CFA Institute

2014 ANNUAL REPORT

CFA Institute is a global association of more than 125,000 investment professionals who put investors' interests first and set the standard for professional excellence in finance. Our community of investment professionals contributes to society by practicing with high ethical standards that help economies grow and generate efficient financial markets.

Aaron Low, CFA

Chair, Board of Governors

MESSAGE FROM OUR CHAIR

As the global footprint of CFA Institute becomes deeper and broader, so must our global relevance. The ripple effect of actions taken in the investment profession permeates all corners of the financial services industry around the world. And global ramifications are increasing, sometimes in ways not readily apparent.

Accordingly, one of our key strategic initiatives for the coming year is to evaluate how we can further strengthen our position as a leading steward of the global financial markets. Evaluating our competitive position in terms of content relevance, the changing regulatory landscape, and the threat of disruptive forces will be a key driver for the next step in our planning process. This evaluation will form the foundation of our next strategic three-year planning cycle and will clarify the normative assumptions that will help our organization and members lead an ever-evolving industry.

"Our strong culture and advocacy of ethics, standards, and professionalism transcends local differences and brings with it a common desire among stakeholders to bond with our brand wherever they may be."

Over the past year, the Board has ensured that our Broader Mission, Bolder Voice, and Bigger Community ("3 Bs") agenda is running on all cylinders. Certainly, the various stages and cycles of global development dictate diverse aspirations and offer interesting challenges and opportunities. Developed nations are still struggling to fix what is broken, while developing nations seek to attain a higher stage. Firmly embedded in both narratives is the common issue of trust. Our strong culture and advocacy of ethics, standards, and professionalism transcends local differences and brings with it a common desire among stakeholders to bond with our brand wherever they may be.

Essential to this process is our continued investment in the strategic work of restoring trust, which is now part of our DNA and effectively positioned as the Future of Finance (FoF) initiative. The genius of this paradigm shift, however subtle, is that it is deeply rooted and aligned with all our 3 Bs. Early evidence emanating from the far reaches of our membership and member societies indicates an adoption rate of our FoF initiative that is simply remarkable and has far exceeded our expectations.

FoF is definitively broader, bolder, and bigger. And we want to maintain this pace and momentum as numerous society-led projects and initiatives, ranging from charitable and community outreach to education, continue to evolve. It is a comforting reminder that there is still plenty of *good* in our industry, and we would do well to nurture such proclivities. An amazing outcome of the FoF phenomenon is the elevation of our member experience to a level never seen before. And that generates a significant boost to our global brand value, something that impacts our brand well beyond our available marketing budget.

Other outcomes of our staff- and volunteer-led FoF initiative, such as the Statement of Investor Rights, have been well received and continue to garner favorable feedback. The number of firms adopting the Asset Manager Code of Professional Conduct has doubled in the last two years, to 1,050. We believe that our recent emphasis on industry relations and regulator engagement will generate long-term good tidings for our education program portfolio. To enhance this effort, the Board has approved a new subcommittee tasked with further improving oversight of all our education programs.

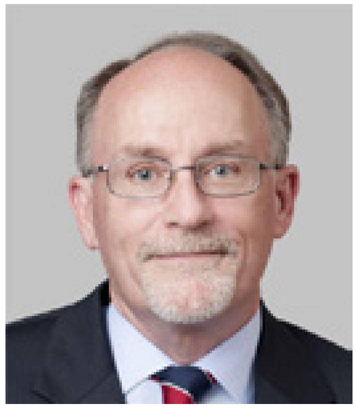
During the past year, more progress has been made on examining our board and management governance standards. The recently formed Corporate Governance Committee has reviewed updated global peer group management compensation benchmarks for further guidance on how we should fine-tune our incentive structure for the entire platform. Our global search for a new CEO is well under way and we continue to make good progress. We expect the process to complete in the next few months. Dwight Churchill, our interim CEO, has taken over the helm extremely well, allowing the organization to proceed with business as usual. The deep bench and tremendous talent pool of our Leadership Team has enabled the CEO transition to unfold as smoothly as possible. We are proud of the performance of our senior management and entire staff.

"CFA Institute continues to play a leading role as a force for good in the revitalization of our industry."

CFA Institute continues to play a leading role as a force for good in the revitalization of our industry. We are confident that as the recovery continues, we will continue to deliver substantial value to *all* our members and stakeholders, wherever they may be geographically and in the organizational hierarchy. More than ever before, we firmly believe that our persistence in investing in and building our profession is delivering benefits to all and will do so for many years to come. CFA Institute will continue to grow in global relevance and help make the world a better place.

Best regards,

Aaron Low, CFA
Chair, CFA Institute Board of Governors



Dwight Churchill, CFA

President and CEO

MESSAGE FROM OUR CEO

It is my pleasure to serve as the President and CEO of CFA Institute, on an interim basis, following the departure of John Rogers, CFA, in June. I took on the role not only because of my strong interest in and support of our mission, but also to allow the Board of Governors sufficient time to complete a proper search for a new, permanent CEO. That search is now well under way.

From my perspective, as interim CEO and as a long-time volunteer and past chair of the CFA Institute Board of Governors, the organization is in very good shape overall. The contributions of John Rogers were significant, particularly in terms of our long-term strategy and vision. Further, the Leadership Team, a talented and experienced group of 11 managing directors, is ensuring that all of our operations and activities continue to function smoothly. As an interim CEO, I believe my role is to introduce as little change as possible while taking advantage of the value a new perspective naturally brings to the position. This approach has led me to work closely with the Leadership Team in sorting through our priorities, completing the FY2014 work plans, and establishing the FY2015 work plans, in addition to addressing the issues that inevitably arise in an organization of this size.

The organization enjoys many areas of strength, which are highlighted by our financial results. In FY2014, our results were quite strong and I encourage you to review the Performance section of this annual report for more details. The budget for FY2015 reflects continued investment in our key strategic initiatives on the expenditure side but also slower CFA® Program and Claritas® Investment Certificate growth on the revenue side. Some conservatism has been built into the budget to provide flexibility for the incoming permanent CEO.

It has been 10 years since I served as chair of the Board, and I am happy to see that the organization has evolved in many ways and stayed the same in other important ways. One thing that has not changed is our continued focus on the CFA Program as the gold standard in investment education.

"It has been 10 years since I served as chair of the Board, and I am happy to see that the organization has evolved in many ways and stayed the same in other important ways."

In June 2014, all three levels of the CFA Program were successfully delivered at 255 exam centers in 196 cities across 91 countries. The 2015 CFA Program curriculum has been completed and features substantive revisions in Fixed Income, Financial Reporting Quality, and Currency Management and updates to in-text examples throughout Quantitative Methods and Equity Valuation. In our ongoing work to increase the relevance of the program, the Education Advisory Committee (EAC) is actively engaged in revising the practice analysis process to "widen the funnel" in order to engage a broader spectrum of investment industry professionals in the development of the Global Body of Knowledge and Candidate Body of Knowledge (CBOK). The EAC is also using the input from environmental, social, and governance (ESG) practice analysis sessions in Amsterdam, Hong Kong, London, and New York to contemplate how ESG might be more fully integrated into the CBOK.

