



CFA Institute

# ANNUAL REPORT

Fiscal Year 2018



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The new global brand campaign—Let's Measure Up.—launched in January 2018 to broaden awareness of CFA Institute and its societies and charterholders around the world. The compelling, scalable, and unique creative identity—featuring custom-designed illustrations from renowned artist Paul Wearing, as seen on the cover and throughout this Annual Report—sets us apart in the financial category. Campaign testing of the art and accompanying messages after Phase I showed that it is resonating with our target audiences in diverse markets and is on target to meet our brand awareness goals. The campaign moved into Phase 2 in fall 2018, featuring expanded messaging, while new imagery, also from artist Paul Wearing, will debut in 2019.

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# OVERVIEW

## MESSAGE FROM OUR CHAIR

I am delighted to present our FY2018 Annual Report.

FY2018 represented another strong year for CFA Institute, one marked by a record number of CFA Program candidates, CFA charterholders, and CFA Institute members; the addition of new CFA Societies; significant organizational progress; and a growing presence as the leading voice of investment management professionals.

My focus here is on three areas: our CEO search, organizational strategy and priorities, and Board governance.

In 2018, Paul Smith, our President and CEO, communicated his intent to retire from CFA Institute effective 31 December 2019. The Board of Governors and I are deeply appreciative of this advance notice, as it ensures that the Board has adequate time to search for and identify a successor and to facilitate a seamless leadership transition.

We have created a CEO Search Committee, chaired by Board of Governors Vice Chair Diane Nordin, CFA, and composed of four current and one past governor, to oversee the process, supported by a global executive search firm. I am confident this process will result in the selection of the best person possible to assume the role of president and CEO.



*"These are ambitious goals, but we are confident in our chosen direction."*

Working with Paul, the Board and I have identified five organizational priority goals for FY2019:

- Societies 2.0 strategy
- Organizational culture
- Continuing professional development for our members
- Society technology
- Future of Exam Delivery

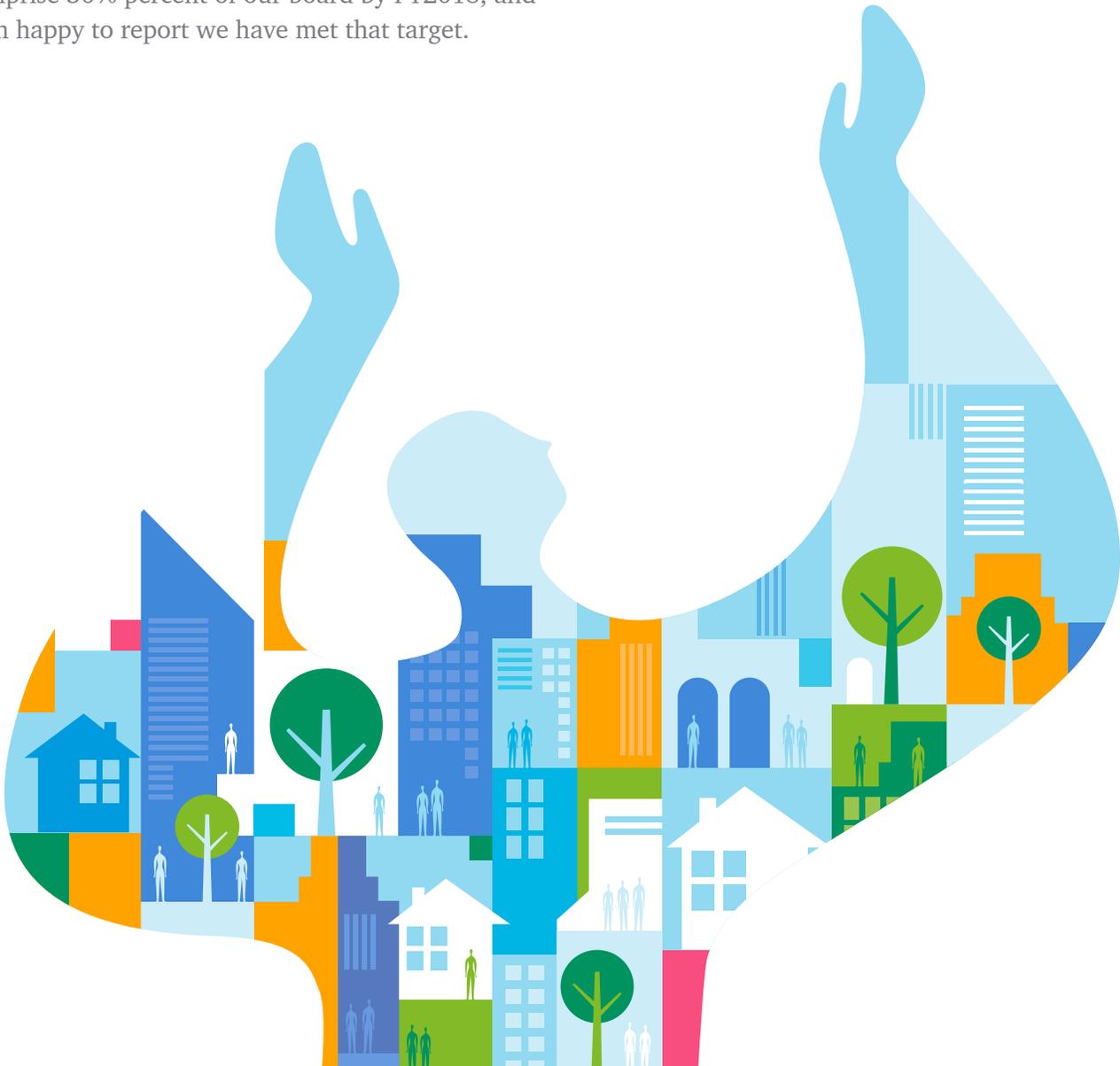
The Board of Governors will support the leadership team and the staff on delivering on our strategy. These are ambitious goals, but we are confident in our chosen direction.

With respect to governance, the Board has been on a path both to reduce the overall size of the Board and to increase its diversity. The Board is now composed of 15 members versus 18 in the recent past and more than 20 a decade ago. We have 14 independent governors who serve in a volunteer capacity, plus the president and CEO. Our governors hail from seven countries—Australia, China, India, Malaysia, United Kingdom, United Arab Emirates, and United States—and we have significantly increased Board diversity. We set a target several years ago to have women comprise 30% percent of our board by FY2018, and I am happy to report we have met that target.

I am most grateful to our Board and to all the volunteers who partner with our professional staff to continue the important work of CFA Institute as we seek to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

Best regards,

**Heather Brilliant, CFA**  
**Chair, CFA Institute Board of Governors**



# OVERVIEW

## MESSAGE FROM OUR PRESIDENT AND CEO

Fiscal year 2018 proved to be a strong one for our organisation.

I frequently refer to our mission to ensure that we remain on track. It reads, in part, “to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.”

Our industry faces the twin threats of investor apathy and increasing regulation due to low levels of trust. A decade after the global financial crisis, investor trust in our industry has rebounded somewhat, though it still lags. We have much more work to do to convey our industry’s purpose and its appropriate—and indeed vital—role in society.

For our industry to deliver on its ultimate mission, we must align it with our clients’ interests. That means advocating for appropriate regulatory regimes that both protect investors and allow our industry the flexibility to innovate and succeed.

We believe, without hesitation, that investor interests must come first. We advocate for a fiduciary approach because our *Code of Ethics and Standards of Professional Conduct* requires that “Members and Candidates must act for the benefit of their clients and place their clients’ interests before their employer’s or their own interests.” No ambiguity there.

We strive to communicate our views—and by proxy, those of our members—on the pressing issues of the day. Be it the fiduciary rule or “best interest”

standard in the United States, the evolving fintech landscape, Brexit, Australia’s Financial Services Royal Commission, or dual-class share listings in APAC, we have something bold to say. We hold our profession to a high standard and, as such, are forceful advocates for aligning our profession with investor interests.

We firmly believe that the CFA charterholder designation serves as a proxy for trust. We seek to develop future professionals through relevant and accessible credentialing programs, deliver member value that accelerates the professional success of our members, and build market integrity.

We measure our progress in numerous ways. A key metric for us as a membership organisation is CFA Program exam administrations. As we continue on our journey to professionalism, adding highly trained and ethical CFA charterholders to the investment management industry helps us to shape the future of the industry, our profession, and the communities in which we live and work.

In 1963, this organisation first administered the CFA Program exam to 284 candidates. In June 2018—55 years later—we gave the exam in 185 test areas, requiring 286 test centres in 93 countries and territories across the globe. This represents the highest number of test centres ever—an amazing 37% increase over June 2017. We enrolled a record number of candidates as well—more than 226,000 worldwide in June 2018. Our membership—now numbering over 164,000—continues to grow,

as does our CFA Society count, which stands at 151. All impressive numbers, to say the least.

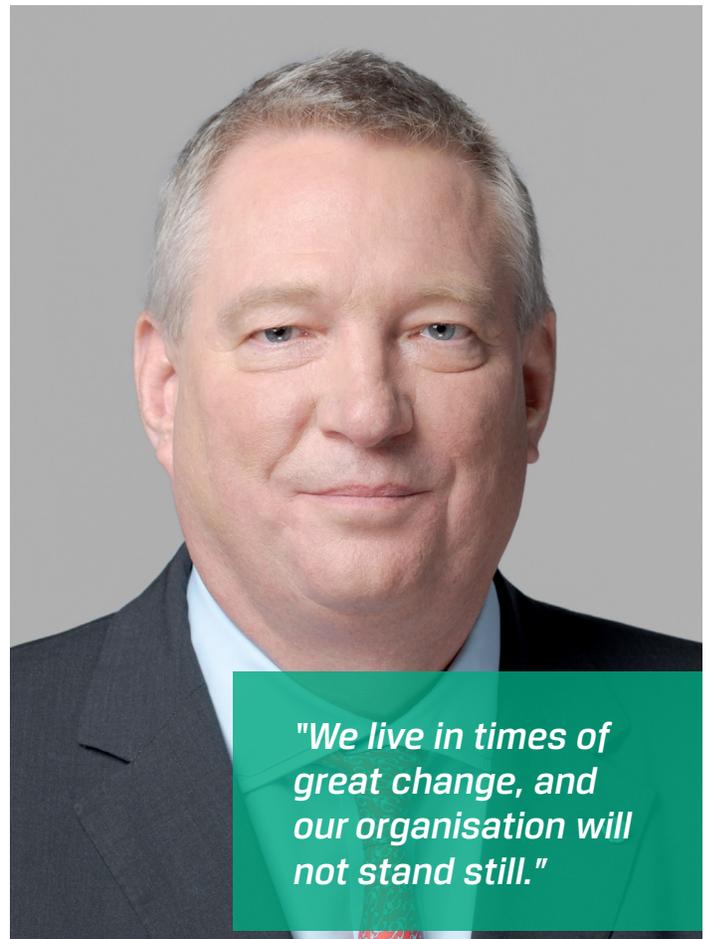
However, numbers alone do not tell our whole story. We strive to broaden our membership base because we seek to have a positive effect on our industry and to improve it. By setting high standards of entry through our credential program, we ensure that professionals have the right skills and experience to deliver for their clients. Our ever-broadening global membership and the growing cohort of CFA charterholders represents a means to that end.

In June, I had the incredible opportunity to observe the exam process firsthand at our new test centre in Lagos, Nigeria. The rigour of the exams could not dampen the candidates' exuberance and delight. The experience served to remind me of the powerful role finance—and our organisation, of course—can play in the world. We truly make a difference in people's lives. This is what continues to inspire me about our work around the globe.

Each of our members has the ability to shape the future. Our collective vision, leadership, and willingness to act will determine our industry's destiny. As leaders in the investment management profession, we need to be bold and to help move the industry forward in using finance as a positive tool for the ultimate benefit of society.

Increased diversity in our industry is an essential component of this journey. In particular, we fervently believe that we need more gender balance in our industry. We offer a number of programs to female professionals to encourage them to take this career path, and are seeing positive signs in our own programs: The number of female CFA Program candidates increased from 90,000 in FY2012 to 177,000 in FY2018.

One of the highlights of FY2018 was the launch in January of our new brand campaign, Let's Measure Up. The campaign reached every major financial market across the globe and implored industry professionals to "measure up" for their clients. I cannot think of a more powerful and compelling message. The campaign received positive anecdotal and analytical



*"We live in times of great change, and our organisation will not stand still."*

feedback from our members and target audiences, and resulted in a significant uptick in brand awareness.

Financially, our operating results remained strong in FY2018. Our revenue came in 14% higher than in FY2017, finishing at \$356.3 million, a result attributable to the strength of the CFA Program.

We live in times of great change, and our organisation will not stand still. Our curriculum, our research and thought leadership, our members' continuing professional development, and our advocacy efforts all seek to build on our heralded past with a keen eye on the future.

I encourage you to read through this Annual Report, and, more importantly, to travel with us on our journey to professionalism.

Warm regards,

**Paul Smith, CFA**  
**President and CEO, CFA Institute**

# OVERVIEW

## OVERVIEW AND MISSION OF THE ORGANIZATION

CFA Institute, a global, not-for-profit organization, is the world's largest association of investment professionals. With over 164,000 members and 151 local [member societies](#) worldwide, our mission is

*to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.*

We offer a range of education and career resources, including the [Chartered Financial Analyst](#) (CFA) credential, the [Certificate in Investment Performance](#)

[Measurement](#) (CIPM) designation, and the [CFA Institute Investment Foundations](#) certificate.

CFA Institute is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. An integral part of our mission is to build market integrity through codes of conduct, best practice guidelines, and standards to guide the investment profession. These standards include the [Global Investment Performance Standards](#) (GIPS), the [CFA Institute Code of Ethics and Standards of Professional Conduct](#), and the [Asset Manager Code](#) (AMC) of professional conduct. A primary focus of our standards is the critical importance of placing client interests first.



# STRATEGY

The CFA Institute **mission** is served by generating value for core investment management professionals and engaging with the core investment management industry to advance ethics, market integrity, and professional standards of practice, which collectively contribute value to society.

Core investment management professionals are those individuals primarily involved in activities related to the investment decision-making process—portfolio managers, financial advisors, and research analysts on both the buy side and the sell side.

The core investment management industry is composed of firms or business lines primarily engaged in asset management (e.g., mutual funds, hedge funds, private equity, real estate investment, investment research and ratings, investment advisory services), wealth management, and fiduciary asset ownership (e.g., pension funds, endowments, sovereign wealth funds), and their related regulators and standard-setters.

CFA Institute sets professional standards for investment management practitioners and broadly engages other financial professionals through their interest and interactions with the

investment management industry. Improving outcomes for investors advances our social mission and benefits our members through an increased demand for educated and ethical investment management professionals. Our **vision** is to

- serve all financial professionals seeking investment management-related education, knowledge, professional development, connection, or inspiration; and
- lead the investment profession’s thinking in the areas of ethics, capital market integrity, and excellence of practice.

The overall outcomes that we believe contribute to this aspiration are a community of educated, ethical investment management professionals and financial markets that reflect CFA Institute beliefs.

To achieve these outcomes, our **strategy** is to

- **develop future professionals** through relevant and accessible credentialing programs,
- **deliver member value** that accelerates our members’ professional success, and
- **build market integrity** that benefits investors and our members who serve those investors.

## Develop Future Professionals

Education is the foundation of professional competence. We develop future investment management professionals through credentialing programs that require the application of technical knowledge and an appropriate ethical framework to guide decision making.

## Deliver Member Value

We equip and support members so they can better serve their clients and further develop their professional careers. This goal is enabled through an active local professional community, professional recognition from employers and regulators, and the creation and delivery of high-value educational content.

## Build Market Integrity

We set global standards and advocate for professional excellence. These activities ultimately benefit society by improving both investor protection and investor outcomes.

# OVERVIEW

## Develop Future Professionals

A technically competent and ethically centered profession serves clients' interests and provides a public benefit critical to building trust in the investment management profession. We begin developing future investment management professionals through our credentialing programs. These programs rest on an educational foundation that enables professional competence, which requires the application of technical knowledge and an appropriate ethical framework to guide decision making. This professional competence is recognized through high-quality credentials designed to balance educational standards, market value, and candidate experience—all delivered through rigorous teaching and testing processes.

