected to sit. Currently, CFA Institute expects a candidate to remain active in CFA Program for approximately three years and sit for three exams. CFA Institute aligns the recognition of the enrollment fee portfolio to each exam's grade delivery date (i.e. the exam's performance obligation).

Performance obligations related to membership dues are satisfied over time and thus recognized as revenue on a straight-line basis over the period in which benefits are provided, which is generally the membership year.

Contract balances
The timing of cash collections and revenue recognition results in deferred revenue (contract liabilities) on the consolidated statement of financial position. Substantially all the current and non-current deferred revenue balances on the accompanying consolidated statement of financial position as of 31 August 2020 and 2019 consist of contract liabilities.

14. Functional expenses

Expenses by functional classification for the years ended 31 August 2020 and 2019 consisted of the following (in thousands):

	Program Services				Supporting Services		
	Credentialing	Member Value	Industry Engagement	Scholarships	Management and General	Fundraising	FY 2020 Total
Salaries, Wages and Benefits	$ 21,546	$ 38,484	$ 12,138	$ —	$ 40,342	$ —	$ 112,510
Cost of Sales	7,619	55	17	—	—	—	7,691
Professional Services	19,321	27,498	3,754	—	27,947	2	78,522
Facility and Equipment	13,870	3,557	1,089	—	4,724	—	23,240
Travel Expenses	4,441	7,203	1,836	—	2,736	—	16,216
Grants and Sponsorships	10	20,431	1,141	83	236	—	21,901
Advertising	20	4,792	33	—	41	—	4,886
Bank Charges and Merchant Fees	9,787	1,990	—	—	192	—	11,969
Postage, Printing and Supplies	3,777	1,451	203	—	474	—	5,905
Utilities	403	786	230	—	1,263	—	2,682
Depreciation and Amortization	3,077	2,791	780	—	5,572	—	12,220
Insurance, Taxes, Interest, and Other	133	1,671	337	—	6,709	1	8,851
Total	$ 84,004	$ 110,709	$ 21,558	$ 83	$ 90,236	$ 3	$ 306,593

	Program Services				Supporting Services		
	Credentialing	Member Value	Industry Engagement	Scholarships	Management and General	Fundraising	FY 2019 Total
Salaries, Wages and Benefits	$ 21,864	$ 37,313	$ 12,094	—	$ 33,646	$ —	$ 104,917
Cost of Sales	9,787	290	6	—	—	—	10,083
Professional Services	31,496	34,496	4,252	—	26,842	4	97,090
Facility and Equipment	28,657	6,247	1,147	—	5,227	—	41,278
Travel Expenses	10,856	15,462	3,103	—	4,548	—	33,969
Grants and Sponsorships	4	21,371	996	85	652	—	23,108
Advertising	47	18,197	111	—	7	—	18,362
Bank Charges and Merchant Fees	10,403	1,906	12	—	195	—	12,516
Postage, Printing and Supplies	5,185	1,458	277	—	578	—	7,498
Utilities	457	873	239	—	1,183	—	2,752
Depreciation and Amortization	2,501	2,976	866	—	5,004	—	11,347
Insurance, Taxes, Interest, and Other	1,216	2,213	341	—	5,850	—	9,620
Total	$ 122,473	$ 142,802	$ 23,444	$ 85	$ 83,732	$ 4	$ 372,540

In the above analysis, certain costs that benefit all functions have been allocated from management and general to program services. Supporting activity costs are allocated using the following methods:

Supporting Activity	Allocation Method
Facility Operations	Square Footage
Information Technology	Headcount
Travel Support and Event Management	Meeting Spend
Global Contact Center	Contacts by Customer

15. Liquidity resources

CFA Institute maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Funds determined to be exceeding short-term operating cash needs are sent to long-term reserves and invested appropriately. Short-term operating cash needs in excess of the maximum daily U.S. operating cash balance of $15,000,000 are invested in U.S. government securities until required for disbursement purposes. Working capital is also maintained in non-U.S. bank accounts to support international operations.

CFA Institute's financial assets available within one year of the consolidated statement of financial position dated 31 August 2020 for general expenditures are as follows (in thousands):

	2020
Cash and cash equivalents	$ 196,990
Investments	481,616
Receivables, net	1,914
Total financial assets	680,520
Less:	
Board designated net assets - 11 September Memorial Fund	143
Financial assets available to meet cash needs for general expenditures within one year	$ 680,377

16. Supplemental disclosure of cash flow information

Supplemental cash flow information for the years ended 31 August 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Cash paid during the year for interest	$ 441	$ 480
Cash paid during the year for income taxes	$ 699	$ 900
Purchases of property and equipment included in accounts payable	$ 26	$ 46
Purchases of intangible assets included in accounts payable	$ 191	$ 519

17. Risks and uncertainties

In response to the COVID-19 global pandemic, CFA Institute postponed the June 2020 CFA Program exams. The postponement resulted in the deferral of revenue related to June 2020 examination fees, enrollment fees and LES curriculum. Deposits related to the June 2020 exam administration were expensed, refunded, or credited to the December 2020 exam administration based on contracts with testing sites and other vendors. Due to the ongoing nature of the COVID-19 pandemic, December 2020 CFA Program exams in certain locations have been cancelled. As a one-time exception to the no refund policy, CFA Institute will offer refunds to candidates impacted by two exam cancellations. See Note 13 for more information on revenue. Starting in February 2021, CFA Institute will transition to computer-based testing for all three levels of the CFA Program, which provides CFA Institute with operational flexibility to quickly and reliably adjust to the changing landscape in response to either global or local situations, particularly relevant given the COVID-19 pandemic.