In April, the Certificate in Investment Performance Measurement (CIPM®) Program exam was delivered successfully. We fell slightly short of our growth expectation for FY2014 but have a renewed growth target of 20% for incoming Principles candidates for FY2015, which will result in an expected overall program growth rate of 14%.

We also fell short of our growth expectation for the Claritas Investment Certificate. While we remain confident of the long-term competitiveness of the Claritas Program, with more than 7,000 candidates registered since inception, a fairly conservative estimate for growth has been included in the FY2015 budget. Since joining the organization, I have learned that the Claritas Program is quite robust; however, as an organization, we have underestimated the resources and repositioning needed for the program to gain traction in the various markets. I am pleased that the program reflects well on the quality of our work, but I now understand that far more work is needed to identify and redirect the necessary resources to grow the Claritas candidate pool. Serious consideration has been given to the necessity and desirability of shifting from a largely business-to-consumer model (the foundation of the CFA Program) to a more robust business-to-business approach, which is required to position Claritas more effectively. Toward that end, a business-to-business project was initiated in FY2014, and we are reviewing opportunities to enhance our effectiveness in the institutional market in FY2015. This will not only assist in the positioning of Claritas but also improves the quality of our institutional relationships overall.

Efforts to promote our program portfolio have evolved to keep up with advances in marketing and communications. In FY2014, we completed a search engine marketing (SEM) campaign to promote our programs and generated 3.9 million impressions and 21,000 website visits. We launched a digital advertising prospecting campaign in Asia Pacific to promote the AP Career Guide, which resulted in more than 14,000 people subscribing to the Career Guide from over 100 countries. More than 5,000 new prospects were generated for the CFA Program. We ran a Twitter lead-generating campaign for Claritas that yielded over 5,600 leads, and we launched *A Crisis of Culture: Valuing Ethics and Knowledge in Financial Services*, a report with the Economist Intelligence Unit, to support Claritas prospecting in industry businesses.

Our partnership with universities has grown over the years. There are now 158 universities in our University Recognition Program, and we continue to increase engagement on that front. Further, the 2014 CFA Institute Research Challenge involved 3,700 students, 2,700 industry volunteers, and 825 universities in 58 countries. Congratulations to this year's winner, the University of the Philippines—Diliman.

"Our codes and standards continue to take root, placing the interests of clients first."

CFA Institute seeks to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. Our focus on ethics never waivers. This year, we released the 11th edition of the *Standards of Practice Handbook*, providing guidance to anyone who grapples with ethical dilemmas in the investment field. We offer a new ethics training webinar twice a month, and we frequently speak to audiences on this subject. Our codes and standards continue to take root, placing the interests of clients first. More than 1,000 asset managers have adopted the CFA Institute Asset Manager Code, and we continue to sponsor and administer the Global Investment Performance Standards (GIPS®) in partnership with 34 global Country Sponsors.

Clearly, how we communicate our mission has evolved. The Future of Finance (FoF) initiative continues to be a meaningful framework for leveraging our message, engaging with a broader community, and positioning our organization as a thought leader. Guided by an advisory council of industry luminaries, the Future of Finance is focused on six themes: Putting Investors First, Financial Knowledge, Transparency and Fairness, Retirement Security, Regulation and Enforcement, and Safeguarding the System. With such great interest in our FoF work, we do not want to lose momentum and are now transitioning from a finite project focus to an integrated organizational approach. Given the input from our advisory council, together with input from the Board and other volunteers, we expect a continued healthy flow of ideas into the pipeline.

The Future of Finance message and content have been leveraged throughout FY2014. For example, the 67th CFA Institute Annual Conference, with the theme "Shaping the Future of Finance," attracted over 1,800 attendees. Other conferences we hosted included FoF-themed sessions as well. The "Future of Finance Starts with You" campaign platform was delivered through advertising and other media. Advertising campaigns have directed our message to audiences around the world, and these efforts resulted in 299,000 visits to the FoF section of our website, achieving a click-through rate that was two times higher than the previous year. Public relations campaigns resulted in more than 240 pieces of coverage focused on the FoF initiative/projects in FY2014.

We have been very pleased to see the continued engagement of our member societies, most notably with the Future of Finance and, in particular, Putting Investors First Month in May; 58 of 145 member societies participated and the activities demonstrated the range of creativity and influence of our volunteers. As we look to FY2015, we are expanding funding for member society-related activities, specifically in the area of joint planning and collaboration. Emphasis is also being placed on streamlining and improving services and support to societies.

"The Future of Finance initiative continues to be a meaningful framework for leveraging our message, engaging with a broader community, and positioning our organization as a thought leader."

We continue to enjoy strong growth and engagement in our social media channels, and our mobile presence is expanding—through August, we had more than 119,000 downloads of the main CFA Institute mobile app. Our global social community continues its robust growth, with nearly 150,000 followers each on Twitter and LinkedIn and more than 260,000 Facebook followers. Our Asia-focused social media presence is expanding, with 10% monthly growth in Sina Weibo fans and nearly threefold growth in followers of @CFAAsia on Twitter.

The 2014 Global Market Sentiment Survey (GMSS) measured the opinions of more than 6,500 members on key market and economic issues. The annual survey found greater optimism regarding economic prospects for 2014, with an especially dramatic turn in sentiment from European members compared with last year. Importantly, however, members remain less confident that market integrity is improving. In Asia Pacific, we partnered for the first time with member societies to launch the GMSS in five key markets (Australia, China, India, Hong Kong, and Singapore), with advocacy leaders delivering in-country findings relevant to local audiences in each market. The survey's launch garnered interest from high-profile media outlets globally, including Bloomberg, the *Wall Street Journal*, *AsianInvestor*, and the *Financial Times*.

On the regulatory and policy front, we are actively following and commenting on several recent developments. In Asia Pacific, for example, we organized a conference on the "Importance of Ethics in the Future of Hong Kong's Asset Management Industry" and participated in several industry conferences. The AP team met with regulators in Singapore and Bahrain and provided a comment letter to the Indian securities regulator SEBI on REITs governance. In the Americas, citing feedback from member surveys, we commented on reducing sales inducements and recommended revisions to commission structures, greater transparency of investor fees, and improved adviser training. CFA Institute staff has held more than

20 meetings with US congressional staff on this issue as part of our focus on raising our profile with policymakers. In EMEA, the *Financial Times* interviewed several staff members on key financial instruments accounting updates including hedge accounting, plus PRIPs and dark pools, and we gave an interview to *Fortune* magazine on internalization. CFA Institute comment letters can be found on our website.