Our credentialing programs generated total revenues of \$308.5 million in FY2018, up from \$266.6 million in FY2017. The CFA credential is held by more than 150,000 professionals worldwide. The CFA Program continues to set the educational standard for investment management professionals seeking to acquire a broad and general understanding of the investment decision-making process. The CFA Program constitutes a self-study, graduate-level program divided into three levels of exams. Passing these exams is a critical step in becoming a CFA charterholder. The CFA charter attests that the holder has a strong understanding of advanced investment analysis and real-world portfolio management skills. The number of CFA Program exam administrations, which are our organization's primary source of revenue, increased slightly more than 18% to 319,300 in FY2018 from 270,100 in FY2017 (see the exhibit that follows).

# CFA PROGRAM EXAM ADMINISTRATIONS BY REGION



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

# OVERVIEW

The exhibits that follow show exam administrations for all three credentialing programs by region, with a further market breakdown of CFA Program exam administrations from FY2018 and FY2017.

## Credentialing Exam Administrations by Region

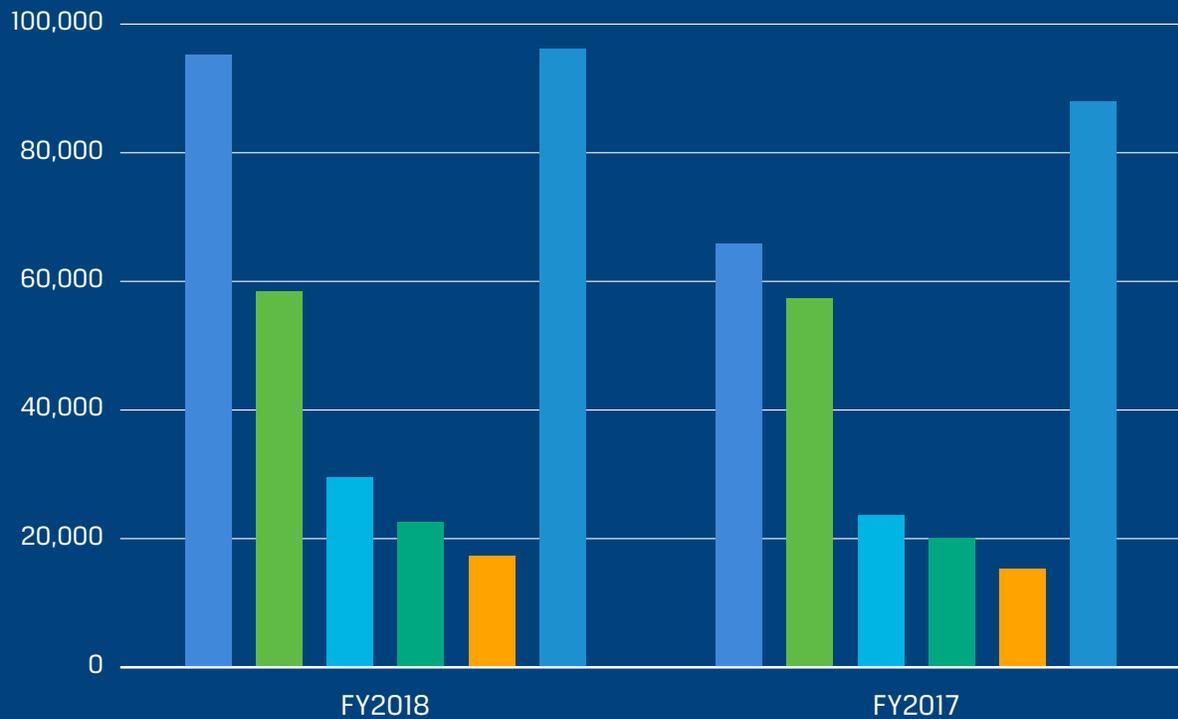
CFA PROGRAM	FY2018	% OF TOTAL	FY2017	% OF TOTAL	YOY CHANGE
Global	319,300	100 %	270,100	100 %	18 %
AMER	88,000	28 %	83,500	31 %	5 %
EMEA	58,400	18 %	54,200	20 %	8 %
APAC	172,900	54 %	132,400	49 %	31 %
CIPM PROGRAM	FY2018	% OF TOTAL	FY2017	% OF TOTAL	YOY CHANGE
Global	1,800	100 %	2,130	100 %	(15)%
AMER	900	50 %	1,140	54 %	(21)%
EMEA	500	28 %	500	23 %	—%
APAC	400	22 %	490	23 %	(18)%
INVESTMENT FOUNDATIONS PROGRAM	FY2018	% OF TOTAL	FY2017	% OF TOTAL	YOY CHANGE
Global	5,500	100 %	5,440	100 %	1 %
AMER	2,500	45 %	2,210	41 %	13 %
EMEA	1,300	24 %	1,420	26 %	(8)%
APAC	1,700	31 %	1,810	33 %	(6)%

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

Five markets account for 70% of all CFA Program exam administrations. Year over year, all five markets saw candidate volumes rise, led by China (+45%), followed by India (+25%), the United Kingdom (+13%), Canada (+12%), and the United States (+2%).

# CFA PROGRAM EXAM ADMINISTRATIONS: TOP FIVE MARKETS

CHINA UNITED STATES INDIA CANADA UNITED KINGDOM REST OF THE WORLD



# OVERVIEW

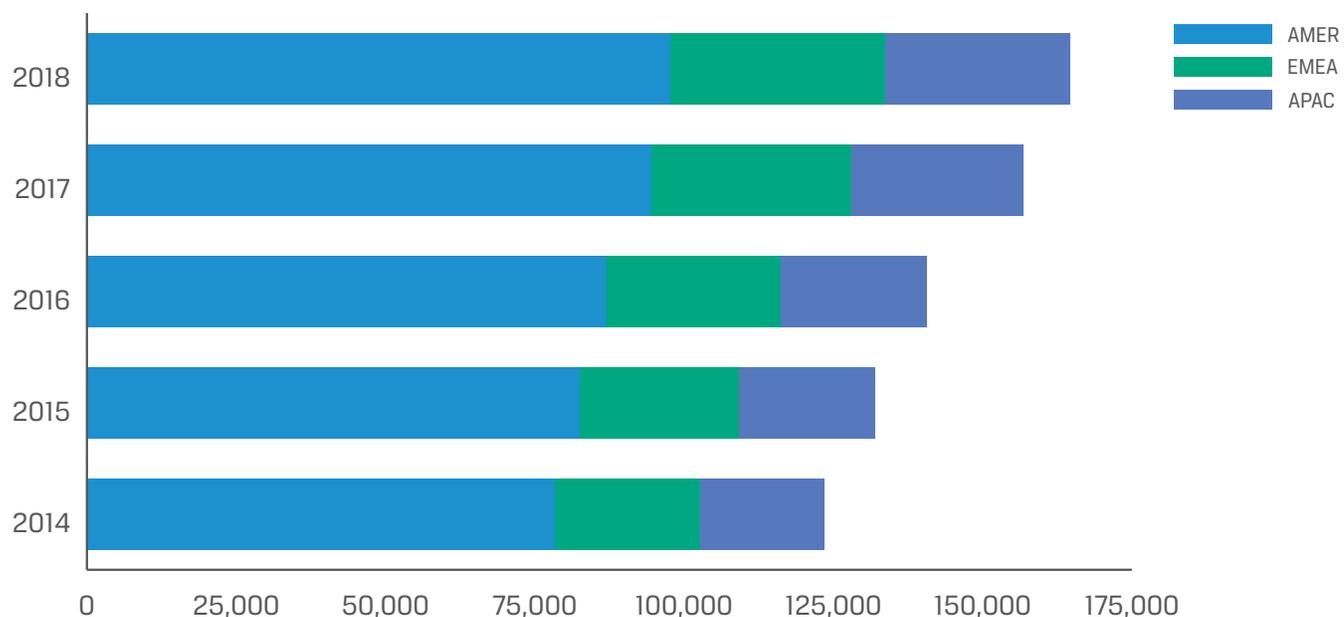
## Deliver Member Value

CFA Institute membership stood at more than 164,000 at year-end FY2018, up from 156,800 in FY2017. After credentialing program-related revenues, member value programs accounted for the second-largest revenue contribution, totaling \$46.7 million in FY2018, up from \$45.1 million in FY2017.

CFA Institute equips and supports its members to better serve their clients and to further develop

their professional careers. We achieve this goal through an active local professional community, professional recognition from employers and regulators, and the delivery of high-quality professional content and services. Local CFA Societies are the cornerstone of this strategy. We support our member societies with a broad range of resources so they can be standard-bearers of our shared mission in the communities they serve.

## CFA INSTITUTE MEMBERSHIP BY REGION



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



# OVERVIEW

In FY2018, we established Societies 2.0, a framework for delivering member value through CFA Societies. Societies 2.0 is a long-term plan to realize an ambitious vision across the entire CFA Society network to position societies as the professional bodies for investment management in each society's market. In FY2018, we worked to help our societies align with the Society 2.0 vision. We believe an emphasis on our strategic capabilities will improve our member experience and support our ambition of increasing professional standards in our markets.

The objectives and priorities of Societies 2.0 are validated by the results of recent surveys and research conducted by CFA Institute. This includes our 2018 Annual Member Survey, for which we used the Net Promoter Score (NPS) index to measure member satisfaction with both CFA Institute and local member societies. Globally, the CFA Institute membership NPS increased 11%, from +36 in 2017 to +40 in 2018, with increases seen across all regions. The society membership NPS increased 40%, from +20 to +28 globally, with the strongest increases seen in our APAC and Americas regions.

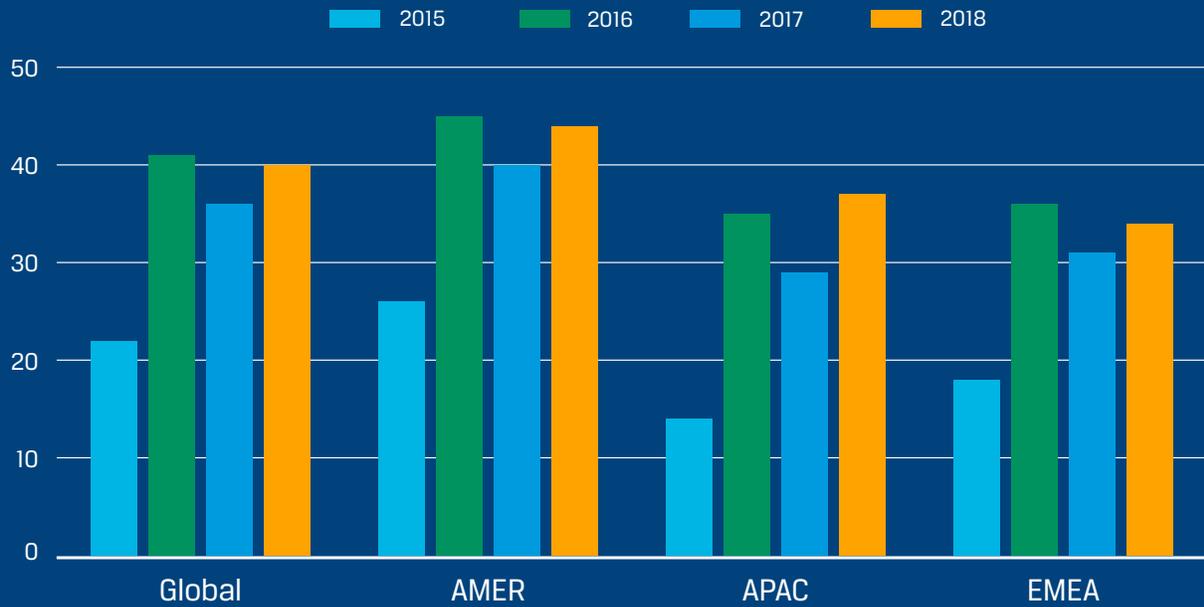
## Societies 2.0 Vision Statement

*We are committed to helping our members to build productive and successful careers in an investment profession that is respected for working in its clients' best interests.*

*Together, we will build active communities of investment professionals throughout the world. We will engage the intellect and insights of our shared membership to raise professional standards through education, ethics, professional development, advocacy, and outreach. We believe our objectives will be best achieved by positioning societies as the clearest route to our members and their investment communities.*

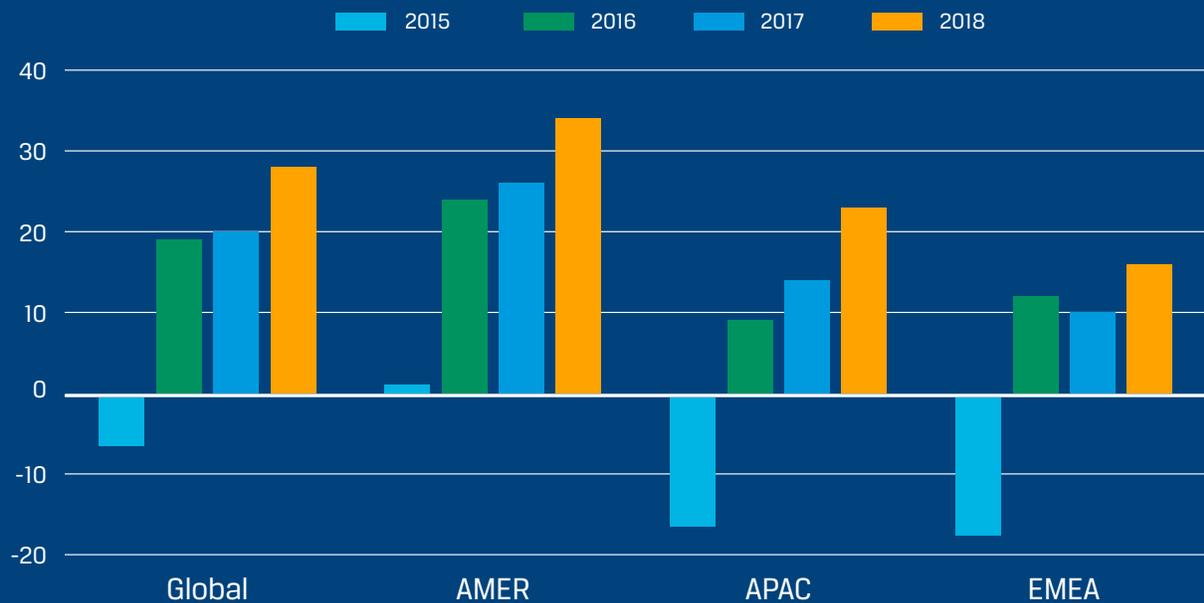
*We will work together to develop the roadmap that will enable us to achieve this vision over time, through shared infrastructure and relationships, enhanced resourcing and appropriate governance.*

# CFA INSTITUTE MEMBERSHIP NPS



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

# CFA SOCIETY NPS



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

# OVERVIEW

## Build Market Integrity

CFA Institute builds market integrity for the benefit of society by improving both investor protections and investor outcomes. Our efforts also benefit our members by developing an industry that demands credentialed professionals and that enables these professionals to pursue rewarding careers. We achieve this aim by challenging industry participants to shape financial markets that are fair and trustworthy and through the creation, adoption, and application of high-quality codes and standards; thought leadership that demonstrates the value of the profession; and professional recognition from investors and regulators. Building on the guiding principles that drive our advocacy work, CFA Institute is committed to

- advancing and promoting policies that serve investor protection over commercial interests;
- creating content and advancing policy research that improve market structure, transparency, and fairness for all investors; and
- supporting the creation and adoption of rules and regulatory standards that improve and expand investment industry professionalism.

CFA Institute advocacy activities focus on global capital markets policy, financial reporting policy, and local CFA Society advocacy engagement.