When the COVID-19 pandemic occurred, CFA Institute held a custom business interruption insurance policy that covers expenses incurred related to the June 2020 exam, additional costs for the December 2020 exam as a result of the postponement, and revenue loss for candidates registered for the June 2020 exam that do not return to take the exam for thirteen months. CFA Institute expects to finalize the claims submission for additional costs for the December 2020 exam following the exam administration and will finalize the claims submission for revenue loss after July 2021.

18. Subsequent events

CFA Institute has assessed the impact of subsequent events through 15 December 2020, the date the audited consolidated financial statements were available to be issued, and has concluded that no such events require adjustment to the audited consolidated financial statements.

ACCOMPANYING CONSOLIDATING INFORMATION

CFA Institute
Consolidating Statements of Financial Position
As of 31 August 2020 and 2019

(in thousands)	CFA Institute Operations*	CFA Institute Research Foundation	Cville Building Operations**	Eliminations	2020 Consolidated	2019 Consolidated
ASSETS						
Current assets						
Cash and cash equivalents	$ 189,559	$ 74	$ 7,357	$ —	$ 196,990	$ 99,493
Accounts receivable, net	3,168	—	—	(1,254)	1,914	1,090
Advances to affiliated organization	—	278	—	(278)	—	—
Prepaid expenses and other assets	10,714	—	—	(265)	10,449	19,695
Publication inventory	723	22	—	—	745	1,690
Total current assets	204,164	374	7,357	(1,797)	210,098	121,968
Non-current assets						
Accounts receivable, net	3,693	—	—	(3,693)	—	—
Investments, at fair value	464,762	16,854	—	—	481,616	482,257
Investment in affiliated organization	9,021	—	—	(9,021)	—	—
Prepaid expenses and other assets	3,042	—	944	(944)	3,042	4,988
Property and equipment, net	5,778	—	36,813	(3,077)	39,514	40,724
Intangibles, net	19,384	—	—	—	19,384	23,342
Total non-current assets	505,680	16,854	37,757	(16,735)	543,556	551,311
Total assets	$ 709,844	$ 17,228	$ 45,114	$ (18,532)	$ 753,654	$ 673,279
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable and accrued liabilities	$ 18,076	$ 69	$ 349	$ (450)	$ 18,044	$ 21,056
Advances from affiliated organization	278	—	—	(278)	—	—
Deferred revenue	335,782	—	—	—	335,782	164,210
Employee-related liabilities	11,854	—	—	—	11,854	17,355
Refund liability	19,610	—	—	—	19,610	—
Funds held for others	2,352	5	—	—	2,357	3,190
Derivative contract	—	—	253	—	253	59
Notes payable	—	—	1,490	—	1,490	1,450
Interest payable	—	—	1,267	(1,254)	13	14
Total current liabilities	387,952	74	3,359	(1,982)	389,403	207,334
Non-current liabilities						
Accrued liabilities	1,994	—	3,693	(4,452)	1,235	1,371
Deferred revenue	53,977	—	—	—	53,977	56,102
Employee-related liabilities	3,895	—	—	—	3,895	1,896
Derivative contract	—	—	838	—	838	520
Notes payable	—	—	12,824	—	12,824	14,311
Total non-current liabilities	59,866	—	17,355	(4,452)	72,769	74,200
Total liabilities	447,818	74	20,714	(6,434)	462,172	281,534
Net assets without donor restrictions						
Undesignated	262,026	15,974	24,400	(12,098)	290,302	373,851
Designated	—	1,180	—	—	1,180	1,239
Non-controlling interests	—	—	—	—	—	16,655
Total net assets	262,026	17,154	24,400	(12,098)	291,482	391,745
Total liabilities and net assets	$ 709,844	$ 17,228	$ 45,114	$ (18,532)	$ 753,654	$ 673,279

*CFA Institute, CFA Institute Abu Dhabi, CFA Institute China, CFA Institute India, CFA Institute Singapore, Global Holdings, and Si Wei consolidated
**CMT, Holdings, and HUB consolidated

See accompanying independent auditors' report.