In addition to the financial strength addressed in the Performance section of this report, we are dedicated to operational excellence. In June, a global team was created to manage the setting up of offices in China and India. These offices are essential in meeting the needs of our members and CFA Program candidates in these high-growth regions. As of this writing, we have signed rental leases for both offices and talent acquisition is under way. We expect to have both offices fully staffed by August 2015.

The new Americas engagement team, working with member societies in the region, continues to inform our strategy for raising the profile of CFA Institute, our products, and member societies in the Americas. To further enhance our regional effectiveness, beginning with Latin America, the Americas team is collaborating to develop country-by-country snapshots to identify the specific needs and opportunities in each market.

More than 400 Charlottesville employees moved into our new facility last winter. In July, we were awarded a LEED Gold certification by the U.S. Green Building Certification Institute for integrating sustainability into the building's design and operations. During the move, the Contact Center provided uninterrupted phone and email support to stakeholders around the world and our IT team gracefully migrated our data network and systems to the new offices without any interruption in service.

The organization has completed a very good FY2014, and a thoughtful leadership transition is under way. I expect the new CEO will enjoy working with a great group of dedicated professionals, employees, and volunteers, as much as I do.

With kind regards,

Dwight Churchill, CFA
President and CEO

Timothy McLaughlin, CPA, CFA

Chief Financial Officer

PERFORMANCE YEAR IN SUMMARY

Fiscal year 2014 was a year of notable activity for the organization. CFA Institute continued to execute its Strategic Plan 2015/2022, which focuses on a **Broader Mission, Bolder Voice, and Bigger Community** to help restore trust in financial markets. The broader mission includes a focus on the investment profession's ultimate benefit to society and has become a driving force behind the organization's efforts on many fronts.

We continued our work on the Future of Finance initiative, a long-term global effort to shape a trustworthy, forward-thinking financial industry that better serves society. This initiative provides a framework for communicating our work and why it matters: Namely, we believe that financial markets function better when they are fair and the interests of investors are placed first.

The Chartered Financial Analyst® (CFA®) Program continues to set the educational standard for investment professionals seeking to acquire a broad and generalist understanding of the investment decision-making process. During fiscal year 2014, the CFA Program administered more than 210,000 exams. In June 2014, over 148,000 exams were administered at more than 250 test centers in 196 cities across 91 countries. More than 14,500 candidates passed the June 2014 Level III exam (the final exam stage just before being awarded the charter), and currently there are over 120,000 CFA charterholders across 149 countries worldwide. The program continues to be incorporated into the curricula of hundreds of universities globally through our CFA Program Partner initiative and University Recognition Program, recognized by regulators in qualifications frameworks, and positioned in the financial press as the gold standard for investment professionals.

CFA Program exam administrations, which are the primary source of revenue for the organization, decreased 1% to 210,300, versus 212,100 in fiscal year 2013. However, the June exam represented the largest exam administration in our 50-year history. New Level I candidates decreased 2% versus fiscal year 2013: This group of candidates is a leading indicator for potential future demand for the CFA Program and the financial performance of the organization.

Fiscal year 2014 marked the first full year of the Claritas® Investment Certificate, a global self-study program launched in May 2013. The Claritas Program is designed to give individuals working in financial services a clear understanding of the investment industry and their professional responsibilities within it. During fiscal year 2014, more than 3,300 candidates from 80 countries registered for the Claritas Program and over 2,000 exams were administered. Since the program's inception in May 2013, almost 4,000 candidates have passed the exam and earned the Claritas Investment Certificate. We continue to work closely with employers throughout the industry who are providing the Claritas Program to industry participants in a wide variety of roles, including operations, information technology, human resources, legal, accounting, and other roles.

The Certificate in Investment Performance Measurement (CIPM®) Program experienced strong solid growth in fiscal year 2014, with a 16% increase in principle-level candidates in the program. Expanded content—with an emphasis on manager selection, performance evaluation, and application—is connecting with a broader audience of investment industry practitioners in such areas as investment consulting, financial advisory services, and accounting, as well as the program's core audience of investment performance and analytics professionals. Currently, almost 1,300 investment industry professionals have completed the CIPM Program and earned the credential.

We completed construction on a new facility to support our Charlottesville-based activities and moved operations into the facility in December 2013. The development generated significant facility-related savings for the organization, which will benefit members for many years to come. In addition, the building received a LEED Gold certification from the U.S. Green Building Certification Institute for integrating sustainability into the building's design and operations. LEED, or Leadership in Energy and Environmental Design, is a green building certification program that recognizes best-in-class building strategies and practices.

Financially, CFA Institute had a positive year in fiscal year 2014, with a balanced approach toward advancing the organization's mission and maintaining a sound, long-term financial foundation. The organization seeks to maximize a "return on mission" for members and constituents while maintaining long-term financial viability. The focus on mission return guides organizational investment and activities across all areas of the organization, from information technology to advocacy and education. The year-end realized consolidated operating margin was $8.4 million.

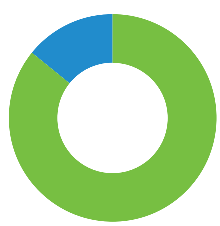
PERFORMANCE
FINANCIAL HIGHLIGHTS

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 measure our success by the achievement of mission goals and objectives detailed in our strategic plan. Sound organizational financial health and sustainability are vital in our efforts to execute this plan.

This fiscal year, CFA Institute continued efforts to operationalize the multi-year 2015/2022 strategic plan. The vision for our work focuses on a **Broader Mission, Bolder Voice, and Bigger Community**. These "3 Bs" elevate the organization's emphasis on restoring trust in the investment community. It is through this strategic lens that our new initiatives are viewed and prioritized. Organizational activities are categorized into one of four areas of emphasis for review and analysis: Education, Engagement, Ethics, and Enablers (the infrastructure and resources necessary to accomplish CFA Institute initiatives). In other words, the "3 Bs" represent the strategy to further the organizational mission and the "4 Es" address the plan for executing the strategy.

At a high level, the following charts show the sources of revenue and expenses for fiscal year 2014 (FY2014).

FY2014 REVENUES BY STRATEGIC AREA

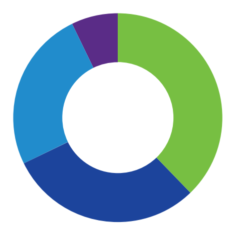


86% Education *

14% Engagement

** Includes curriculum and scholarships*

FY2014 OPERATING EXPENSES BY STRATEGIC AREA



38% Education *

30% Enablers

25% Engagement

7% Ethics

** Includes curriculum*

Note that some activities could be categorized under more than one strategic area but were categorized in the most readily attributable area for purposes of this discussion.