Contributing to this focus are the research activities of the [CFA Institute Research Foundation](#) and our [Future of Finance](#) initiative, which strive to define the investment profession's future by motivating and empowering the world of finance to become an environment where investor interests come first, markets function at their best, and economies grow. By leveraging our global network of members, we are uniquely positioned to help shape a more

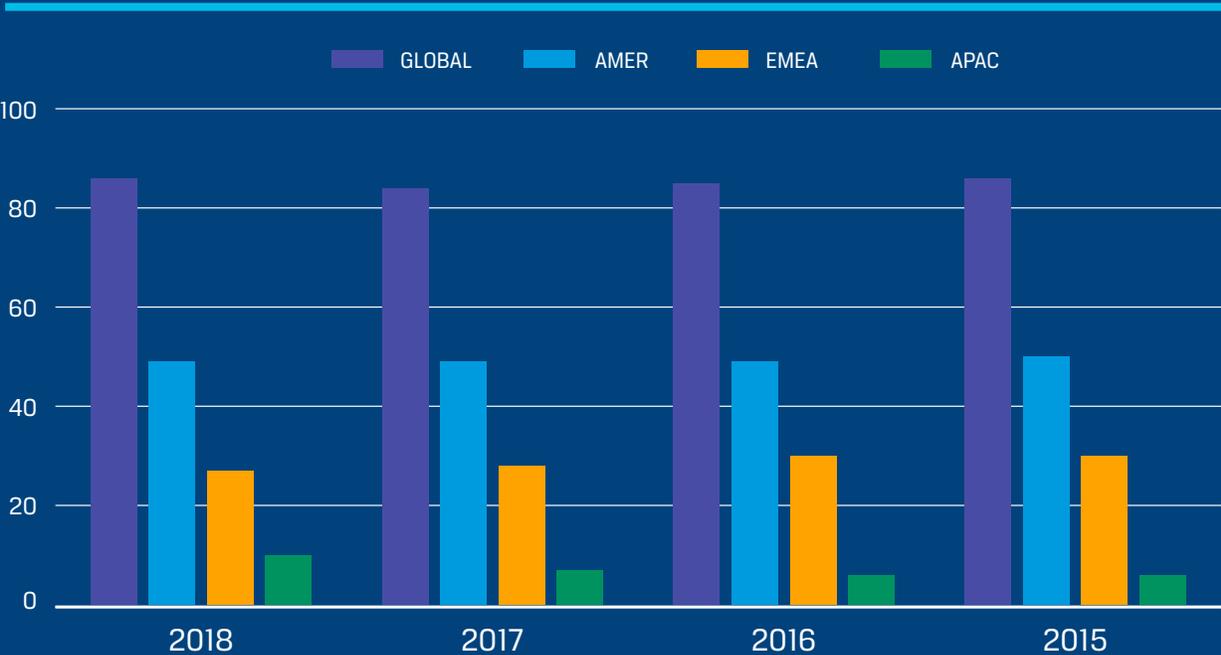
trustworthy, forward-thinking investment profession that better serves society. The Future of Finance initiative works with a distinguished advisory council and a content council of industry leaders who provide input for projects and share our ideas throughout the investment community.

Consistent with CFA Institute beliefs, an integral part of our strategy is to develop and administer codes of ethics, best practice guidelines, and standards of professional conduct to guide the investment industry:

- The foundation of our work in this arena is the CFA Institute *Code of Ethics and Standards of Professional Conduct*, which we refer to as the Code and Standards. We expect all CFA Institute members and CFA Program candidates to sign the statement and adhere to the code.
- The CFA Institute Asset Managers Code (AMC) outlines the ethical and professional responsibilities of firms that manage assets on behalf of clients. The principles and provisions of this voluntary code address six broad categories: loyalty to clients; investment process and actions; trading; risk management, compliance, and support; performance reporting and valuation; and disclosures.
- Global Investment Performance Standards (GIPS) is a set of standardized, industrywide ethical principles that guides investment firms on how to calculate and present their investment results to prospective clients.

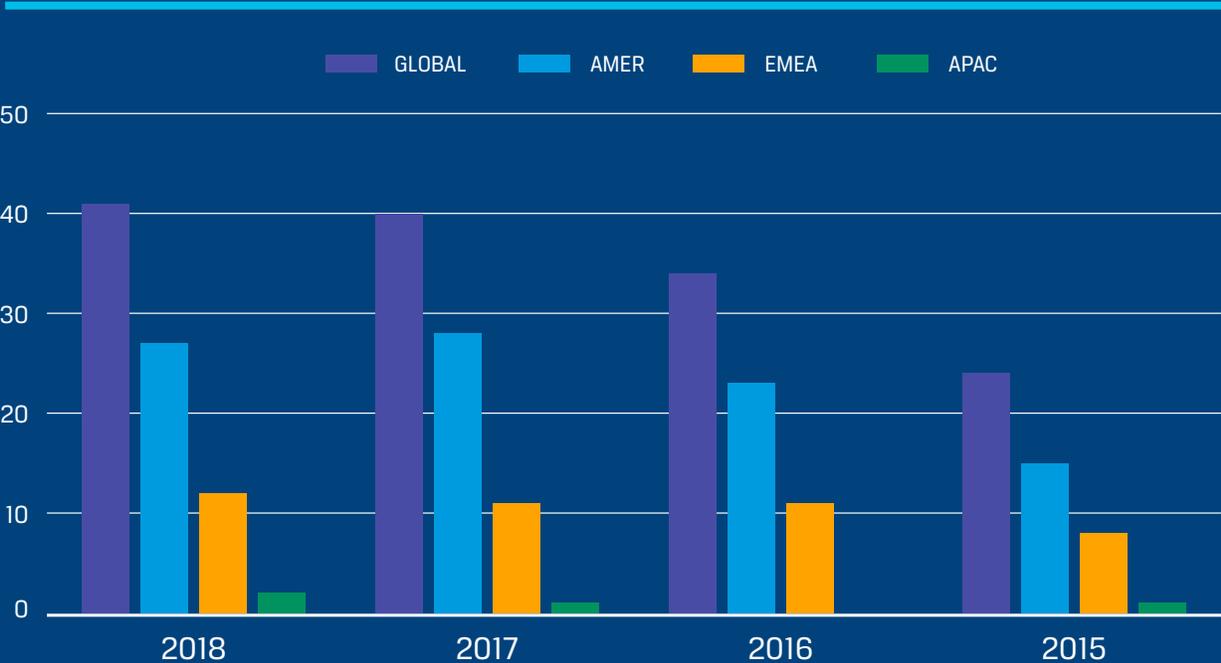
In FY2015, CFA Institute began monitoring adoption rates of both the AMC and GIPS by the Top 100 Asset Managers (see the exhibits that follow).

# GIPS ADOPTION BY TOP 100 ASSET MANAGERS



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

# AMC ADOPTION BY TOP 100 ASSET MANAGERS



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

# OVERVIEW

## Advocacy

In addition to tracking the AMC and GIPS adoption rates, CFA Institute also monitors achievement of our advocacy objectives across three broad categories of measurement: Awareness, Recognition, and Impact.

### Awareness

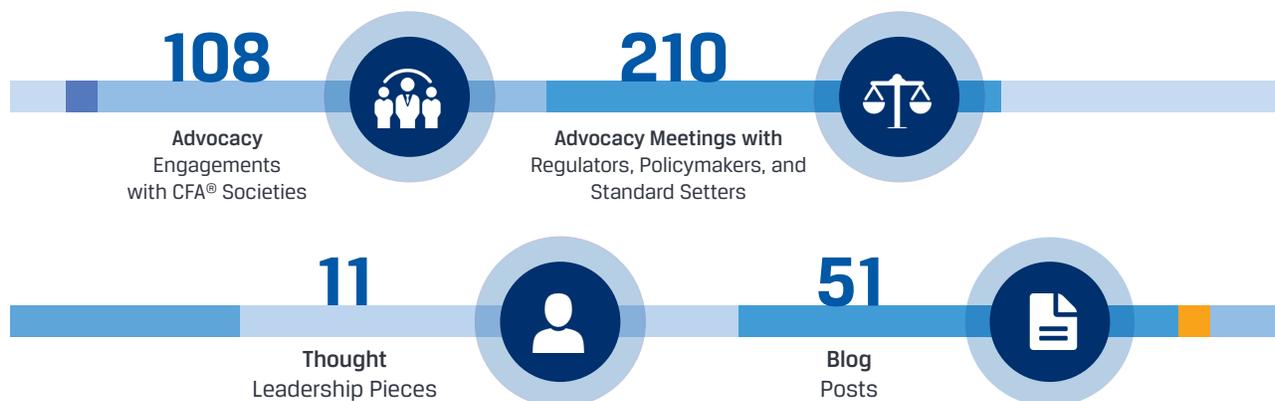
Drawing attention to our advocacy content and issues is crucial to our ability to effect change. We generate awareness through ongoing global outreach at regulatory meetings, conference presentations,

and society events, as well as by conducting high-quality policy research and engaging in extensive efforts to publicize and distribute our commentary.

#### 2018 Advocacy Metrics

##### Awareness

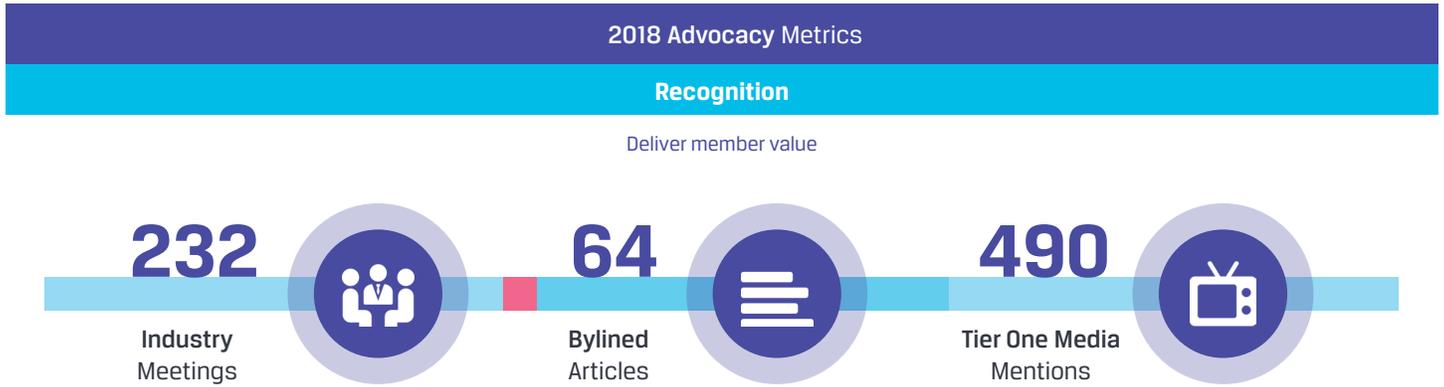
Grow global relevance and extend local reach



## Recognition

Three important metrics demonstrate the acknowledgment and recognition of our content and commentary: participation in industry meetings, publication of articles, and media pickup. Our nearly 500 media mentions this year were a record

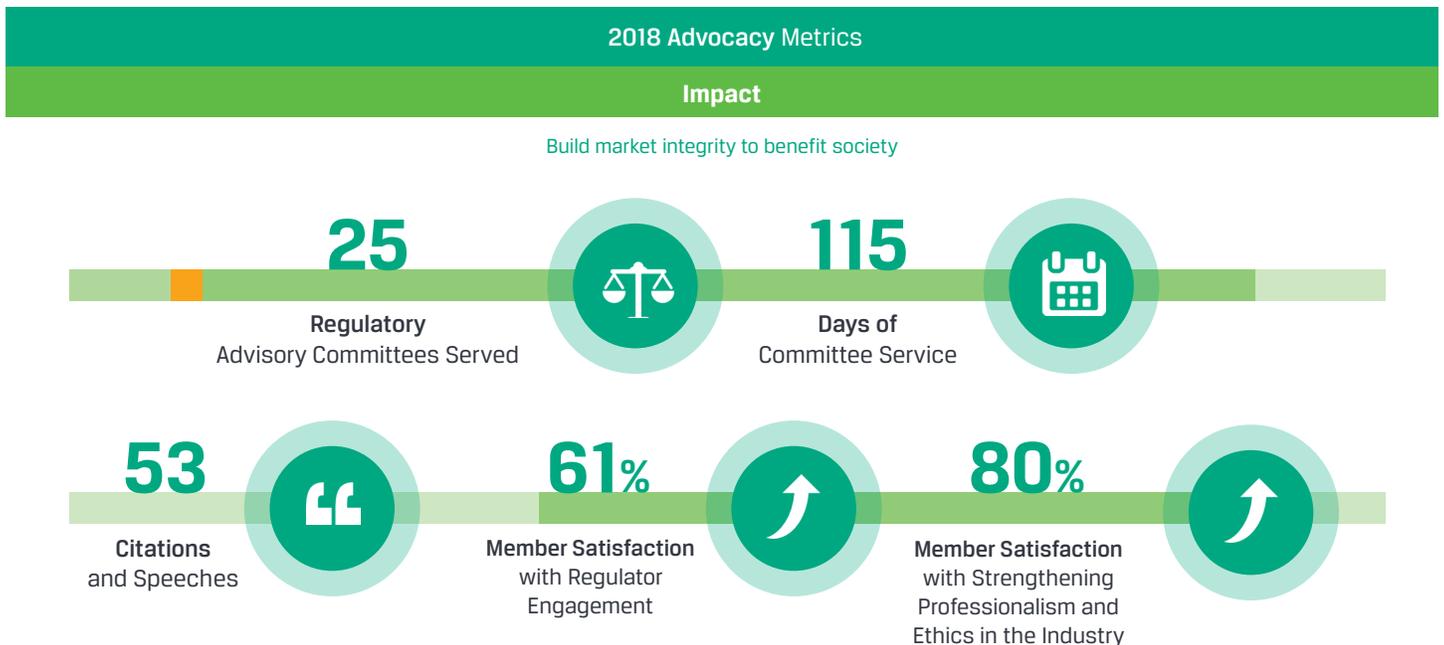
for our advocacy work. Our bylined articles in key financial media outlets, combined with our presence at hundreds of global industry meetings, reflect the recognition of CFA Institute as a bold policy voice.



## Impact

Advocacy comes down to whether our work affects rules, practices, and industry conduct. We track the number of invitations we receive to serve on regulatory advisory committees where policy is framed. When our content and

positions are cited by other key think tanks and stakeholders, and when our recommendations are ultimately acted upon by regulators and policymakers, our true successes become evident.



# OVERVIEW

## Operations

The mission of CFA Institute and our expanding geographic influence over the past several years are reflected in our financial, technological, structural, and human resources located around the world. Our 586 employees as of year-end FY2018 occupy approximately 221,000 square feet of office space and related facilities worldwide, of which approximately 78,000 square feet are leased.

During FY2018, in collaboration with the Abu Dhabi Global Market, CFA Institute opened an office in Abu Dhabi—our first office in the Middle East. The opening underscores the mutual commitment of both organizations to contribute to a growing international center of excellence for knowledge in the Middle East and beyond.

CFA Institute is also preparing to open an office in Washington, D.C., in the second quarter of FY2019. The office will enhance recognition of our organization and our position with investment market regulators by creating a more proactive and persistent presence in the US capital.

Events such as these open up new frontiers for us. They often come with challenges, but ones that we can overcome as we enter markets where there is enormous latent demand to work with CFA Institute across our entire product range.

For more detailed information on our locations and subsidiaries, please refer to *Note 1: Organization*, within the CFA Institute Consolidated Financial Statements.





# PERFORMANCE

## YEAR IN SUMMARY

Financially, CFA Institute finished FY2018 with \$356.3 million in revenues, up from \$312.6 million in FY2017. Expenses finished at \$336.2 million, up from \$303.9 million in FY2017. Investments in strategic priorities included \$13.6 million in direct and project funding for our member societies, an increase of 18% compared to FY2017. We continued to focus on our global brand awareness, with \$15.8 million of advertising expenses incurred in FY2018—a 25% increase compared to FY2017. As planned, we also continued to invest in our IT and finance infrastructure and to shift resources to our Asia-Pacific (APAC) and Europe, Middle East, and Africa (EMEA) regional offices. As a result, income from operations finished the year at \$20.1 million, up from \$8.8 million in FY2017. This operating income contributed to a total change in net assets of \$43.0 million, down from \$45.8 million in FY2017, primarily due to changes in fair value on investments in FY2018.

In a mission-driven organization, financial performance exists to support mission achievement. The highlights and financial information that follow reflect the mission investments we made in FY2018.