CFA Institute
Consolidating Statements of Activities
For the Years Ended 31 August 2020 and 2019

(in thousands)	CFA Institute Operations*	CFA Institute Research Foundation	Cville Building Operations**	Eliminations	2020 Consolidated	2019 Consolidated
Change in net assets without donor restrictions						
Operating revenues						
Credentialing programs, net	$ 117,889	$ —	$ —	$ —	$ 117,889	$ 337,506
Member value programs	48,006	6	—	—	48,012	49,940
Industry engagement and other	300	—	3,060	(3,060)	300	371
Contributions	1,511	1,290	—	(1,007)	1,794	6,061
Total operating revenues	167,706	1,296	3,060	(4,067)	167,995	393,878
Operating expenses						
Program services						
Credentialing programs	84,004	—	—	—	84,004	122,473
Member value programs	110,143	693	—	(127)	110,709	142,802
Industry engagement	21,347	441	—	(230)	21,558	23,444
Scholarships – 11 September Memorial Fund	—	83	—	—	83	85
Supporting services						
Management and general	91,822	332	2,148	(4,066)	90,236	83,732
Fundraising	—	3	—	—	3	4
Total operating expenses	307,316	1,552	2,148	(4,423)	306,593	372,540
(Loss) income from operations	(139,610)	(256)	912	356	(138,598)	21,338
Interest and dividends (net)	12,756	338	28	(263)	12,859	14,024
Change in net assets without donor restrictions from operations	(126,854)	82	940	93	(125,739)	35,362
Other changes						
Gains on investments (net)	29,408	1,627	—	—	31,035	6,759
Return of capital – non-controlling interests	—	—	(135)	—	(135)	(137)
Redemption of capital – non-controlling interests	—	—	(346)	—	(346)	—
Unrealized loss on derivative contract	—	—	(512)	—	(512)	(1,236)
Change in net assets without donor restrictions	(97,446)	1,709	(53)	93	(95,697)	40,748
Net assets, beginning of year	364,038	15,445	24,453	(12,191)	391,745	350,997
Change in accounting standards	(4,566)	—	—	—	(4,566)	—
Net assets, end of year	$ 262,026	$ 17,154	$ 24,400	$ (12,098)	$ 291,482	$ 391,745

*CFA Institute, CFA Institute Abu Dhabi, CFA Institute China, CFA Institute India, CFA Institute Singapore, Global Holdings, and Si Wei consolidated
**CMT, Holdings, and HUB consolidated

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CFA Institute
Consolidating Statements of Cash Flow
For the Years Ended 31 August 2020 and 2019

(in thousands)	CFA Institute Operations*	CFA Institute Research Foundation	Cville Building Operations**	Eliminations	2020 Consolidated	2019 Consolidated
Cash flows provided by (used in) operating activities						
Reconciliation of change in net assets without donor restrictions to net cash provided by (used in) operating activities						
Change in net assets	$ (97,446)	$ 1,709	$ (53)	$ 93	$ (95,697)	$ 40,748
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities						
Depreciation and amortization	11,193	—	1,119	(92)	12,220	11,347
Losses on disposition of property and equipment	—	—	—	—	—	123
Losses on disposition of intangible assets	1,228	—	—	—	1,228	1,668
Gains on investments (net)	(29,408)	(1,627)	—	—	(31,035)	(6,759)
Unrealized loss on derivative contract	—	—	512	—	512	1,236
Return of capital – non-controlling interests	—	—	135	—	135	137
Redemption of capital – non-controlling interests	—	—	346	—	346	—
Changes in:						
Accounts receivable, net	(1,088)	—	—	264	(824)	(106)
Advances to/from affiliated organizations	285	(285)	—	—	—	—
Prepaid expenses and other assets	10,855	2	95	(89)	10,863	(5,584)
Publication inventory	772	173	—	—	945	(94)
Accounts payable and accrued liabilities	(2,926)	(70)	107	88	(2,801)	2,005
Deferred revenue	164,881	—	—	—	164,881	12,536
Employee related liabilities	(3,502)	—	—	—	(3,502)	(2,538)
Refund liability	19,610	—	—	—	19,610	—
Funds held for others	(832)	(1)	—	—	(833)	(1,019)
Interest payable	—	—	263	(264)	(1)	(1)
Net cash provided by (used in) operating activities	73,622	(99)	2,524	—	76,047	53,699
Cash flows provided by (used in) investing activities						
Purchases of property and equipment	(833)	—	—	—	(833)	(2,350)
Purchases of intangible assets	(7,466)	—	—	—	(7,466)	(11,004)
Purchases of investments	(42,760)	(339)	—	—	(43,099)	(178,920)
Proceeds from investments	74,340	435	—	—	74,775	149,960
Net cash provided by (used in) investing activities	23,281	96	—	—	23,377	(42,314)
Cash flows used in financing activities						
Loan repayments	—	—	(1,446)	—	(1,446)	(1,404)
Return of capital – non-controlling interests	—	—	(135)	—	(135)	(137)
Redemption of capital – non-controlling interests	—	—	(346)	—	(346)	—
Net cash used in financing activities	—	—	(1,927)	—	(1,927)	(1,541)
Net increase (decrease) in cash and cash equivalents	96,903	(3)	597	—	97,497	9,844
Cash and cash equivalents, beginning of year	92,656	77	6,760	—	99,493	89,649
Cash and cash equivalents, end of year	$ 189,559	$ 74	$ 7,357	$ —	$ 196,990	$ 99,493

*CFA Institute, CFA Institute Abu Dhabi, CFA Institute China, CFA Institute India, CFA Institute Singapore, Global Holdings, and Si Wei consolidated
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