CONSOLIDATED FINANCIAL RESULTS			% Change
($ in millions)	FY14	FY13	'14 vs. '13
CFA Institute Members	127,800	120,800	6%
CFA Program Administrations [1]	210,300	212,100	-1%
CIPM Administrations	1,300	1,200	8%
Claritas Administrations [2]	2,070	50	
Operating Revenues	$ 240.9	$ 224.9	7%
Operating Expenses	232.6	224.0	4%
Rounding Adj.	0.1		
Income from Operations	8.4	0.9	
Realized (Losses) Gains, Interest, and Dividends	15.9	15.6	2%
Unrealized (Losses) Gains on Investments	17.4	(3.1)	
Capital Contributions	5.4	1.2	
Finance Costs	(1.4)	1.3	
Rounding Adj.	(0.1)		
Change in Net Assets	**$ 45.6**	**$ 15.9**	**187%**

[1] Realized net of adjustments

[2] Excludes pilot administrations

In a mission-driven organization, financial performance exists to support mission achievement. The financial information that follows reflects the mission investments made in fiscal year 2014 and the ability to invest in mission-related activities in the future.

Highlights

- Fiscal year 2014 CFA Program exam administrations decreased 1% to 210,300 candidates. However, the June exam represented the largest exam administration in the 50-year history of the CFA Program.
- Fiscal year 2014 new Level I exam administrations decreased 2% versus fiscal year 2013.
- CFA Institute membership grew 6% in fiscal year 2014 to 127,800 members, with an active charterholder member attrition of 4.4%, which is slightly less than the 5.0% realized in fiscal year 2013.
- Investments totaling $270.4 million support contingency planning and provide for a multi-year continuation of services in the event of a large-scale disruption to the CFA Program.

Revenues

FY2014 REVENUES BY SOURCE			% Change
($ in millions)	FY14	FY13	'14 vs. '13
Education [1]	$ 206.9	$ 192.5	7%
Engagement [2]	34.0	32.3	5%
Rounding Adj.		0.1	
Total	**$ 240.9**	**$ 224.9**	**7%**

[1] Includes CFA, CIPM, and Claritas Programs, conferences, curriculum, and scholarships

[2] Includes member dues and publications advertising

- Education revenue growth was affected primarily by program pricing adjustments, changes to the curriculum purchase options, and overall candidate growth for the CFA, CIPM, and Claritas Programs.
- Engagement revenue, composed primarily of member dues revenue, grew because of the increase in membership. The member dues rate remained unchanged for fiscal year 2014.

Expenses

FY2014 OPERATING EXPENSES BY STRATEGIC OBJECTIVE

($ in millions)	FY14	FY13	% Change '14 vs. '13
Education [1]	$ 89.0	$ 91.0	-2%
Engagement	58.5	54.3	8%
Ethics	17.0	17.1	-1%
Enablers	68.0	61.7	10%
Rounding Adj	$ 0.1	$ (0.1)	
Total Expenses	**$ 232.6**	**$ 224.0**	**4%**

[1] Includes curriculum

- The Education area realized year-over-year savings in fiscal year 2014 primarily related to curriculum production and distribution expenses. The greater adoption of the eBook version of the curriculum as well as insourcing and procurement efforts decreased production and shipping expenses for curriculum.
- The Engagement area devoted additional resources to the launch and marketing of the new Claritas Program, to additional market research to better understand the needs of organizational stakeholders, and to targeted marketing campaigns to identify and nurture potential CFA Program candidates. Staff continues to extend our social media presence and is expanding engagement-related activities in selected markets worldwide.
- Ethics-related investments included work concerning the Future of Finance initiative and additional capabilities to address the ethics-related strategic initiatives.
- Additional investments were made within the Enablers area, including the relocation of Charlottesville-based operations to a new facility, which created one-time expenses in fiscal year 2014 but will provide long-term savings. We also laid the groundwork for the opening of additional offices within the Asia-Pacific region in fiscal year 2015. Resources went into upgrading and strengthening the infrastructure—including IT development and operations, legal, global facilities, recruiting, and capabilities of the organization—which supports an expanding array of products and constituents.

Cash Flow

Most revenues are generated in the first half of the annual operating cycle and in advance of the cash outlays needed to support these activities. As a result, aggregate expenses can be managed throughout the year to ensure adequate cash flow to support organizational objectives while maintaining an appropriate financial position for the organization.

CASH FLOW ($ in millions)	FY14	FY13	% Change '14 vs. '13
Cash Inflows from Operations	$ 266.9	$ 248.7	7%
Cash Outlays from Operations	240.8	227.4	6%
Rounding Adj.	0.1		
Net Cash from Operations	26.2	21.3	23%
Net Cash from Investing Activities	(26.2)	(38.5)	n/a
Net Cash from Financing Activities	4.6	24.1	n/a
Net Increase in Cash	4.6	6.9	-33%
Cash, Beginning of Year	46.2	39.2	18%
Rounding Adj.		0.1	
Cash, End of Year	**$ 50.8**	**$ 46.2**	**10%**

Net cash from operations grew primarily because of increased inflows from educational programs, punctual member dues payments, and a reduction in cash disbursements, most notably from program services related to curriculum.

Financial Position

FINANCIAL POSITION ($ in millions)	FY14	FY13	% Change '14 vs. '13
Cash and Cash Equivalents	$ 50.8	$ 46.2	10%
Other Current Assets	15.8	15.9	-1%
Total Current Assets	66.6	62.1	7%
Investments	283.3	253.3	12%
Net Equipment and Improvements	46.7	33.1	41%
Other Assets	14.2	13.6	4%
Total Assets	$ 410.8	$ 362.1	13%
Accounts Payable	$ 14.0	$ 16.8	-17%
Deferred Revenue	135.5	128.9	5%
Other Liabilities	40.7	41.1	-1%
Total Liabilities	190.2	186.8	2%
Net Assets	$ 220.6	$ 175.3	26%
Total Liabilities and Net Assets	**$ 410.8**	**$ 362.1**	**13%**

- Current assets are managed to cover operational needs, whereas investments provide protection against business disruptions and a potential funding source for large new and long-term business initiatives.
- Deferred revenue increased in part because of demand for Level I of the CFA Program. In accordance with US GAAP, revenue collected for an exam offered the following fiscal year is deferred to that year. CFA Institute also applies US SEC SAB 104[1] and recognizes the one-time CFA Program enrollment fees over 3.5 years, the mean time spent in the program by those candidates who pass the Level III exam. Deferred revenue related to member dues also increased.