## Highlights

- CFA Program exam administrations increased 18% to 319,300 in FY2018, up from 270,100 in FY2017. The June 2018 exam enrollment of 226,000 candidates was the largest exam administration in the history of the CFA Program.
- CFA Institute membership rose 5% to 164,600 members by fiscal year-end, up from 156,800 members in FY2017.
- Advertising expenses, as part of the global brand awareness campaign Let's Measure Up, increased by \$3.2 million to \$15.8 million in FY2018.
- Grants to member societies increased by \$2.0 million to \$13.6 million in FY2018.
- Investments totaling \$446.5 million provide a contingency reserve for a multiyear continuation of services in the event of a large-scale disruption to the CFA Program. This reserve is particularly important given the risk concentration of administering the CFA Program exams only twice a year.

## Consolidated Financial Results for Fiscal Years Ended 31 August

\$ (IN MILLIONS)	FY2018	FY2017
<b>Members and Exam Administrations <sup>(1) (2)</sup></b>		
CFA Institute Members	164,600	156,800
CFA Program Administrations	319,300	270,100
CIPM Program Administrations	1,800	2,130
CFA Institute Investment Foundations Administrations	5,500	5,440
<b>Financial Performance <sup>(2)</sup></b>		
Operating revenues	\$356.3	\$312.6
Operating expenses	336.2	303.9
<b>Income from operations</b>	<b>20.1</b>	<b>8.8</b>
Realized gains, interest, and dividends (net)	14.5	10.6
Unrealized gains on investments	9.1	23.2
Unrealized gain on derivative contract	0.9	0.8
Capital contributions – non-controlling interests	–	2.6
Return of capital – non-controlling interests	(0.1)	(0.1)
Non-operating expense – other	(1.5)	–
<b>Change in net assets</b>	<b>\$43.0</b>	<b>\$45.8</b>

<sup>(1)</sup> Administrations defined as exam registrations for which we recognize revenue, realized net of adjustments.

<sup>(2)</sup> Numbers are rounded.

# PERFORMANCE

## REVENUES

Total operating revenues increased to \$356.3 million in FY2018, up from \$312.6 million in FY2017.

### Operating Revenues for Fiscal Years Ended 31 August

\$ (IN MILLIONS)	FY2018	FY2017
Credentialing programs	\$308.5	\$266.6
Member value programs	46.7	45.1
Industry engagement and other	0.5	0.7
Contributions	0.6	0.3
<b>Total revenues</b>	<b>\$356.3</b>	<b>\$312.6</b>

- Revenue from credentialing programs increased from FY2017, primarily in response to higher CFA Program candidate volumes. Revenue from credentialing programs accounted for approximately 87% of total operating revenues in FY2018, up from 85% of total operating revenues in FY2017.
- Revenue from member value programs was higher than in FY2017 because of the increase in CFA Institute membership. Member dues accounted for approximately 13% of total operating revenues in FY2018, down slightly from 14% in FY2017. The standard member dues rate remained unchanged for FY2018.

For detailed information on our revenue recognition, please refer to *Note 2: Summary of significant accounting policies, Revenue*, within the CFA Institute Consolidated Financial Statements.



# PERFORMANCE

## EXPENSES

Total operating expenses increased to \$336.2 million in FY2018, up from \$303.9 million in FY2017. FY2017 results, combined with a favorable outlook for FY2018, provided the opportunity to invest in and continue to focus in FY2018 on the organizational priorities in support of our mission and strategic

plan: (1) global brand awareness, (2) local CFA Society partnerships, and (3) infrastructure improvement. These priorities represent primary areas of strategic expenditure and are specifically noted within the expense analysis that follows.

### Operating Expenses for Fiscal Years Ended 31 August

\$ (IN MILLIONS)	FY2018	FY2017
<b>Operating Expenses</b>		
<b>Program services</b>		
Credentialing programs	\$97.5	\$86.1
Member value programs	103.9	89.7
Industry engagement	14.6	15.6
Services delivery	9.4	10.9
Scholarships—11 September Memorial Fund	0.1	0.1
<b>Support services</b>		
Information technology	37.5	35.3
Financial operations	22.1	14.7
Facility operations	12.8	11.1
Legal and board services	9.1	9.0
Executive and regional operations	8.8	8.2
Human resources	7.8	6.5
Compliance, risk & ethics	6.0	4.6
Content engagement and publishing	1.4	5.6
Travel support and event management	3.5	3.5
Other support services	1.9	2.9
<b>Total operating expenses</b>	<b>\$336.2</b>	<b>\$303.9</b>

## Program Services Expenses

- Overall, program services expenses increased by \$23.0 million or 11% compared to FY2017. This increase is a direct result of our organization's activities to support the increase in candidate and membership volumes.
- Expenses for credentialing programs rose to \$97.5 million in FY2018 from \$86.1 million in FY2017, with higher expenses realized in exam operations due to increased candidate volumes.
- Expenses for member value programs increased to \$103.9 million in FY2018 from \$89.7 million in FY2017, primarily due to planned increases in our global brand campaign activities and in our strategic grant funding of member societies.

## Support Services Expenses

- Overall, support services expenses increased by \$9.4 million or 9% compared to FY2017. This increase is consistent with our organization's activities to support the increase in candidate volumes and our commitment to continued collaboration with member societies and to improvements in our operations' infrastructure.
- Expenses for information technology (IT) rose to \$37.5 million in FY2018 from \$35.3 million in FY2017, with higher realized expenditures in IT managed services, and the third year of our planned three-year IT Digital Core Transformation project, which underpins our organization's long-term technology plan.
- Expenses for financial operations rose to \$22.1 million in FY2018 from \$14.7 million in FY2017, driven largely by expenditures related to the ongoing renovation and improvement of our organization's finance infrastructure. In addition to replacing legacy accounting and ancillary systems, CFA Institute has implemented a new financial organizing framework with emphasis on end-to-end process renovation, operational efficiency, regionalization, and an increased focus on driving stakeholder value.

# PERFORMANCE

## FINANCIAL CONDITION

Total assets increased nearly 9% or \$52.6 million, to \$623.7 million in FY2018, up from \$571.1 million in FY2017. This increase resulted largely from higher participation in the CFA Program,

which generates significant net cash flow for our organization, and from an increase in the market value of our reserves portfolio.

### Financial Position for Fiscal Years Ended 31 August

\$ (IN MILLIONS)	FY2018	FY2017
Cash and cash equivalents	\$89.6	\$90.5
Current investments, at fair value	3.0	–
Other current assets	18.2	18.0
<b>Total current assets</b>	<b>110.8</b>	<b>108.5</b>
Non-current investments, at fair value	443.5	401.0
Other non-current assets	69.3	61.5
<b>Total non-current assets</b>	<b>512.8</b>	<b>462.6</b>
<b>Total assets</b>	<b>623.7</b>	<b>571.1</b>
Accounts payable and accrued liabilities	\$20.3	\$20.1
Deferred revenue	157.2	151.4
Other current liabilities	25.5	26.9
<b>Total current liabilities</b>	<b>203.0</b>	<b>198.5</b>
Accounts payable and accrued liabilities	1.4	0.6
Deferred revenue	50.6	44.9
Other non-current liabilities	17.7	19.1
<b>Total non-current liabilities</b>	<b>69.7</b>	<b>64.6</b>
<b>Total liabilities</b>	<b>272.7</b>	<b>263.1</b>
<b>Net assets</b>	<b>351.0</b>	<b>308.0</b>
<b>Total liabilities and net assets</b>	<b>\$623.7</b>	<b>\$571.1</b>

- Of the \$623.7 million in total assets as of 31 August 2018, the investments balance totaled \$446.5 million, with \$3.0 million and \$443.5 million classified as current and non-current, respectively. As of 31 August 2017, investments totaled \$401.0 million, all of which were classified as non-current.
- The year-over-year increase in the investment balance of \$45.5 million resulted from \$107.8 million in investment purchases, \$73.6 million in settlement proceeds, and \$9.1 million and \$2.2 million of unrealized and realized net gains on investments, respectively. Invested in liquid assets, these investments more than offset deferred revenue liabilities of \$207.8 million split between current (\$157.2 million) and non-current (\$50.6 million) liabilities. Deferred revenue liabilities largely represent unearned revenue from exam and membership services not yet provided.
- Current assets, held mainly in cash and cash equivalents, are managed to cover operational needs, whereas investments provide protection against business disruptions and create a potential funding source for large new and long-term business initiatives.
- Deferred revenue increased in part because of demand for the CFA Level I exam. In accordance with US GAAP, revenue collected for an exam offered the following fiscal year is deferred to that year. CFA Institute recognizes the one-time CFA Program enrollment fees over three years, the estimated average time a candidate participates in the CFA Program.
- Deferred revenue related to member dues also increased as a result of higher CFA Institute membership.

For detailed information on deferred revenue, please refer to *Note 2: Summary of significant accounting policies, Deferred revenue*, within the CFA Institute Consolidated Financial Statements.

# PERFORMANCE

## CASH AND INVESTMENT DETAIL

### Cash and Investment Portfolio Balance for Fiscal Years Ended 31 August

\$ (IN MILLIONS)	FY2018	FY2017
Cash and cash equivalents	\$89.6	\$90.5
Current investments, at fair value	3.0	—
Non-current investments, at fair value	443.5	401.0
Subtotal investments, at fair value	446.5	401.0
<b>Total cash, current, and non-current investments</b>	<b>\$536.1</b>	<b>\$491.5</b>

- A Board-led Investment Committee provides oversight of CFA Institute financial reserves, consistent with Board directives. The reserves are invested in accordance with the Investment Policy Statement (IPS), which was developed by the CFA Institute Investment Committee according to principles included in the CFA Program curriculum. The CFA Institute Board of Governors approves the CFA Institute IPS.
- The financial reserves, combined with existing risk-mitigation strategies and insurance, provide for the continuation of services in the event of a large-scale disruption to the CFA Program. This approach to managing the reserves gives CFA Institute additional risk management flexibility.
- For the financial reserves, strategic, long-term, target investment portfolio weights are 60% risk assets (e.g., global equities, real assets, emerging market debt, high-yield debt) and 40% low-volatility assets (e.g., Treasury inflation-protected securities, core fixed income). For the year ended 31 August 2018, actual portfolio weights were 61% and 39%, respectively.

## Cash Flow for Fiscal Years Ended 31 August

\$ (IN MILLIONS)	FY2018	FY2017
<b>Change in net assets</b>	\$43.0	\$45.8
Non-cash items	(1.7)	(17.4)
Changes in assets and liabilities	11.0	29.0
Net cash provided by operating activities	52.3	57.4
Capital expenditures	(17.5)	(11.3)
Maturities and proceeds (purchases) of investments, net	(34.2)	(15.1)
Net cash provided by (used in) investing activities	(51.7)	(26.5)
Loan repayments	(1.4)	(1.3)
Capital contributions – non-controlling interests	–	2.6
Return of capital – non-controlling interests	(0.1)	(0.1)
Net cash provided by (used in) financing activities	(1.5)	1.1
<b>Net increase (decrease) in cash and cash equivalents</b>	(0.9)	32.0
Cash and cash equivalents, beginning of year	90.5	58.5
<b>Cash and cash equivalents, end of year</b>	<b>\$89.6</b>	<b>\$90.5</b>

CFA Institute began preparing the consolidated statement of cash flows using the indirect method during the year ended 31 August 2018. Refer to *Note 2: Summary of significant accounting policies*, within the CFA Institute Consolidated Financial Statements, for further information.

# PERFORMANCE

## Operating Activities

- For FY2018, our non-cash items primarily consisted of \$10.1 million of depreciation and amortization (\$7.9 million in FY2017), \$9.1 million of unrealized gains on investments (\$23.2 million in FY2017), and \$2.2 million of realized gains on investments (less than \$0.1 million in FY2017).
- The changes in assets and liabilities primarily consisted of an increase in deferred revenue of \$11.5 million and employee-related liabilities of \$2.9 million. These changes were offset by a decrease in funds held for others of \$4.2 million.

## Investing Activities

- Cash used in capital expenditures was \$17.5 million in FY2018 and \$11.3 million in FY2017.
- Cash used in the purchase of investments was \$34.2 million in FY2018 and \$15.1 million in FY2017. These amounts are net of cash provided from investment proceeds of \$73.6 million and \$89.4 million in FY2018 and FY2017, respectively.

## Financing Activities

- Cash used in financing activities primarily consisted of \$1.4 million in payments on a note in connection with the loan utilized to construct the Charlottesville, Virginia, premises.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our organization's critical accounting policies and estimates include the method by which we recognize revenue, most significantly the policy related to program enrollment and exam registration fees, the valuation of our investments and derivatives, and our policy related to the deferral and amortization of intangibles.

For detailed information on these critical accounting policies and estimates, please refer to *Note 2: Summary of significant accounting policies*; *Note 4: Investments*; *Note 5: Fair value measurements*; and *Note 7: Intangibles*, within the CFA Institute Consolidated Financial Statements.



# PERFORMANCE

## STRATEGIC OUTLOOK

Our organizational strategy continues to drive a regional focus on relevance and on delivering immediate value to our members. This section describes some of the key objectives and actions planned for the coming years to advance this strategy.

### Develop Future Professionals

Three strategies drive our plans for developing future professionals: (1) positioning the CFA Program for 100% market penetration; (2) developing industry-relevant, career-long competencies for investment management professionals; and (3) driving program demand among key influencers. Underpinning these strategies is a multiyear planning process called Credentialing 2030, which takes an anticipatory approach to ensuring the sustained relevance of our programs. Given the rate of change in both the investment management and the credentialing industries, we must adapt to the evolving learning needs and habits of today's investment managers or risk jeopardizing the gold standard that the CFA charter represents.

Three key initiatives of Credentialing 2030 are now underway:

- **Learning Ecosystem (LES):** This interactive and engaging learning experience consolidates the curriculum and study tools into an integrated, cohesive platform designed for our program candidates. A simple, easy-to-use digital

dashboard indicates progress and performance; recommends readings, activities, and additional resources; and provides a personalized learning path to achieve maximum learning in the most efficient way. The platform allows us to implement best practices in instructional design that enhances knowledge retention leading up to and continuing after each examination. The LES currently delivers the entire Certificate in Investment Performance Measurement (CIPM) and Investment Foundations curricula and study tools, as well as the Question Bank for all three levels of the CFA Program. We anticipate migrating the entire CFA Program curriculum to the LES in FY2019.

- **Future of Exam Delivery (FED):** Our anticipated transition from paper-based testing to computer-based testing (CBT) will increase convenience, accessibility, and customer service for our candidates. A shift to CBT will help us better manage the risks associated with continued growth in the number of candidates, allow us to achieve greater fidelity to the

profession by more closely incorporating the way investment professionals work today, and improve the candidate experience with regard to exam frequency and accessibility. A comprehensive procurement process to identify CBT vendor partners that can assist with the transition of Level I of the CFA Program is in progress, with the full participation of and oversight by our Board of Governors.

- Continuing Professional Development (CPD): The CFA credential is a generalist designation for early career practitioners. As our members advance in their careers, they specialize and require advanced learning. To serve this need, we anticipate creating modular CPD educational opportunities based on a competency framework, organized by job roles, and accommodating multiple career paths for post-CFA Program subject-matter refreshers and advanced specialization.

As the primary source of revenue for CFA Institute, the CFA Program remains the least risk tolerant of our credentialing programs. We seek to protect the rigor, relevance, quality, and resource commitment of the CFA Program while taking calculated risks to advance its development. We have a greater willingness to tolerate risk and experiment with the CIPM Program and the [Investment Foundations Certificate Program](#).

At the end of FY2018, after thorough consideration, our Board of Governors approved a proposal to evolve our Investment Foundations Certificate Program to increase access to it by the investment management industry and improve financial literacy, especially in emerging markets. Effective September 2018, the Investment Foundations Certificate Program became a free online learning experience available to anyone who would like to better understand the investment industry. By eliminating obstacles such as test center availability and cost, we believe we can vastly increase access to the program and deliver investment industry literacy to people around the world. This benefits not only students and professionals aspiring to work in the investment management industry, but also the integrity of global capital markets.