[1]*Securities and Exchange Commission Staff Accounting Bulletin No 104*

Cash and Investment Detail

CASH AND INVESTMENT PORTFOLIO BALANCE			% Change
($ in millions at fair market value)	FY14	FY13	'14 vs. '13
Operating Fund and Short-Term Investments	$ 50.7	$ 46.1	10%
Contingency Reserve/Business Opportunity Reserve	270.4	242.0	12%
CFA Institute Subtotal	321.1	288.1	11%
Research Foundation [1]	12.3	10.7	15%
11 September Scholarship Fund [1]	0.6	0.6	0%
Total Cash, Short-Term, and Long-Term Investments	**$ 334.0**	**$ 299.4**	**12%**

[1] Please see notes to audited financial statements for additional information

- Strategic, long-term, target investment portfolio weights are 65% risk assets (e.g., global equities, global REITs, commodities, and emerging market debt) and 35% risk-reducing assets (e.g., TIPS, global fixed income, and short-term bonds). For the year ended 31 August 2014, corresponding actual weights reflect 62% and 38%, respectively, owing to the dynamic asset allocation provision that is incorporated into the investment policy statement. The financial reserves serve as a self-insurance backstop and, combined with existing risk mitigation strategies, help provide for the continuation of services in the event of a large-scale disruption to the CFA Program. It is expected that this approach to managing the reserves will give CFA Institute additional risk management flexibility.
- The reserves are invested in accordance with the investment policy statement, which was developed by the CFA Institute Investment Committee according to principles taught in the CFA Program curriculum. The CFA Institute Investment Policy Statement is approved by the Audit and Risk Committee of the CFA Institute Board of Governors.

PERFORMANCE
RISK AND CONCLUSIONS

Risks

CFA Institute supports a culture of informed risk awareness in pursuit of mission achievement. The organization uses a formalized enterprise risk management (ERM) process, which includes organization-wide business continuity planning that is designed to identify and understand potential risks that may affect the achievement of the organization's strategic objectives. CFA Institute manages these risks using a *return on mission* perspective to provide reasonable assurance that its objectives will be met. Formal risk management reports are generated annually and reviewed by senior management and the Audit and Risk Committee of the Board of Governors.

As a service organization, the dedication and expertise of CFA Institute staff and volunteers constitute the organization's most valuable asset and remain an essential ingredient for long-term success. As a result, CFA Institute has an exposure to the risks associated with dependence on these individuals. With the goal of maximizing return on mission and value for its global membership, CFA Institute makes extensive investments in volunteer engagement and staff training, retention, and succession planning.

The CFA Institute business model continues to be primarily dependent on CFA Program exam fees and related revenue, which constitute more than 80% of total operating revenue (excluding investment income). This revenue is susceptible to fluctuations in the number of CFA Program candidates and, therefore, represents a sizable risk to the organization. New Level I candidate demand tends to be the most elastic in response to industry conditions, whereas candidates who have passed the 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.

Underlying the risk management process, CFA Institute financial reserves are structured to provide protection from possible disruptions that could affect candidate demand. To determine an appropriate reserve level, various scenarios are considered, from those of localized exam disruptions (such as one caused by a government closure of public places owing to a communicable disease outbreak or a natural disaster) to the cancellation of an entire exam cycle. Contingency reserve levels are estimated to provide for a multi-year operating buffer during which time member and other services are maintained while the organization recovers from the disruption. Reserves are susceptible to market fluctuations, and the potential impact of market volatility in conjunction with large-scale business disruptions is considered in the formulation of reserve investment policy.

The assessment of risks by country is a prominent component of CFA Institute ERM activities. The country risk management process was designed because we have members in more than 140 countries and administer the CFA Program in more than 90 countries worldwide. Ultimately, the organization recognizes that it would be impossible to provide complete assurance against all such potential risks, but the process is intended to provide a "reasonable person" approach to identifying and addressing risks in the various countries where CFA Institute operates.

Conclusion

Overall, the organization made significant strides toward meeting goals set out in the Strategic Plan 2015/2022 work plan and delivered on most of its major objectives for fiscal year 2014. CFA Institute remains well positioned to make the investments necessary to continue to achieve its long-term strategic goals and deliver value to its members, the investment profession, and society as a whole. One of today's key issues is restoration of trust in the investment industry, and significant resources are focused on this effort. We continue to achieve our mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

PERFORMANCE
CONSOLIDATED FINANCIAL STATEMENTS

Financial Position

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 AUGUST 2014 AND 2013

ASSETS (in thousands)	**2014**	**2013**
Current assets		
Cash and cash equivalents	$ 50,762	$ 46,152
Accounts receivable, net	785	1,098
Prepaid expenses	11,738	10,071
Publication inventory	1,980	3,356
Restricted cash	278	380
Other current assets	1,018	1,057
Total current assets	66,561	62,114
Non-current assets		
Investments, at fair value	283,253	253,311
Restricted cash	—	60
Derivative contracts	762	1,700
Prepaid expenses	1,909	458
Property and equipment, net	46,730	33,070
Intangibles, net	9,874	10,010
Other non-current assets	1,739	1,374
Total non-current assets	344,267	299,983
Total assets	$ 410,828	$ 362,097

LIABILITIES AND NET ASSETS (in thousands)	2014	2013
Current liabilities		
Accounts payable and accrued liabilities	$ 13,988	$ 16,799
Deferred revenue	102,421	96,743
Employee-related liabilities	13,118	13,590
Funds held for others	2,141	1,643
Derivative contracts	394	400
Notes payable	1,250	510
Interest payable	20	20
Total current liabilities	133,332	129,705
Non-current liabilities		
Accounts payable and accrued liabilities	504	711
Deferred revenue	33,070	32,183
Employee-related liabilities	2,176	1,843
Notes payable	21,140	22,390
Total non-current liabilities	56,890	57,127
Total liabilities	190,222	186,832
Net assets		
Unrestricted		
Undesignated	211,751	172,534
Designated—11 September Scholarship Fund	589	625
Designated—other	1,045	950
Non-controlling interest	7,251	1,156
Total net assets	220,606	175,265
Total liabilities and net assets	$ 410,828	$ 362,097

Activities

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED 31 AUGUST 2014 AND 2013

(in thousands)	2014	2013
Change in net assets		
Operating revenues		
Certification and certificate programs	$ 161,847	$ 155,916
Educational products	44,850	36,513
Member dues and other	34,023	32,335
Contributions	219	100
Total operating revenues	240,939	224,864
Operating expenses		
Program services		
Certification and certificate programs	59,238	58,750
Educational content and products	34,768	36,397
Marketing and communications	35,328	33,027
Member and society services	18,326	17,893
Standards and financial market integrity	13,112	13,004
Scholarships—11 September Memorial Fund	75	88
Support services		
Information technology	26,004	23,916
Financial operations and executive	19,361	17,788
Facility operations	10,649	9,252
Human resources	5,612	5,566
Legal	3,866	3,301
Publishing and content services	2,743	2,509
Travel support and event management	2,871	2,376
Fundraising	23	33
Other support services	583	69
Total operating expenses	232,559	223,969
Income from operations	8,380	895
Realized gains, interest and dividends	15,908	15,600
Change in net assets from operations	24,288	16,495
Other changes		
Unrealized gains (losses) on investments	17,357	(3,066)
Capital contributions	5,380	1,162
Finance costs (increase) decrease	(1,410)	1,300
Change in net assets	45,615	15,891
Net assets, beginning of year	175,265	159,374
Syndication costs	(274)	—
Net assets, end of year	$ 220,606	$ 175,265

Cash Flow, Direct Method

CONSOLIDATED STATEMENTS OF CASH FLOW, DIRECT METHOD FOR THE YEARS ENDED 31 AUGUST 2014 AND 2013

(in thousands)	**2014**	**2013**
Cash flows provided by operating activities		
Cash inflows		
Certification and certificate programs	$ 166,212	$ 159,661
Educational products	45,215	36,116
Member dues and other	48,673	44,975
Contributions	220	100
Interest and dividends	6,614	7,859
Total cash inflows	266,934	248,711
Cash outlays		
Program services		
Certification and certificate programs	61,849	58,053
Educational content and products	32,856	37,714
Marketing and communications	35,928	32,287
Member and society services	30,434	26,909
Standards and financial market integrity	12,898	12,656
Scholarships—11 September Memorial Fund	75	88
Support Services		
Information technology	21,388	18,696
Financial operations and executive	22,222	19,140
Facility operations	8,489	8,468
Human resources	5,372	5,345
Legal	3,808	3,203
Publishing and content services	2,627	2,411
Travel support and event management	2,794	2,372
Fundraising	24	30
Total cash outlays	240,764	227,372
Net cash provided by operating activities	26,170	21,339
Cash flows provided by (used in) financing activities		
Loan proceeds	—	22,900
Loan repayments	(511)	—
Paid in capital - minority interest	5,380	1,162
Syndication costs	(274)	—
Net cash provided by financing activities	4,595	24,062

Cash flows provided by (used in) investing activities		
Purchases of property and equipment	(19,162)	(24,050)
Purchases of intangible assets	(3,702)	(6,913)
Purchases of investments	(70,386)	(189,608)
Proceeds from investments	67,095	182,079
Net cash used in investing activities	(26,155)	(38,492)
Net increase in cash and cash equivalents	4,610	6,909
Cash and cash equivalents, beginning of year	46,152	39,243
Cash and cash equivalents, end of year	$ 50,762	$ 46,152

Reconciliation of change in net assets to net cash		
Change in net assets	$ 45,615	$ 15,891
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	6,890	6,183
Losses on disposition of fixed assets	583	69
Unrealized (gains) losses on investments	(17,357)	3,066
Realized gains on investments	(9,294)	(7,742)
Finance costs	932	(1,300)
Capital contributions	(5,380)	(1,162)
Changes in:		
Accounts receivable	346	286
Prepaid expenses	(3,118)	(229)
Publication inventory	1,376	1,046
Restricted cash	162	54
Other assets	(326)	(82)
Accounts payable and accrued liabilities	(1,203)	(753)
Deferred revenue	6,565	4,709
Employee related liabilities	(139)	1,606
Funds held for others	498	(303)
Interest payable	20	—
Net cash provided by operating activities	$ 26,170	$ 21,339

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

PERFORMANCE
NOTES TO CONSOLIDATED 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 127,000 members, as well as 143 member societies around the world. CFA Institute also administers the Certificate in Investment Performance Measurement (CIPM®) Program and serves more than 1,200 members of the CIPM Association. In addition, CFA Institute administers the Claritas® Investment Certificate Program (Claritas®). CFA Institute has offices in Beijing, China; Brussels, Belgium; Charlottesville, Virginia; Hong Kong, China; London, United Kingdom; Mumbai, India; New York, New York; and Shanghai, China.

CFA Institute qualifies as a tax-exempt organization under Internal Revenue Code (IRC) § 501(c)(6). CFA Institute was formed in 1990 under the name AIMR (Association for Investment Management and Research) as a result of the combination of the Financial Analysts Federation (FAF) and the Institute of Chartered Financial Analysts (ICFA). The Financial Analysts Federation and the Institute of Chartered Financial Analysts 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 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-regulated 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 an 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 the global investment community and the CFA Institute Global Body of Investment Knowledge used by investment professionals around the world. The Foundation also periodically delivers 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 China), a wholly-owned subsidiary of CFA Institute, is a limited company incorporated in Hong Kong. CFA China has two representative offices located in the People's Republic of China—one in Beijing and one in Shanghai. CFA China and its two representative offices provide auxiliary services to its members in China, including continuing professional 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 property.

During the year ended 31 August 2013, partial interests in HUB, and CMT, were conveyed to unrelated third parties. In accordance with the *Cville Operations Hub, LLC, Second Amended and Restated Operating Agreement* dated 21 May 2013, HUB granted a ten percent (10%) non-preferred equity interest to certain unrelated third parties. In addition and in accordance with the *Second Amended and Restated Operating Agreement of Cville Master Tenant, LLC*, CMT granted a ninety-nine and ninety-nine hundredths percent (99.99%) non-preferred equity interest to an unrelated third party. The conveyance of the interest in CMT creates a Variable Interest Entity (VIE) for CFA Institute under the Consolidation topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). However, Holdings, a wholly-owned subsidiary of CFA Institute, remains the managing member of HUB and CMT, and retains operational control of both of these entities (see Note 2, Consolidation).

During the year ended 31 August 2014, CFA Institute formed, but had not yet capitalized, CFA Global Holdings, LLC (Global), a wholly-owned subsidiary. Global is a private corporation incorporated under the laws of Virginia whose function is to act as a holding company for a one hundredth percent (.01%) share of CFA India. Global transacted no business in fiscal year ended 31 August 2014.

During the year ended 31 August 2014, CFA Institute formed, but had not yet capitalized, CFA Institute India Private, Limited (CFA India), a wholly-owned subsidiary. CFA 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 providing limited auxiliary services to CFA Institute's members in India, including continuing professional education, conferences, workshops, exhibitions, and other networking events. CFA India transacted no business in fiscal year ended 31 August 2014.

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.

Consolidation
The consolidated financial statements include the accounts of CFA Institute, the Foundation, CFA China, HUB, Holdings, CMT, CFA India, and Global. Consolidation is appropriate in that CFA Institute has an affiliated equity interest of greater than fifty percent (50%) in the entity (Holdings, HUB), or has the power to direct the activities and significantly impact the economic performance of the variable interest entity (CMT), in accordance with the Consolidation topic of the FASB ASC. All intercompany transactions and balances have been eliminated in consolidation.

Charlottesville Building Operations (inclusive of Holdings, HUB, and CMT), operates on a calendar year basis. CFA India operates on a fiscal year ending 31 March. It is anticipated that no intervening events will materially affect these consolidated financial statements during the period between the date of these financial statements, calendar year-end, or year-ending 31 March, for these companies.

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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 those estimates.