# PERFORMANCE

## Deliver Member Value

Personalizing and delivering member value, primarily through CFA Societies, remain critical to our plans. We have identified key deliverables in the upcoming year, including strategic resource allocation for society infrastructure and local brand activation, increased resources for technology and associated service functions, and a comprehensive plan for continuing professional development. Societies will see an increase in operational funding for FY2019, based on a new funding formula that increases both base and variable funding amounts. This increase is weighted toward APAC due to the increased weighting of the candidate component in the funding formula. However, societies in developing markets throughout the world—Africa, the Middle East, Central and Eastern Europe, and Latin America—will all benefit from an increase in resources.

In the near term, our goal is to establish an infrastructure that will enable future success. Consistent with the foundational capabilities identified under Societies 2.0, key actions in the upcoming year include

- professionalizing society operations to reduce burdens on volunteers and allow societies to operate as high-functioning bodies serving local members, stakeholders, and markets;
- promoting the proper delegation of authority by volunteer boards to their full-time society staff to foster agility in operations and decision making, while remaining aligned on strategic objectives;
- completing an effective technology foundation to equip all societies with the tools, training,

and support that empowers them to use technology to its fullest effect; and

- formalizing on-demand, role-based society leadership training programs and skills development to support society best practices and bridge any gaps society leaders may experience with how to accomplish their work for their society.

Following the establishment of the appropriate infrastructure, we remain committed to the strategic capabilities described below as we seek to deliver member value.

## Brand Development

We aim to create one brand experience for members interacting with CFA Institute. Looking ahead, we will continue the work of building brand awareness through programs such as society brand activation. Our communications to members will increasingly emphasize the value of local society membership as well as position the local society equally with, and in many local markets more prominently than, CFA Institute.

## Continuing Professional Development

CPD represents an excellent opportunity for CFA Institute to help members to accelerate their careers, raise professional standards, and serve their clients better. We have embarked on a complete overhaul of our offerings. Our focus will be on completing the foundational elements of a new CPD product to

create a more personalized, streamlined, and relevant CPD experience, based on job competencies, and with a distribution strategy that positions the society as the main point of contact for membership. We are conducting deep research to gain insights from members that will inform the final product design.

### Shared Outreach & Advocacy

CFA Societies tend to have the strongest relationships with regulators, policymakers, and leaders in the industry, and must be equipped to advocate with these stakeholders for the highest standards of ethics, professionalism, and education. We will continue our efforts to support local advocacy outreach, to explore the advocacy work our member societies require in their markets, and

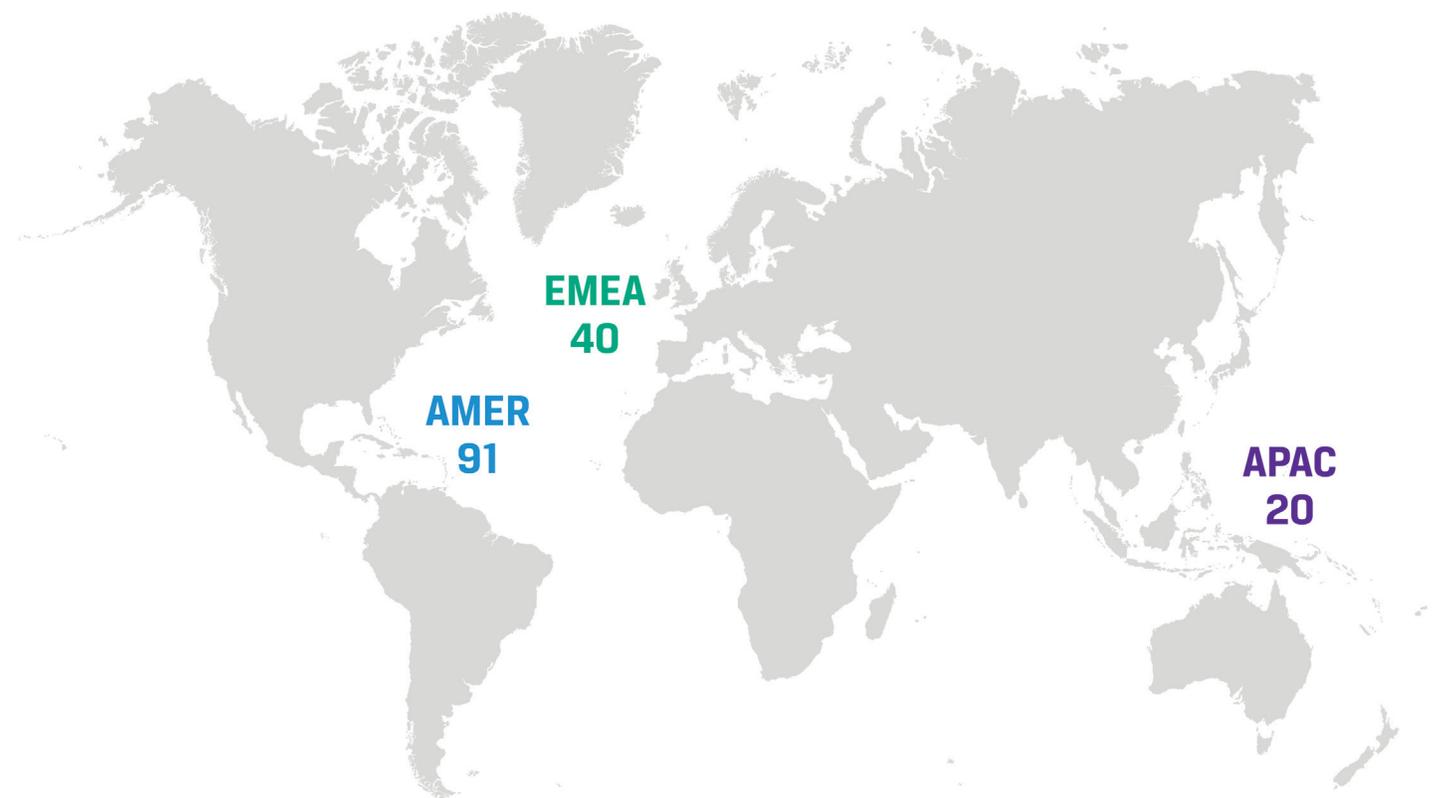
to provide the resources, training, and direct CFA Institute support needed for greater impact.

### Candidate Journey Engagement

Raising standards of professionalism among our members requires engaging them across the span of their careers. We aim to increase the number of CFA Institute members working in the core of the profession, lower the society membership gap, and reduce the size of the CFA charter-pending population. To support these objectives, we believe engaging candidates in local society activities and communicating the value of society membership will raise awareness of society membership as a key component of an individual's experience as an investment management professional.

## SOCIETY LOCATIONS BY REGION

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

# PERFORMANCE

## Build Market Integrity

Our advocacy team continues to identify opportunities to boldly and effectively promote awareness and recognition of our content and commentary in order to have a positive effect on rules, regulations, practices, and industry conduct.

Our objective is to reach the broader investment management industry, its many stakeholders, and service providers, regulators, and key media outlets, and to fully feature the CFA Institute community as a primary resource for capital markets and financial reporting advocacy, and investment industry thought leadership. To ensure we stay ahead of megatrends in the industry, our Future of Finance initiative continues to tackle industry-targeted research. For example, the third in a series of Future of Finance surveys, [\*The Next Generation of Trust: A Global Survey on the State of Investor Trust\*](#), published in 2018,

examined changing investor expectations and how a new generation of investors and new investment tools are affecting the nature of trust. Trust is the bedrock that supports our financial markets and underpins the investment management industry. Although investors have a strong level of trust in the financial system overall, and trust in the industry has increased slightly, challenges remain. Investor expectations are high, and gaps exist between what investors want and what the industry delivers.

Shaping the investment management environment will require that we become more broadly and consistently recognized by industry participants as one of the most authoritative sources on the future direction of investor protection, market fairness and transparency, and professionalism.

## SUMMARY

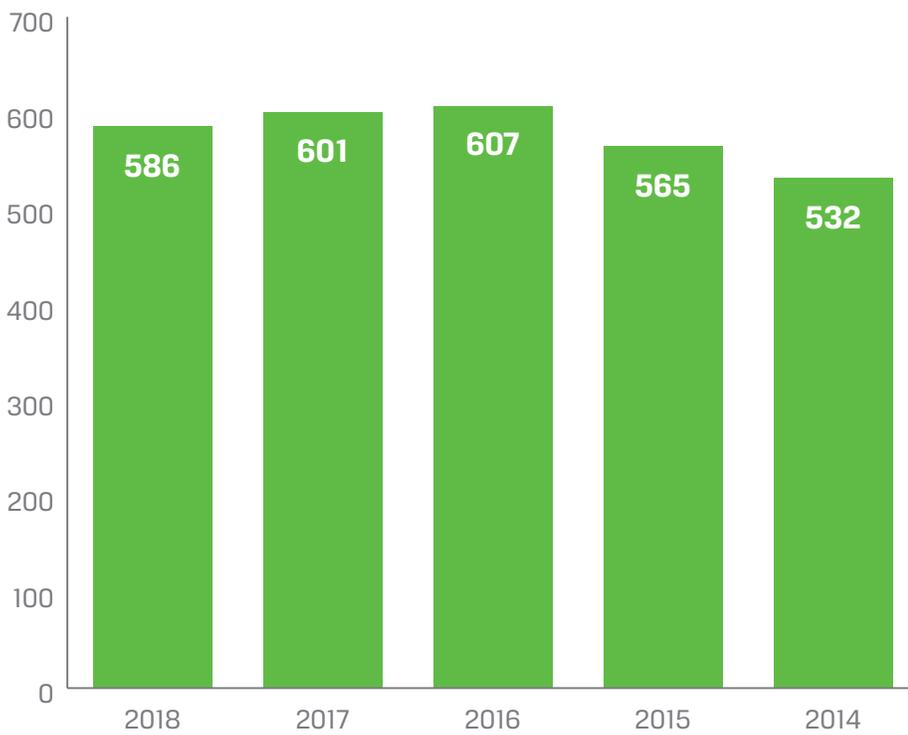
Our mission is enduring, and our strategy is purposefully designed to move us forward in delivering greater value to our members through our Societies 2.0 initiative and in having a greater impact within the investment management profession. Our commitments to continued collaboration with member societies, greater global brand awareness for the professional recognition of our members, and better end-user experiences via improvements to our IT and finance infrastructure are critical to the successful execution of our strategic plan.

In line with this plan, the CFA Institute management team is devoted to improving internal efficiency

and effectiveness. In the medium term, we remain committed to limiting headcount growth to a Board-approved total of 637. Through efficiency gains and by recruiting only for those positions deemed operationally critical, we have reduced headcount from FY2017 levels and are actively seeking to reallocate roles to our regional offices to execute our strategy locally. In FY2018, we conducted a reorganization, whereby 31 roles were repurposed and shifted to where they are most needed to ensure our organization is best positioned to meet the evolving needs of our stakeholders.

## TOTAL NUMBER OF CFA INSTITUTE STAFF

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# PERFORMANCE

## RISKS

CFA Institute supports a culture of informed risk awareness in pursuit of its strategic objectives and mission achievement. Our organization uses a formalized enterprise risk management process, which includes organization-wide emergency preparedness planning, that is designed to identify, evaluate, mitigate, and respond to potential risks that may affect the achievement of the organization's strategic objectives. These risks include, but are not limited to, those listed below.

### Compliance Risk

CFA Institute has members in more than 140 countries and administers the CFA Program exams in more than 90 countries worldwide. As the organization continues to expand, CFA Institute faces higher compliance risks and costs. Many jurisdictions in which we do business have less predictable or robust regulatory systems than those found in more mature markets, and we have increased our resources to meet this growing challenge. Key regulatory compliance matters addressed in 2018 included Foreign Non-Governmental Organizations and the Cybersecurity Law in China as well as the General Data Protection Regulation in the United Kingdom.

### Concentration of Business Risk

CFA Program exam fees and related revenue constitute approximately 85% of our annual total operating revenue. The number of candidates originating in APAC, and particularly those from China, continues to outpace those in other markets, creating a

significant concentration of testing revenue. This concentration, coupled with the complexity and sensitivity of the political and regulatory environment, poses a potential risk to our organization's financial stability should regulatory, geopolitical, or other forces disrupt the delivery of the CFA Program in the country or region. New CFA Level I candidate demand tends to be the most elastic in response to industry conditions, whereas candidates who have passed the CFA Level I exam, and thus have more effort and resources invested in the program, tend to exhibit less demand elasticity as they move through the remainder of the program. We continue to monitor the regulatory and geopolitical situation, adjusting mitigation and contingency strategies as necessary to ensure our ability to respond effectively in the event this risk is realized in whole or in part.

### Political/Macroeconomic Risk

CFA Institute is vulnerable, to varying degrees, to political or financial instability in various jurisdictions. This instability could generate negative short-term effects, such as disrupting a single exam administration or preventing purchases through restrictive capital controls. Negative long-term impacts could also result from political actions that restrict CFA Institute market access or the health of the local investment management industry. We continue to apply resources to monitor these potential disruptions to enable a prompt and appropriate response.

## Competitive Risk

Because the CFA charter is not required for investment practice in any jurisdiction (except the Philippines), regulators could potentially step in and create their own qualifying exam, which would occupy the field, making the CFA charter less attractive. In larger jurisdictions, this would result in a significant downturn in candidate enrollment and revenue.

## Exam Administration Disruption Risk

Disruptions to testing for reasons such as those outlined above (e.g., political upheaval, regulatory changes, strikes, and so forth), natural and unnatural disasters, or exposed test items could result in significant reputational damage and/or financial loss. Although we have mitigation strategies in place, we cannot control the number and type of exogenous events that might negatively affect exam administration. Our overarching crisis management program, which provides for response to adverse events up to and including disasters, maintains as the highest priority the safety of the CFA Institute community, which includes staff, visitors, volunteers, candidates attending our exams, and event attendees.

## Cybersecurity Risk

CFA Institute faces the same cyberrisks that now confront all businesses and organizations. To further strengthen our cyberdefense position, CFA Institute has increased its resources dedicated to monitoring for, mitigating, and responding to such threats. Despite our focus on intrusion detection systems, continuous monitoring, firewalls, and layered defenses, a cyberattack could result in system unavailability, lost proprietary information, exposed test items, or exposed personally identifying information about members, candidates, volunteers, employees, or others. Those adverse outcomes could also arise from system malfunctions or simple human error and vulnerabilities. Accordingly, CFA Institute expects to continue to strengthen and continuously improve its cyberdefense and information security programs.

## Financial Risk

Our organization's investments, cash and cash equivalents, and revenues and expenses are affected by fluctuations in market prices, interest rates, and foreign currency exchange rates, each of which could negatively affect our financial standing.

- **Investments:** Our short-term market risk is managed by investing in instruments that focus on capital preservation and liquidity and that maintain a minimum credit quality. Our long-term reserves are subject to an investment policy statement that is overseen and administered by a Board-led Investment Committee; it is approved annually by the CFA Institute Board of Governors.
- **Interest and Currency:** The variable interest expense associated with our Charlottesville, Virginia, facility is fixed through the use of an interest rate swap and therefore is not affected by interest rate fluctuations. The substantial majority of our global revenues and expenses are collected and disbursed in US dollars, the functional currency of the CFA Institute parent organization. Exposure to fluctuations in local currency rates are primarily related to operating expenditures for international CFA Institute office locations, which could affect the results of operations and cash flows. Foreign currency exposure is monitored on a periodic basis and reported annually to the Audit and Risk Committee.
- **Credit Risk:** CFA Institute maintains cash balances in global bank and financial institution accounts that exceed insured limits established by the US Federal Deposit Insurance Corporation and by other national deposit protection programs. To mitigate credit risk exposure, CFA Institute utilizes financially sound institutions and regularly maintains US maximum daily operating cash balances. Short-term excess operating cash is invested in US-government securities until needed. Global cash and short-term investment balances exceeding the deposit protection limits are subject to some degree of credit risk.

# PERFORMANCE

## Reputational Risk

The organizational reputation of CFA Institute can be damaged or negatively affected as a result of improper behavior or perceived improper behavior of the organization, its representatives, member societies, volunteers, or business partners, and by resulting negative media coverage or social media traffic. Management of key relationships with external stakeholders, brand management in news and social media outlets, and preparedness to respond to reputation-threatening events complement internal controls in mitigating this risk.

CFA Institute agreed to a settlement with the Department of Justice (DOJ) following an investigation into its practice of hiring some temporary exam graders from outside the U.S. It has agreed to pay a fine of US\$321,000 and does not admit liability.