Measure of operations
Operating revenues include candidate fees, educational products 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 accounts which exceed insured limits established by the Federal Deposit Insurance Corporation in the U.S. and other national deposit protection mandates. To mitigate risk exposure, it is the policy of CFA Institute to deposit funds only in financially sound institutions and to maintain a daily cash balance of no more than $7,000,000 to support operational needs and to offset bank transactional fees. At times operational exigencies require a temporary balance in excess of $7,000,000, and the Chief Financial Officer is made aware of these temporary exceptions. This policy pertains to operating accounts of CFA Institute that are in the U.S. Other accounts with minimal balances are maintained for operational purposes. Cash in excess of the $7,000,000 ceiling is maintained in U.S. Treasury bills. Balances in excess of the deposit protection limits and amounts held in U.S. Treasury bills are subject to some degree of credit risk.

Net assets

CFA Institute classifies net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. 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. The program restrictions relate to the Scholarship Fund. As of 31 August 2014 and 2013, 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 2014 and 31 August 2013, CFA Institute had no permanently restricted net assets.

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

	Parent	Non-controlling interest	Consolidated
Balance as of 31 August 2013	$ 174,109	$ 1,156	$ 175,265
Capital contributions	—	5,380	5,380
Change in net assets	39,521	714	40,235
Syndication costs	(274)	—	(274)
Balance as of 31 August 2014	$ 213,356	$ 7,250	$ 220,606

Designated net assets

In 1990, the Association for Investment Management and Research (AIMR, now CFA Institute) was formed as a result of the combination of the Institute of Chartered Financial Analysts (ICFA) and the Financial Analysts Federation (FAF). Prior to the combination, the 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, in the amounts of $950,000 and $589,000 for the year ended 31 August 2014 respectively.

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 separate financial statements and the consolidated financial statements, as required by the Not-for-Profit Entities topic of the FASB ASC because of the control relationship between CFA Institute and the Foundation.

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. During the year ended 31 August 2014, the Research Foundation Board of Trustees approved designating net assets for the amount of committed and unpaid research grants in the statements of financial position. Total designated grants are $95,000 and $0 as of 31 August 2014 and 2013, respectively.

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 curriculum, continuing education, industry standards-setting, and other areas for its membership. In accordance with the Not-for-Profit Entities topic of the FASB ASC, CFA Institute has not recorded the value of the contribution of member volunteers' time in the accompanying consolidated financial statements.

Cash flow reporting

The consolidated statements of cash flow are prepared using the direct method in accordance with generally accepted accounting principles in the U.S., and as recommended by the CFA Program curriculum and the CFA Institute Comprehensive Business Reporting Model.

Reclassifications and revisions

Certain prior year financial information has been reclassified to conform to the current year presentation. The 31 August 2013 statement of financial position has been revised to transfer $458,000 of non-current prepaid expenses from prepaid expenses, current to prepaid expenses, non-current as well as to remove the $1,300,000 increase in fair value of the derivative contract from property and equipment, net. The statement of activities and statement of cash flow, direct method were both revised for year ended 31 August 2013 to reflect the $1,300,000 increase in fair value of the derivative contract as a contra finance cost. These errors were not material to the 31 August 2013 financial statements.

Cost classification

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

Cash and cash equivalents

Cash and cash equivalents include short-term liquid investments with original maturities of 90 days or less following the month 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.

Investments

The current investment policy statement (IPS) incorporates dynamic asset allocation within predetermined ranges. Allocations to various asset classes are primarily global in nature, properly diversified, liquid, appropriately managed in terms of risk and mitigation, and provide for future growth. Strategic, long-term, target investment portfolio weights are 65% risk assets (e.g., global equities, global REITs, commodities, and emerging market debt) and 35% diversifying assets (e.g., TIPS, global fixed income, and short-term bonds). For the year ended 31 August 2014, corresponding actual weights reflect 62% and 38%, respectively. A revision was made to the IPS during the current fiscal year to provide the Investment Committee with the option to consider sustainable investing in its overall decision-making processes. Several other minor modifications were also incorporated. All revisions were approved by the Investment Committee and the Audit and Risk Committee of the Board of Governors.

Publication inventory

Inventory, which consists primarily of publications, is stated at the lower of cost or market determined by the first-in, first-out method. The CFA Program candidate curriculum is included in this balance.

Restricted cash

Restricted cash is classified as either current or non-current, depending on whether its use is restricted for greater than twelve months after 31 August 2014 or 31 August 2013, dependent on the reporting year. The cash serves as collateral for bank-issued letters of credit as well as escrowed deposit accounts and is restricted as to withdrawal. Income earned from these funds is unrestricted and available for company use.

Derivative

CFA Institute is subject to risk from adverse fluctuations in interest rates associated with notes payable pertaining to the acquisition and construction of the Charlottesville office. This risk is managed through the use of an interest-rate swap (a derivative financial instrument) that economically hedges its 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 use derivative instruments for trading or speculative purposes.

CFA Institute's outstanding derivative financial instrument is recognized in the consolidated statements of financial position at its fair value. The change in value due to annual fluctuations is recognized on the finance costs line in the consolidated statements of activities and was $932,000 and $0 for the years ended 31 August 2014 and 2013, respectively. The effect on operations from recognizing the fair value of this derivative financial instrument depends on its intended use, its hedge designation, and its effectiveness in offsetting changes in the fair value of the exposure it is hedging.

To mitigate interest rate risk, a 16.5 year interest rate swap agreement was executed concurrently with the note payable. HUB pays a fixed rate of 2.91% on a descending principal balance of $22,390,000 in return for a variable rate interest of 30-day LIBOR, plus 90 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 had a fair value of $368,000 and $1,300,000 as of 31 August 2014 and 31 August 2013, respectively and was in a net asset position to CFA Institute.

Property and equipment
Property and equipment are recorded at cost, are initially classified as construction in progress, and are amortized 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, which range from three to 40 years. Leasehold improvements are amortized over the shorter of the estimated life of the related asset or the remaining term of the lease.

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 placed in service. The amortization period ranges from three to five years based on the expected useful life of the asset. CFA Institute retains fully amortized intangibles in the financial statements until retirement.

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

The membership year for CFA Institute runs from 1 July to 30 June. CFA Institute begins receiving membership dues payments in May. Accordingly, ten months of revenue on current-year membership dues collections is classified as deferred revenue as of the CFA Institute fiscal year-end.

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

Notes payable
Notes payable is classified as either current or non-current, depending on the amount of principal scheduled to be repaid within 12 months after 31 August 2014 and 31 August 2013, dependent on the reporting year.

Revenue
CFA Institute earns its revenue from examination fees, educational product sales, and member dues. Revenue recognition is in accordance with generally accepted accounting principles, the Revenue topic of the FASB ASC, and the Securities Exchange Commission Staff Accounting Bulletin 104 (SEC SAB 104).