CFA Institute cooperated fully with the DOJ during the course of their investigation into whether its hiring practices violated the Immigration and Nationality Act, while vigorously disputing the claim that CFA Institute discriminated against U.S. citizens.

The CFA charter is a global credential. Given the broad diversity of the people taking the exam, CFA Institute believes it is vital to have graders who reflect the diversity of the test takers and membership to ensure fairness in evaluation and grading of the exams, in particular when it comes to understanding and appreciating differences between the financial markets and systems of the many different countries where test takers live. Therefore, we hire a geographically diverse set of exam graders to assess the work of our candidates, who reside all over the world.

In hiring graders, CFA Institute has policies that set forth the need for graders to have global investment management expertise that can be applied in the grading of approximately 35,000 essay exams every year. We do not believe in hiring graders that we discriminated against anyone on the basis of citizenship in this process. CFA Institute settled with the DOJ to resolve this matter in the interest of avoiding protracted litigation.



# GOVERNANCE

## GOVERNANCE

The Board of Governors is the highest governing authority of CFA Institute and is responsible for defining the organization's mission, vision, and strategies. The Board works in conjunction with the CFA Institute Leadership Team, which comprises the president and CEO and other executives who manage divisions within CFA Institute. In keeping with our goals of promoting accountability and integrity in financial markets, we strive to communicate our mission, strategies, and operations as clearly and openly as possible. Governors and other member-volunteers fill a variety of roles critical to the governance of CFA Institute, including active participation on the committees described below.

Detailed information with respect to our directors and executive officers, the Code of Ethics, and Audit and Risk Committee member qualifications is included in our 2019 Proxy Statement, to be filed sixty (60) days before the Annual Meeting of Members scheduled for 10 May 2019. Additional information, including committee rosters and biographies, can be found within the [Governance](#) section of our website.

### Audit and Risk Committee

The Audit and Risk Committee assists the Board of Governors in the fulfillment of its functions with respect to the CFA Institute financial statements and our organization's financial condition and risk management by

- overseeing the CFA Institute financial and audit systems for financial integrity,

- overseeing the CFA Institute process for monitoring compliance as it relates to financial integrity,
- evaluating and providing oversight of the monitoring of CFA Institute risks, and
- evaluating the independence and qualifications of the independent auditor.

Governance standards are determined by the state law and corporate codes of Virginia (United States). Recognizing the prominence of CFA Institute as a professional body, and the expectations of our members and other stakeholders, we also follow other governance and disclosure best practice enhancements when practicable.

The Audit and Risk Committee's role is one of oversight. Management is responsible for preparing the CFA Institute financial statements, and for risk assessment and risk management. The independent auditor is responsible for auditing the annual financial statements. The Board and the Audit and Risk Committee recognize that management and the independent auditor have more time, knowledge, and detailed information about the organization than do committee members. The committee therefore relies on the reviews and reports provided by management, and does not provide any expert assurance as to the financial statements or any certification as to the work of any auditor. As appropriate, the committee may challenge the reviews and reports to enhance the organization's overall risk management.

## CEO Search Committee

The CEO Search Committee carries out the responsibilities delegated to it by the Board of Governors regarding the succession process. The committee is charged with recommending the next president and CEO of CFA Institute for appointment by the Board.

## Compensation Committee

The Compensation Committee carries out the responsibilities delegated to it by the Board of Governors relating to the oversight of compensation policies and programs; review of compensation and all related plans, policies, and programs of the executive officers of CFA Institute; review and determination of compensation of the CFA Institute president and CEO, chief legal officer, and chief compliance risk and ethics officer; and consideration of and action on matters pertaining to management succession in accordance with and subject to the CFA Institute Bylaws (which may be amended from time to time). The term executive officers refers to the officers and managing directors in the positions for which compensation disclosure is included in the annual proxy statement to members.

## Executive Committee

The Executive Committee assists the Board of Governors in the orderly and fair governance of CFA Institute by, among other duties, acting on behalf of the Board within the scope of the committee's authority, and overseeing the functions, operations, and activities of the Board and its committees.

## Investment Committee

The Investment Committee carries out the responsibilities delegated to it by the Board of Governors regarding the strategic direction and oversight of the CFA Institute financial reserves, with the objective of protecting the financial position of CFA Institute and supporting its mission and goals.

## Nominating Committee

The Nominating Committee fairly and objectively seeks and nominates qualified candidates for election to the Board of Governors. The committee is established by the CFA Institute Bylaws to carry out the responsibilities delegated to it by the Board of Governors relating to the processes and procedures for governor nominations, in accordance with and subject to the bylaws (which may be amended from time to time). The committee's charge is to

- identify, vet, and nominate qualified candidates for governor and officer positions of CFA Institute; and
- support the CFA Institute leadership position in the investment profession by recognizing individuals whose achievements, examples, or contributions have helped raise the standards of education, integrity, and professional excellence.

## CFA Society Partnership Advisory Council

The CFA Society Partnership Advisory Council was established by the Board of Governors to assist CFA Institute with the following matters related to CFA member societies:

- Facilitate the alignment between CFA Institute and member societies that is critical to advancing our mission globally and delivering value to our members.
- Establish a unified voice on member society-related matters to represent member society interests to the Board.
- Ensure continued strength in the relationships among CFA Institute, the Presidents Council, and member societies.
- Provide feedback and guidance on CFA member society business to the Board of Governors, the Presidents Council, CFA Institute staff, and member societies.

# GOVERNANCE

## LINKS TO KEY DOCUMENTS

- [CFA Institute Articles of Incorporation and Bylaws](#), as amended and restated 13 June 2018
- [Code of Conduct for CFA Institute Governors](#), as of 20 July 2018
- [Conflict of Interest Policy](#), as of 20 July 2018

## Principal Accounting Fees and Services

Information with respect to principal accounting fees and services is included in our 2019 Proxy Statement, to be filed sixty (60) days before the Annual Meeting of Members scheduled for 10 May 2019.





# ACCOMPANYING CONSOLIDATING INFORMATION

## INDEPENDENT AUDITOR'S REPORT AND AUDITED FINANCIAL STATEMENTS

# **CFA Institute**

**Consolidated Financial Statements  
and Accompanying Consolidating Information  
As of 31 August 2018 and 2017  
and Independent Auditor's Report**

# CFA Institute

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## Report of Independent Auditors

To the Board of Governors of CFA Institute:

We have audited the accompanying consolidated financial statements of CFA Institute and its subsidiaries, which comprise the consolidated balance sheets as of August 31, 2018 and August 31, 2017, and the related consolidated statements of activities and of cash flows for the years then ended.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Company'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 Company'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, 2018 and August 31, 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

McLean, Virginia  
December 12, 2018

**CFA Institute**  
**Consolidated Statements of Financial Position**  
**As of 31 August 2018 and 2017**

(in thousands)

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 89,647	\$ 90,528
Investments, at fair value	2,988	—
Accounts receivable, net	984	1,403
Derivative contracts	74	—
Prepaid expenses and other assets	15,514	15,000
Publication inventory	1,596	1,594
Restricted cash	2	2
Total current assets	<u>110,805</u>	<u>108,527</u>
<b>Non-current assets</b>		
Investments, at fair value	443,549	401,027
Derivative contracts	583	—
Prepaid expenses and other assets	3,283	3,323
Property and equipment, net	42,274	42,034
Intangibles, net	23,156	16,181
Total non-current assets	<u>512,845</u>	<u>462,565</u>
<b>Total assets</b>	<u>\$ 623,650</u>	<u>\$ 571,092</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 20,313	\$ 20,145
Deferred revenue	157,215	151,446
Employee-related liabilities	19,827	17,008
Funds held for others	4,209	8,399
Derivative contract	—	125
Notes payable	1,400	1,360
Interest payable	15	15
Total current liabilities	<u>202,979</u>	<u>198,498</u>
<b>Non-current liabilities</b>		
Accounts payable and accrued liabilities	1,386	599
Deferred revenue	50,561	44,880
Employee-related liabilities	1,962	1,859
Derivative contract	—	79
Notes payable	15,765	17,169
Total non-current liabilities	<u>69,674</u>	<u>64,586</u>
<b>Total liabilities</b>	<u>272,653</u>	<u>263,084</u>
<b>Net assets</b>		
Unrestricted		
Undesignated	333,572	291,054
Designated	1,322	1,423
Non-controlling interests	16,103	15,531
<b>Total net assets</b>	<u>350,997</u>	<u>308,008</u>
<b>Total liabilities and net assets</b>	<u>\$ 623,650</u>	<u>\$ 571,092</u>

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

**CFA Institute**  
**Consolidated Statements of Activities**  
**For the Years Ended 31 August 2018 and 2017**

(in thousands)

	<u>2018</u>	<u>2017</u>
<b>Change in net assets</b>		
Operating revenues		
Credentialing programs	\$ 308,530	\$ 266,582
Member value programs	46,664	45,064
Industry engagement and other	451	672
Contributions	634	309
Total operating revenues	<u>356,279</u>	<u>312,627</u>
Operating expenses		
Program services		
Credentialing programs	97,453	86,132
Member value programs	103,879	89,733
Industry engagement	14,589	15,579
Services delivery	9,358	10,891
Scholarships – 11 September Memorial Fund	85	79
Support services		
Information technology	37,499	35,315
Financial operations	22,078	14,652
Facility operations	12,768	11,148
Legal and board services	9,084	8,991
Executive and regional operations	8,808	8,169
Human resources	7,757	6,547
Compliance, risk & ethics	6,021	4,550
Content engagement and publishing	1,399	5,644
Travel support and event management	3,514	3,483
Fundraising	8	13
Other support services	1,890	2,931
Total operating expenses	<u>336,190</u>	<u>303,857</u>
Income from operations	20,089	8,770
Realized gains, interest and dividends (net)	14,538	10,557
Change in net assets from operations	<u>34,627</u>	<u>19,327</u>
Other changes		
Unrealized gains on investments	9,147	23,171
Capital contributions – non-controlling interests	—	2,589
Return of capital – non-controlling interests	(138)	(120)
Unrealized gain on derivative contract	861	783
Non-operating expense - other	(1,508)	—
<b>Change in net assets</b>	<u>42,989</u>	<u>45,750</u>
Net assets, beginning of year	308,008	262,258
Net assets, end of year	<u>\$ 350,997</u>	<u>\$ 308,008</u>

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

**CFA Institute**  
**Consolidated Statements of Cash Flow**  
**For the Years Ended 31 August 2018 and 2017**

(in thousands)

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of change in net assets to net cash</b>		
Change in net assets	\$ 42,989	\$ 45,750
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	10,148	7,918
Losses on disposition of fixed assets	223	1,137
Unrealized gains on investments	(9,147)	(23,171)
Realized gains on investments	(2,158)	(23)
Unrealized gains on derivative contracts	(861)	(783)
Capital contributions – non-controlling interests	—	(2,589)
Return of capital – non-controlling interests	138	120
Changes in:		
Accounts receivable	419	(505)
Prepaid expenses and other assets	(573)	(2,681)
Publication inventory	(2)	(230)
Restricted cash	—	62
Accounts payable and accrued liabilities	935	2,325
Deferred revenue	11,450	24,620
Employee related liabilities	2,922	1,139
Funds held for others	(4,190)	4,308
Interest payable	—	1
Net cash provided by operating activities	<u>52,293</u>	<u>57,398</u>
<b>Cash flows used in investing activities</b>		
Purchases of property and equipment	(2,897)	(2,560)
Proceeds from property and equipment	5	—
Purchases of intangible assets	(14,576)	(8,787)
Purchases of investments	(107,769)	(104,582)
Proceeds from investments	73,565	89,433
Net cash used in investing activities	<u>(51,672)</u>	<u>(26,496)</u>
<b>Cash flows provided by (used in) financing activities</b>		
Loan repayments	(1,364)	(1,325)
Capital contributions – non-controlling interests	—	2,589
Return of capital – non-controlling interests	(138)	(120)
Net cash provided by (used in) financing activities	<u>(1,502)</u>	<u>1,144</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(881)	32,046
Cash and cash equivalents, beginning of year	90,528	58,482
<b>Cash and cash equivalents, end of year</b>	<u>\$ 89,647</u>	<u>\$ 90,528</u>

*The accompanying notes are an integral part of these 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 169,000 members, as well as 151 member societies around the world. CFA Institute also administers the Certificate in Investment Performance Measurement (CIPM®) Program. CFA Institute administers the CFA Institute Investment Foundations™ certificate program (formerly known as the Claritas® Investment Certificate) and has awarded more than 17,000 certificates since the inception of the program. 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-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 two representative offices located in the People's Republic of China—one in Beijing and one in Shanghai. CFA Institute China and its two representative offices 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-controlled 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.

**CFA Institute**  
**Notes to Consolidated Financial Statements**  
**31 August 2018 and 2017**

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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. This conveyance of the interest in CMT created a Variable Interest Entity (VIE) as CFA Institute maintained control of the entity despite substantially all of the activities being performed on the behalf of a third party. However, Holdings, a wholly-owned subsidiary of CFA Institute, consolidates both HUB and CMT, as the managing member and primary beneficiary, respectively (see Note 2, Consolidation).

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 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

**CFA Institute**  
**Notes to Consolidated Financial Statements**  
**31 August 2018 and 2017**

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HUB given that CFA Institute maintains a controlling financial interest in the entities. All intercompany transactions and balances have been eliminated in consolidation.

**Use of estimates**

The preparation of 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 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. Realized gains and losses and income from investments are reported separately and are included in the change in net assets from operations. Unrealized gains and losses on investments are reported as other changes in net assets. Changes in temporarily restricted net assets are also reported as other changes in net assets.

**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 four categories: unrestricted, temporarily restricted, permanently restricted, and non-controlling interests. Contributions to the Foundation are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions to the Foundation with donor restrictions are recorded as temporarily restricted or permanently restricted depending on the nature of the restrictions.

Temporarily restricted net assets are contributions with donor-imposed program restrictions. Temporarily restricted net assets become unrestricted when the funds are used for their restricted purposes and are reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted contributions, whose restrictions are satisfied in the same fiscal year that the contributions are received, are reported in the consolidated statements of activities as both temporarily restricted contributions and as net assets released from restrictions. As of 31 August 2018 and 2017, CFA Institute had no temporarily restricted net assets.

Permanently restricted net assets represent donor-restricted endowments to be held in perpetuity. Investment income from both temporarily and permanently restricted net assets is recorded as unrestricted income unless otherwise restricted by the donor. As of 31 August 2018 and 2017, CFA Institute had no permanently restricted net assets.

**CFA Institute**  
**Notes to Consolidated Financial Statements**  
**31 August 2018 and 2017**

Net assets include an element of non-preferred, non-controlling equity interests related to Charlottesville Building Operations. The consolidated schedule of changes in net assets is as follows (in thousands):

	CFA Institute	Non-controlling interests	Consolidated
Balance as of 31 August 2017	\$ 292,477	\$ 15,531	\$ 308,008
Change in net assets from operations	33,917	710	34,627
Unrealized gains on investments	9,147	—	9,147
Distributions	—	(138)	(138)
Unrealized gain on derivative contract	861	—	861
Non-operating expense - other	(1,508)	—	(1,508)
Balance as of 31 August 2018	<u>\$ 334,894</u>	<u>\$ 16,103</u>	<u>\$ 350,997</u>

**Designated net assets**

In 1986, the Association for Investment Management and Research (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. 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 net assets—designated.

The Scholarship Fund is recorded as an unrestricted, designated net asset. Contributions by CFA Institute to the Foundation for the Scholarship Fund are recorded as unrestricted, and so designated in both the Foundation’s stand-alone financial statements and the consolidated financial statements of CFA Institute.

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 statements of financial position.

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

	2018	2017
ICFA contribution	\$ 950	\$ 950
11 September Memorial Fund	297	383
Unpaid research grants	75	90
Total designated net assets	<u>\$ 1,322</u>	<u>\$ 1,423</u>

**Contributed services**

CFA Institute receives contributed services from member volunteers for contributions of their time 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. CFA Institute has not recorded the value of the contribution of member volunteers’ time as the donated time does not create a material non-financial asset or require specialized skill that typically would need to be purchased in the absence of the donation.

**Reclassifications**

There are no reclassifications in 2018.

In 2017, distributions of \$247,000 to a third-party equity investor were reclassified from the unrestricted, undesignated net assets line item in the net assets section of the consolidated statement of financial position to the non-controlling interests line item in the net assets section of the consolidated statement of financial

position. This reclassification results in no changes to the consolidated statements of activities and to the consolidated statements of cash flow.

**Cash flow reporting**

The consolidated statements of cash flow are prepared using the indirect method.

In order to eliminate undue costs and efforts related to the preparation of the consolidated statement of cash flows under the direct method while still providing equivalent value and information to the users of the financial statements, CFA Institute began preparing the consolidated statement of cash flows using the indirect method during the year ended 31 August 2018. As such, the consolidated statement of cash flows for the year ended 31 August 2018 has been presented under the indirect method.

**Cost classification**

Operating expenses are classified as either program services or support services. Program services are those operating expenses that directly advance the mission of CFA Institute. Support services are administrative costs that are not allocated among program services.

**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 stated at the lower of cost or market determined by the first-in, first-out method.

**Restricted cash**

Restricted cash is classified as either current or non-current, depending on whether its use is restricted for greater than twelve months. The cash may be collateral for bank-issued letters of credit, escrowed deposits, or Office of Foreign Assets Control (OFAC) restricted receipts and has withdrawal restrictions. Income earned from these funds is unrestricted and available for company use.

**Derivative contract**

CFA Institute is subject to risk from potential increases in interest rates associated with notes 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.

**CFA Institute**  
**Notes to Consolidated Financial Statements**  
**31 August 2018 and 2017**

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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 \$17,165,021, as of 31 August 2018, 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 is in a net asset position with a fair value of \$657,000 as of 31 August 2018 and a net liability position with a fair value of \$204,000 as of 31 August 2017.

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 gain in the consolidated statements of activities and was \$861,000 and \$783,000 for the years ended 31 August 2018 and 2017, 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

**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 enrollment and examination fees are included in deferred revenue on the accompanying consolidated statements of financial position (see Revenue paragraph below).

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.

Revenue from non-members for subscriptions to the *Financial Analysts Journal* is credited to income over the term of the subscriptions. Subscription terms range from one to three years. Deferred program revenue represents income collected for subsequent fiscal year events.

**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 statements of financial position. As of 31 August 2018 and 2017, the gross medical claims liability consisted of claims incurred but not reported of \$399,000 and \$358,000, respectively, and claims paid by a third party administrator and not yet paid by CFA Institute of \$83,000 and \$279,000, respectively, resulting in a medical claims liability of \$482,000 and \$637,000, 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 fees, member dues, and educational product sales. Revenue is recognized at the time in which it is both realized or realizable and has been earned.

One-time candidate enrollment fees, included in credentialing programs on the accompanying consolidated statements of activities, are recognized as revenue pro rata over three years which equals the estimated average time a candidate participates in the CFA Program. To align with the expected period of performance, a full year of revenue is recognized in the first year for enrollment fees related to the December exam (given in the first half of the fiscal year), and a half year of revenue is recognized in the first year for enrollment fees related to the June exam (given in the latter half of the fiscal year).

CFA Program and CIPM Program examination fees included in operating revenue from credentialing programs in the accompanying consolidated statements of activities are recognized as revenue when the candidate sits for the respective examinations. 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.

CFA Institute Investment Foundations certificate examination fees are included in deferred revenue as either a two-year voucher or a six-month registration. Revenue related to vouchers is recognized when used or upon expiration or cancellation thereof. When a voucher is exercised, or a registration is purchased, the curriculum portion of deferred revenue is recognized immediately and included in credentialing programs in the accompanying consolidated statements of activities. The registration portion of examination fees is recognized when the registrant sits for the exam, or upon expiration or cancellation of the registration and is included in credentialing programs in the accompanying consolidated statements of activities. Beginning in fiscal year 2019, the CFA Institute Investment Foundation exam will be administered free-of-charge. As a result of this decision, CFA Institute has issued a refund to all candidates registered for Investments Foundations as of September 4, 2019. The refund of outstanding registrations resulted in recognition of a current payable of \$614,000 for the year ended 31 August 2018.

Credentialing programs, as reflected on the consolidated statements of activities, are net of CFA and CIPM certificate examination scholarships awarded in the amount of \$7,294,000 for the year ended 31 August 2018 and \$6,051,000 for the year ended 31 August 2017. These scholarship awards are separate and distinct from the scholarships awarded by the 11 September Memorial Scholarship Fund (see Note 10).

Member dues are recognized as revenue on a pro-rata basis over the membership year.

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**Grants**

CFA Institute makes grants to various organizations where such funding supports its mission. For the years ended 31 August 2018 and 2017, CFA Institute provided direct operational, growth and partnership funding in the amount of \$13,631,000 and \$11,585,000, 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 and funding provided includes society leader training; increasing engagement with stakeholders; and collecting and remitting society dues and events.

As of 31 August 2018 and 2017, current accounts payable and accrued liabilities included accrued grants in the amount of \$1,124,000 and \$995,000, respectively.

**Advertising costs**

Advertising costs are expensed as incurred. Total advertising expense was \$15,818,000 and \$12,613,000 for the years ended 31 August 2018 and 2017, 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 \$151,000 and \$178,000 for the years ended 31 August 2018 and 2017, respectively. The Foundation had no unrelated business income for the years ended 31 August 2018 and 2017, 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 \$997,000 and \$955,000 in taxable income for the periods ended 31 December 2017 and 2016, respectively. Federal income tax estimated payments made by Holdings were \$333,000 and \$349,000 for the years ended 31 August 2018 and 2017, respectively.

**Interest costs**

CFA Institute incurred interest costs for the note payable of \$519,000 and \$559,000 for the years ended 31 August 2018 and 2017, respectively. No portion of interest expense for either period presented has been capitalized.

**New accounting pronouncements adopted**

On 1 September 2017, CFA Institute adopted Accounting Standards Update (ASU) No. 2017-02, *Not-for-Profit Entities-Consolidation, Clarifying When a Not-For-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*. The new guidance clarifies the consolidation guidance for Not-For-Profits by retaining the consolidation guidance that existed prior to the issuance of ASU 2015-02, *Consolidation*. As the ASU retained current accounting requirements, there is no adoption impact on either the current or prior period consolidated financial statements.

On 1 September 2017, CFA Institute adopted ASU No. 2015-07, *Fair Value Measurement*. The new guidance removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using the practical expedient of net assets value (NAV). As a result of adopting the ASU, CFA

Institute has removed one investment valued at NAV via the practical expedient from the fair value hierarchy. The estimated fair market value of this investment is \$16,986,000 and \$19,084,000 for the fiscal years ended 31 August 2018 and 2017, respectively.

**New accounting pronouncements issued but not adopted**

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 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 November 2016, the FASB issued 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. CFA Institute is required to adopt the ASU on 1 September 2019. CFA Institute maintains a low restricted cash balance and does not expect a material impact upon adoption of the ASU.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments*. The new guidance provides clarification on eight specific cash flow issues on which there has been diversity in practice regarding presentation and classification on the statement of cash flows. CFA Institute is required to adopt the ASU on 1 September 2019, with early application permitted. CFA Institute is evaluating the impact of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities, Presentation of Financial Statements of Not-For-Profit Entities*. The new guidance primarily reduces the number of asset classes on the statement of financial position from three to two-assets with donor restrictions and assets without donor restrictions. Additionally, the ASU requires any change between asset classes to be presented on the face of the statement of activities. CFA Institute is required to adopt this ASU on 1 September 2018, with early adoption permitted. As CFA Institute provides consolidated financial statements on an annual basis, it is still fully evaluating the presentation impact of adopting the standard.

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 2021 but expects minimal impact 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 2020, with early adoption permitted. CFA Institute is evaluating the impact of the guidance on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions require investments in equity securities to be measured at fair value through change in net assets. If an equity investment does not have a readily determinable fair value it may be recognized at cost minus impairment, if any, and must be adjusted

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for any changes in observable price changes occurring in orderly transactions. CFA Institute is required to adopt the ASU on 1 September 2019. CFA Institute currently recognizes changes in the fair value of its equity investments in the statement of activities and does not expect any material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The new revenue recognition 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 the ASU, revenue is recognized based the explicit or implicit performance obligations within each revenue generating contract and is recognized when each specific performance obligation has been satisfied. CFA Institute is required to adopt the ASU on 1 September 2019. CFA Institute is evaluating both the recognition timing and amount for each revenue stream in order to determine the impact on the consolidated financial statements.

**3. Accounts receivable**

Accounts receivable as of 31 August 2018 and 2017 consist of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 1,039	\$ 1,598
Allowance for bad debt	(55)	(195)
Total accounts receivable	<u>\$ 984</u>	<u>\$ 1,403</u>

**4. Investments**

Investments, at fair value (see Note 5) as of 31 August 2018 and 2017 consist of the following (in thousands):

	<u>2018</u>	<u>2017</u>
CFA Institute	\$ 431,278	\$ 386,791
The Foundation – Endowment	14,975	13,869
The Foundation – The Scholarship Fund	284	367
Total investments	<u>\$ 446,537</u>	<u>\$ 401,027</u>

As of 31 August 2018 and 2017, 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.

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

	2018		2017	
	Fair value	Cost	Fair value	Cost
Global equity	\$ 208,807	\$ 141,625	\$ 192,510	\$ 142,357
Global fixed-income	118,955	124,533	103,229	104,069
Inflation-protected securities	51,859	51,628	44,128	42,617
High-yield corporate bonds	21,346	21,691	19,237	18,888
Emerging market debt	16,986	17,400	19,084	17,500
US government securities	3,271	3,271	367	367
Global real estate investment trusts	16,581	14,908	14,952	13,091
Other real assets	8,732	7,550	7,520	7,360
Total investments	<u>\$ 446,537</u>	<u>\$ 382,606</u>	<u>\$ 401,027</u>	<u>\$ 346,249</u>

No investments have been recognized as other-than-temporarily impaired as of 31 August 2018 or 2017.

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

	2018	2017
Realized gains (losses)		
Global equity	\$ 2,159	\$ 10
Global fixed-income	—	5
Emerging market debt	(1)	8
Total realized gains (losses) (net)	<u>2,158</u>	<u>23</u>
Interest and dividends		
Global equity	4,432	4,061
Global fixed-income	3,323	2,889
Global real estate investment trusts	728	591
High-yield corporate bonds	1,109	1,021
Inflation-protected securities	1,564	1,563
Other real assets	189	158
US government securities	977	238
Other	58	13
Total interest and dividends	<u>12,380</u>	<u>10,534</u>
Total realized gains, interest and dividends (net)	<u>14,538</u>	<u>10,557</u>
Unrealized gains (losses)		
Global equity	17,029	24,502
Global fixed-income	(4,737)	(2,181)
Emerging market debt	(1,998)	1,584
Global real estate investment trusts	(188)	57
Other real assets	1,022	196
High-yield corporate bonds	(695)	349
Inflation-protected securities	(1,281)	(1,333)
US government securities	(5)	(3)
Total unrealized gains (net)	<u>9,147</u>	<u>23,171</u>
Investment gains, interest and dividends (net)	<u>\$ 23,685</u>	<u>\$ 33,728</u>

Description of major investments that represent more than 5% of total investments as of 31 August 2018:

- a. Vanguard Total Stock Market Index Fund Institutional Shares (included in global equity)-Seeks to track the performance of an index that measures the investment return of the U.S. equity market. Invests in over 3,600 stocks, including large-, mid-, and small-cap stocks regularly traded on the NYSE and NASDAQ.
- b. Vanguard Total International Stock Index Fund Institutional Shares (included in global equity)-Seeks to track the performance of an index that measures the investment return of stocks issued by companies located in major developed and emerging equity markets, excluding the US. The fund invests in more than 6,000 stocks.
- c. Vanguard Total Bond Market Index Fund Institutional Shares (included in global fixed-income)-Seeks to track the performance of a broad, market-weighted bond index. Invests in over 8,500 bonds, including a wide spectrum of public, investment-grade, taxable, fixed-income securities in the US with maturities of greater than one year.
- d. Vanguard Inflation-Protected Securities Fund Institutional Shares (included in inflation-protection securities)-Seeks to provide investors with inflation protection and income consistent with investment in inflation-indexed securities. Invests primarily in high-quality inflation-indexed bonds issued by the US Treasury, government agencies, and domestic corporations. The fund invests in over 50 bonds.
- e. Vanguard Intermediate-Term Investment Grade Shares (included in global fixed-income)-Seeks to provide investors with a moderate and sustainable level of current income. Invests in a variety of high-quality and, to a lesser extent, medium-quality fixed income securities. The fund invests in over 1,800 bonds.
- f. Vanguard FTSE Social Index Shares (included in global equity)-Seeks to track the performance of an index that measures the investment returns of large- and mid-capitalization stocks. The fund invests in over 400 holdings that have been screened for certain social and environmental criteria.

## **5. Fair value measurements**

Fair market 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 market 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.

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The following tables present information about assets and liabilities subject to measurement at fair value on a recurring basis as of 31 August 2018 and 2017 (in thousands):

	Fair value as of 31 August 2018	Fair value measurements as of 31 August 2018 using:		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Global equity	\$ 208,806	\$ 208,806	\$ —	\$ —
Global fixed-income	118,955	118,955	—	—
Inflation-protected securities	51,859	51,859	—	—
High-yield corporate bonds	21,346	21,346	—	—
US government securities	3,272	3,272	—	—
Global real estate investment trusts	16,581	16,581	—	—
Other real assets	8,732	8,732	—	—
Emerging market debt (NAV)	16,986	—	—	—
Investments, at fair value	446,537	429,551	—	—
Mutual funds - IRC § 457 accounts	1,962	1,962	—	—
Derivative contract	657	—	657	—
<b>Liabilities</b>				
Notes payable	(16,366)	—	(16,366)	—
Deferred compensation (see Note 11)	(1,962)	(1,962)	—	—
Net assets and liabilities subject to fair value measurement	\$ 430,828	\$ 429,551	\$ (15,709)	\$ —

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	Fair value as of 31 August 2017	Fair value measurements as of 31 August 2017 using:		
		Level 1	Level 2	Level 3
<b>Assets</b>				
Global equity	\$ 192,510	\$ 192,510	\$ —	\$ —
Global fixed-income	103,229	103,229	—	—
Inflation-protected securities	44,128	44,128	—	—
High-yield corporate bonds	19,237	19,237	—	—
US government securities	367	367	—	—
Global real estate investment trusts	14,952	14,952	—	—
Other real assets	7,520	7,520	—	—
Emerging market debt (NAV)	19,084	—	—	—
Investments, at fair value	401,027	381,943	—	—
Mutual funds - IRC § 457 accounts	1,859	1,859	—	—
<b>Liabilities</b>				
Notes payable	(17,356)	—	(17,356)	—
Deferred compensation (see Note 11)	(1,859)	(1,859)	—	—
Derivative contract	(204)	—	(204)	—
Net assets and liabilities subject to fair value measurement	\$ 383,467	\$ 381,943	\$ (17,560)	\$ —

**6. Property and equipment**

Property and equipment, including construction in progress, as of 31 August 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Land	\$ 3,487	\$ 3,487
Buildings	36,427	36,267
Computer hardware and equipment	13,204	13,430
Furniture and fixtures	4,690	4,218
Leasehold improvements	6,679	4,914
Total property and equipment	64,487	62,316
Accumulated depreciation and amortization	(22,213)	(20,282)
Property and equipment, net	\$ 42,274	\$ 42,034

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Construction in progress, included in the schedule above, as of 31 August 2018 and 2017 consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Land and buildings	\$ 4	\$ —
Computer hardware and equipment	39	85
Furniture and fixtures	26	13
Leasehold improvements	95	98
Total construction in progress	<u>\$ 164</u>	<u>\$ 196</u>

Depreciation expense was \$2,869,000 and \$3,147,000 for the years ended 31 August 2018 and 2017, respectively.

Property and equipment assets of \$1,165,000 and \$2,401,000 were disposed during the years ended 31 August 2018 and 2017, respectively. Loss on disposition of property and equipment assets were \$223,000 and \$195,000 for the years ended 31 August 2018 and 2017, respectively and are shown in other support services on the consolidated statements of activities.

**7. Intangibles**

Intangibles, including work in process, as of 31 August 2018 and 2017 consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Computer software (developed)	\$ 47,648	\$ 34,547
Computer software (website development)	8,856	8,856
Computer software (packaged)	8,176	8,187
Other intangibles	5,044	3,881
Total intangibles	69,724	55,471
Accumulated amortization	(46,568)	(39,290)
Intangibles, net	<u>\$ 23,156</u>	<u>\$ 16,181</u>

Work in process, included in the schedule above, as of 31 August 2018 and 2017 consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Computer software (developed)	\$ 8,600	\$ 5,028
Computer software (packaged)	325	343
Other intangibles	330	291
Total work in process	<u>\$ 9,255</u>	<u>\$ 5,662</u>

Amortization expense was \$7,279,000 and \$4,771,000 for the years ended 31 August 2018 and 2017, 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

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internet domain. Total amortization expense for other intangibles was \$952,000 and \$685,000 for the years ended 31 August 2018 and 2017, respectively.

Intangible software assets of \$2,000 and \$1,178,000 were disposed during the years ended 31 August 2018 and 2017, respectively. Loss on disposition of intangible assets were \$0 and \$942,000 for the years ended 31 August 2018 and 2017, respectively and are shown in other support services on the consolidated statements of activities.

For the following fiscal years, future intangible amortization is as follows (in thousands):

	Intangible amortization
2019	\$ 6,442
2020	5,175
2021	2,204
2022	19
2023	19
Thereafter	35
Total intangible amortization	<u>\$ 13,894</u>

**8. Commitments and contingencies**

CFA Institute has entered into various operating leases with original terms ranging from one to fourteen years that expire on various dates through September 2030. These operating leases cover office space and temporary residential apartments in various cities in which the company 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 \$7,070,000 and \$5,613,000 for the years ended 31 August 2018 and 2017, respectively.

On 1 July 2011, CFA Institute entered into an agreement to purchase and license copyrighted materials. Pursuant to that agreement, CFA Institute is committed to revenue-based share payments for derivative works incorporating those materials, for a period of fifteen years which began 1 July 2012.

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For the following fiscal years, future minimum payments under these agreements at 31 August 2018 are as follows (in thousands):

	Lease payments	Revenue sharing	Total
2019	\$ 5,562	\$ 100	\$ 5,662
2020	5,237	—	5,237
2021	4,491	—	4,491
2022	2,115	—	2,115
2023	1,538	—	1,538
Thereafter	6,375	—	6,375
Total future minimum payments	<u>\$ 25,318</u>	<u>\$ 100</u>	<u>\$ 25,418</u>

The Foundation awards grants to individuals subject to completion of their respective research projects. Unpaid grants, subject to this condition, totaled \$75,000 and \$90,000 as of 31 August 2018 and 2017, 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, participants become fully vested after one year of service. Employee contributions are always 100% vested. Plan oversight is the responsibility of the Chief Human Resources Officer (CHRO), 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 CHRO 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-two mutual fund alternatives offered by the plan. Contribution expense for the 401(k) Plan totaled \$6,574,000 and \$6,236,000 for the years ended 31 August 2018 and 2017, respectively. Plan forfeitures of \$9,000 and \$129,000 were netted against contribution expenses for the years ended 31 August 2018 and 2017, respectively. CFA Institute accrues for incentive compensation and the related 401(k) contribution. Accruals for the related 401(k) contribution of \$791,000 and \$770,000 were made for the years ended 31 August 2018 and 2017, respectively.

In Europe, employees are enrolled in relevant plans as mandated by local statutes. In the United Kingdom, CFA Institute provides a retirement program consisting of a Group Stakeholder Pension Plan, a defined contribution plan. Contribution expense totaled \$506,000 and \$372,000 for the years ended 31 August 2018 and 2017, respectively.

In the Asia Pacific region, employees are enrolled in relevant retirement fund schemes as mandated by the local registrations. For our Hong Kong office, employees are enrolled in the mandatory provident fund (MPF) scheme. Contribution expense totaled \$907,000 and \$857,000 for the years ended 31 August 2018 and 2017, respectively. Accruals for contributions to the related MPF scheme of \$441,000 and \$416,000 were made for the years ended 31 August 2018 and 2017, respectively.

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**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.

Contributions to the Scholarship Fund, which is a twenty-year, self-liquidating fund, are recorded as temporarily restricted, except for the contribution from CFA Institute. The contribution by CFA Institute is an unrestricted net asset 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 \$85,000 and \$79,000 for the years ended 31 August 2018 and 2017, respectively. CFA Institute contributed \$18,000 and \$17,000 to cover operating expenses of the Scholarship Fund for the years ended 31 August 2018 and 2017, respectively.

The activity in the Scholarship Fund for the years ended 31 August 2018 and 2017 was as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Designated net assets, beginning of year	\$ 383	\$ 461
Realized gains, interest, and dividends (net)	5	12
Unrealized losses on investments	(6)	(11)
Scholarships awarded	<u>(85)</u>	<u>(79)</u>
Designated net assets, end of year	<u>\$ 297</u>	<u>\$ 383</u>

**11. Deferred compensation**

CFA Institute maintains a deferred compensation program for participating key employees. Liabilities for the deferred compensation program of \$1,962,000 and \$1,859,000 were recorded for the years ended 31 August 2018 and 2017, 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 are financed by a 16.5 year term note, maturing March, 2029, with an original amount of \$22,900,000 and a remaining balance of \$17,165,000 as of 31 August 2018, 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

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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:

	Principal payments
2019	\$ 1,400
2020	1,446
2021	1,489
2022	1,533
2023	1,579
Thereafter	9,718
Total principal payments	<u>\$ 17,165</u>

### **13. Subsequent Events**

CFA Institute has assessed the impact of subsequent events through 12 December 2018, the date the audited financial statements were issued, and has concluded that no such events require adjustment to the audited financial statements or disclosure in the notes to the audited financial statements.

# ACCOMPANYING CONSOLIDATING INFORMATION

REPORT OF INDEPENDENT  
AUDITORS ON SUPPLEMENTARY  
CONSOLIDATING INFORMATION

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**ACCOMPANYING CONSOLIDATING INFORMATION**

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## Report of Independent Auditors

To the Board of Governors of CFA Institute:

We have audited the consolidated financial statements of CFA Institute and its subsidiaries as of and for the year ended August 31, 2018 and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

*PricewaterhouseCoopers LLP*

McLean, Virginia  
December 12, 2018

**CFA Institute**  
**Consolidating Statements of Financial Position**  
**As of 31 August 2018 and 2017**

(in thousands)

	CFA Institute Operations*	CFA Institute Research Foundation	Cville Building Operations**	Eliminations	2018 Consolidated	2017 Consolidated
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 83,534	\$ 28	\$ 6,085	\$ —	\$ 89,647	\$ 90,528
Investments, at fair value	2,988	—	—	—	2,988	—
Accounts receivable, net	1,710	—	—	(726)	984	1,403
Advances to affiliated organization	6	41	—	(47)	—	—
Derivative contract	—	—	74	—	74	—
Prepaid expenses and other assets	15,765	—	—	(251)	15,514	15,000
Publication inventory	1,431	165	—	—	1,596	1,594
Restricted cash	2	—	—	—	2	2
Total current assets	105,436	234	6,159	(1,024)	110,805	108,527
<b>Non-current assets</b>						
Advances to affiliated organization	3,693	—	—	(3,693)	—	—
Investments, at fair value	428,290	15,259	—	—	443,549	401,027
Investment in affiliated organization	9,021	—	—	(9,021)	—	—
Derivative contract	—	—	583	—	583	—
Prepaid expenses and other assets	3,283	—	1,048	(1,048)	3,283	3,323
Property and equipment, net	6,428	—	39,108	(3,262)	42,274	42,034
Intangibles, net	23,156	—	—	—	23,156	16,181
Total non-current assets	473,871	15,259	40,739	(17,024)	512,845	462,565
<b>Total assets</b>	<b>\$ 579,307</b>	<b>\$ 15,493</b>	<b>\$ 46,898</b>	<b>\$ (18,048)</b>	<b>\$ 623,650</b>	<b>\$ 571,092</b>
<b>LIABILITIES AND NET ASSETS</b>						
<b>Current liabilities</b>						
Accounts payable and accrued liabilities	\$ 20,201	\$ 56	\$ 307	\$ (251)	\$ 20,313	\$ 20,145
Advances from affiliated organization	41	—	6	(47)	—	—
Deferred revenue	157,215	—	—	—	157,215	151,446
Employee-related liabilities	19,827	—	—	—	19,827	17,008
Funds held for others	4,209	—	—	—	4,209	8,399
Derivative contract	—	—	—	—	—	125
Notes payable	—	—	1,400	—	1,400	1,360
Interest payable	—	—	741	(726)	15	15
Total current liabilities	201,493	56	2,454	(1,024)	202,979	198,498
<b>Non-current liabilities</b>						
Accounts payable and accrued liabilities	2,434	—	3,693	(4,741)	1,386	599
Deferred revenue	50,561	—	—	—	50,561	44,880
Employee-related liabilities	1,962	—	—	—	1,962	1,859
Derivative contract	—	—	—	—	—	79
Notes payable	—	—	15,765	—	15,765	17,169
Total non-current liabilities	54,957	—	19,458	(4,741)	69,674	64,586
<b>Total liabilities</b>	<b>256,450</b>	<b>56</b>	<b>21,912</b>	<b>(5,765)</b>	<b>272,653</b>	<b>263,084</b>
<b>Net assets</b>						
Undesignated	322,857	14,115	8,883	(12,283)	333,572	291,054
Designated	—	1,322	—	—	1,322	1,423
Non-controlling interests	—	—	16,103	—	16,103	15,531
<b>Total net assets</b>	<b>322,857</b>	<b>15,437</b>	<b>24,986</b>	<b>(12,283)</b>	<b>350,997</b>	<b>308,008</b>
<b>Total liabilities and net assets</b>	<b>\$ 579,307</b>	<b>\$ 15,493</b>	<b>\$ 46,898</b>	<b>\$ (18,048)</b>	<b>\$ 623,650</b>	<b>\$ 571,092</b>

\*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

**CFA Institute**  
**Consolidating Statements of Activities**  
**For the Years Ended 31 August 2018 and 2017**

(in thousands)

	CFA Institute		Cville		2018	2017
	CFA Institute	Research	Building	Eliminations	Consolidated	Consolidated
	Operations*	Foundation	Operations**			
<b>Change in net assets</b>						
Operating revenues						
Credentialing programs	\$ 308,530	\$ —	\$ —	\$ —	\$ 308,530	\$ 266,582
Member value programs	46,658	6	—	—	46,664	45,064
Industry engagement and other	451	—	3,060	(3,060)	451	672
Contributions	319	1,170	—	(855)	634	309
Total operating revenues	355,958	1,176	3,060	(3,915)	356,279	312,627
Operating expenses						
Program services						
Credentialing programs	97,453	—	—	—	97,453	86,132
Member value programs	103,649	230	—	—	103,879	89,733
Industry engagement	14,411	178	—	—	14,589	15,579
Services delivery	9,358	—	—	—	9,358	10,891
Scholarships – 11 September Memorial Fund	—	85	—	—	85	79
Other program services	—	391	—	(391)	—	—
Support services						
Information technology	37,499	—	—	—	37,499	35,315
Financial operations	21,124	44	910	—	22,078	14,652
Facility operations	14,584	—	1,336	(3,152)	12,768	11,148
Legal and board services	9,083	1	—	—	9,084	8,991
Executive and regional operations	8,716	92	—	—	8,808	8,169
Human resources	7,757	—	—	—	7,757	6,547
Compliance, risk & ethics	6,021	—	—	—	6,021	4,550
Content engagement and publishing	1,399	—	—	—	1,399	5,644
Travel support and event management	3,514	—	—	—	3,514	3,483
Fundraising	1	7	—	—	8	13
Intercompany services	161	303	264	(728)	—	—
Other support services	1,882	8	—	—	1,890	2,931
Total operating expenses	336,612	1,339	2,510	(4,271)	336,190	303,857
Income (loss) from operations	19,346	(163)	550	356	20,089	8,770
Realized gains, interest and dividends (net)	14,183	607	12	(264)	14,538	10,557
Change in net assets from operations	33,529	444	562	92	34,627	19,327
Other changes						
Unrealized gains on investments	8,599	548	—	—	9,147	23,171
Capital contributions	—	—	—	—	—	2,589
Return of capital – non-controlling interests	—	—	(138)	—	(138)	(120)
Unrealized gain on derivative contract	—	—	861	—	861	783
Non-operating expense - other	(1,508)	—	—	—	(1,508)	—
<b>Change in net assets</b>	<b>40,620</b>	<b>992</b>	<b>1,285</b>	<b>92</b>	<b>42,989</b>	<b>45,750</b>
Net assets, beginning of year	282,237	14,445	23,701	(12,375)	308,008	262,258
Net assets, end of year	\$ 322,857	\$ 15,437	\$ 24,986	\$ (12,283)	\$ 350,997	\$ 308,008

\*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

**CFA Institute**  
**Consolidating Statements of Cash Flow**  
**For the Years Ended 31 August 2018 and 2017**

(in thousands)

	CFA Institute		Cville		2018	2017
	CFA Institute	Research	Building		Consolidated	Consolidated
	Operations*	Foundation	Operations**	Eliminations		
<b>Reconciliation of change in net assets to net cash provided by (used in) operating activities</b>						
Change in net assets	\$ 40,620	\$ 992	\$ 1,285	\$ 92	\$ 42,989	\$ 45,750
Adjustments to reconcile change in net assets to net cash provided by operating activities						
Depreciation and amortization	9,082	—	1,158	(92)	10,148	7,918
Losses on disposition of fixed assets	51	—	172	—	223	1,137
Unrealized gains on investments	(8,599)	(548)	—	—	(9,147)	(23,171)
Realized gains on investments	(1,908)	(250)	—	—	(2,158)	(23)
Unrealized gains on derivative contract	—	—	(861)	—	(861)	(783)
Capital contributions – non-controlling interests	—	—	—	—	—	(2,589)
Return of capital – non-controlling interests	—	—	138	—	138	120
Changes in:						
Accounts receivable, net	154	1	—	264	419	(505)
Advances to/from affiliated organizations	(10)	4	6	—	—	—
Prepaid expenses and other assets	(580)	1	(76)	82	(573)	(2,681)
Publication inventory	34	(36)	—	—	(2)	(230)
Restricted cash	—	—	—	—	—	62
Accounts payable and accrued liabilities	1,059	5	(47)	(82)	935	2,325
Deferred revenue	11,450	—	—	—	11,450	24,620
Employee related liabilities	2,922	—	—	—	2,922	1,139
Funds held for others	(4,190)	—	—	—	(4,190)	4,308
Interest payable	—	—	264	(264)	—	1
Net cash provided by operating activities	50,085	169	2,039	—	52,293	57,398
<b>Cash flows (used in) provided by investing activities</b>						
Purchases of property and equipment	(2,897)	—	—	—	(2,897)	(2,560)
Proceeds from property and equipment	5	—	—	—	5	—
Purchases of intangible assets	(14,576)	—	—	—	(14,576)	(8,787)
Purchases of investments	(106,897)	(872)	—	—	(107,769)	(104,582)
Proceeds from investments	72,917	648	—	—	73,565	89,433
Net cash used in investing activities	(51,448)	(224)	—	—	(51,672)	(26,496)
<b>Cash flows provided by financing activities</b>						
Loan repayments	—	—	(1,364)	—	(1,364)	(1,325)
Capital contributions – non-controlling interests	—	—	—	—	—	2,589
Return of capital – non-controlling interests	—	—	(138)	—	(138)	(120)
Net cash provided by financing activities	—	—	(1,502)	—	(1,502)	1,144
Net increase in cash and cash equivalents	(1,363)	(55)	537	—	(881)	32,046
Cash and cash equivalents, beginning of year	84,897	83	5,548	—	90,528	58,482
Cash and cash equivalents, end of year	\$ 83,534	\$ 28	\$ 6,085	\$ —	\$ 89,647	\$ 90,528

\*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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