Per SEC SAB 104, one-time candidate enrollment fees, included in certification and certificate programs on the accompanying consolidated statements of activities, are recognized as revenue pro-rata over three and one-half years, the estimated average time taken by a successful candidate to pass the three CFA examinations. CFA® Program and CIPM® Program examination fees included in certification and certificate 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. Member dues are recognized as revenue on a pro-rata basis over the membership year.

Claritas® examination fees are included in deferred revenue either as a two-year voucher or a six-month registration. Vouchers either are exercised, or recognized as revenue upon expiration or cancellation. When a voucher is exercised or a registration is purchased, the curriculum portion is recognized immediately, included in educational content and products in the accompanying consolidated statements of income. The registration portion is recognized when the registrant sits for the exam, or upon expiration or cancellation of the registration and is included in certification and certificate programs in the accompanying consolidated statements of income.

Certification and certificate programs, as reflected on the consolidated statements of activities, are net of CFA® , CIPM®, and Claritas® examination scholarships awarded in the amount of $3,598,000 for the year ended 31 August 2014 and $3,921,000 for the year ended 31 August 2013.

Advertising costs
Advertising costs are expensed as incurred. Total advertising expense is $7,864,000 and $7,152,000 for the years ended 31 August 2014 and 2013, respectively.

Income taxes
CFA Institute and the Foundation are exempt from U.S. 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 U.S. 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. In addition, various income taxes are paid according to the requirements in other jurisdictions.

Estimated federal income tax payments made by CFA Institute were $66,000 and $93,000 for the years ended 31 August 2014 and 2013, respectively. The Foundation had no unrelated business income for the years ended 31 August 2014 and 2013, respectively.

CFA Institute has performed an evaluation of its unrelated business income and has maintained its tax exempt status. CFA Institute believes that it has adequately provided for all open tax years under the Income Taxes topic of the FASB ASC and has no uncertain tax positions.

HUB and CMT have elected to be taxed as pass through partnership entities pursuant to Regs. § 301.7701-3 of the Internal Revenue Code. Accordingly, all profits and losses of these companies are recognized by each member on its respective tax return. Holdings has elected to be taxed as a “C” corporation under that same section. Therein, any tax effect on the results of operations will be taxed on Holdings' tax return. Holdings reported $14,555 and ($856) in taxable income (loss) for the periods ended 31 December 2013 and 2012, respectively.

Interest costs
CFA Institute incurred interest costs for the acquisition and construction of the Charlottesville property of $664,000 and $630,000 for the years ended 31 August 2014 and 31 August 2013, respectively. Of these amounts, interest expense was $478,000 and $0 for the periods respectively, and $186,000 and $630,000 was capitalized in land and buildings for the periods, respectively.

Subsequent events
CFA Institute has assessed the impact of subsequent events through 6 November 2014, 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.

New accounting pronouncements
In April 2013, FASB issued an accounting standards update to specify the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate. Not-for-profit entities are required to adopt the new guidance for annual periods beginning after 15 June 2014. CFA Institute anticipates that the adoption of the guidance will not impact its financial statements.

In May 2014, FASB issued an accounting pronouncement related to revenue recognition, which applies a single, comprehensive revenue recognition model for all contracts with customers. This standard contains principles with respect to the measurement of revenue and timing of recognition. CFA Institute will recognize revenue to reflect the transfer of goods or services to customers at an amount that it expects to be entitled to receive in exchange for those goods or services. This pronouncement is effective for annual reporting periods beginning after 15 December 2017, and interim and annual reporting periods thereafter. Early adoption is not permitted. CFA Institute is currently evaluating the impact that the pronouncement will have on its future consolidated financial statements.

3. Accounts receivable

Accounts receivable as of 31 August 2014 and 2013 consist of the following (in thousands):

	2014	2013
Accounts receivable	$ 851	$ 1,365
Allowance for bad debt	(66)	(267)
Total accounts receivable	$ 785	$ 1,098

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.

4. Investments

CFA Institute records its investments at fair value and any change is reflected in the consolidated statements of activities.

Investments, at fair value (note 5) as of 31 August 2014 and 2013, consist of the following (in thousands):

	2014	2013
CFA Institute	$ 270,423	$ 242,023
The Foundation – endowment	12,244	10,667
The Foundation – the Scholarship Fund	586	621
Total investments	$ 283,253	$ 253,311

As of 31 August 2014 and 2013, investments at fair value consisted of U.S. registered mutual funds and collective trusts that invest in global equity, global fixed-income, emerging market debt, global real estate investment trusts, commodities, and U.S. government securities.

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

	2014	2013
Global equity	$ 118,346	$ 121,849
Global fixed-income	107,904	106,672
Global real estate investment trusts	21,925	9,607
Emerging market debt	21,356	10,184
Commodities	13,355	4,630
U.S. government securities	367	369
Total investments	$ 283,253	$ 253,311

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

	2014	2013
Realized gains		
CFA Institute	$ 9,151	$ 7,661
The Foundation – endowment	122	79
The Foundation – the Scholarship Fund	21	2
Total realized gains	9,294	7,742
Interest and dividends		
CFA Institute	6,305	7,492
The Foundation – endowment	298	350
The Foundation – the Scholarship Fund	11	16
Total interest and dividends	6,614	7,858
Unrealized gains		
CFA Institute	15,993	(3,637)
The Foundation – endowment	1,357	572
The Foundation – the Scholarship Fund	7	(1)
Net unrealized gains (losses)	17,357	(3,066)
Investment gains, interest and dividends	$ 33,265	$ 12,534

Description of major investments that represent more than 5% of total investments as of 31 August 2014:

a. Vanguard Total Bond Market Index Fund Institutional Shares – Goal is to track the performance of a broad, market-weighted bond index. Invests in approximately 6,000 bonds, including a wide spectrum of public, investment-grade, taxable, fixed income securities in the U.S. with maturities of greater than one year.
b. Vanguard Total International Bond Index Fund Institutional Shares – Goal is to track the performance of a U.S. dollar hedged benchmark index that measures the investment return of investment-grade bonds issued outside of the U.S. Invests in approximately 1,800 bonds with maturities of greater than one year.

c. Vanguard Total Stock Market Index Fund Institutional Shares – Goal is to track the performance of an index that measures the investment return of the overall U.S. stock market. Invests in more than 3,500 stocks, including large-, mid-, small-, and micro-cap stocks traded on the NYSE and NASDAQ.
d. Vanguard Total International Stock Index Fund Institutional Shares – Goal is to track the performance of an index that measures the investment return of stocks issued by companies located in developed and emerging markets, excluding the U.S. Invests in more than 5,600 stocks of companies located in 46 countries.
e. Vanguard Inflation-Protected Securities Fund Institutional Shares – Goal is to provide investors with inflation protection and income consistent with investment in inflation-indexed securities. Invests in high-quality inflation-indexed bonds issued by the U.S. Treasury, government agencies, and domestic corporations.
f. BlackRock Emerging Market Local Bond Index Fund B – Goal is to track the performance of a broad, emerging market bond index. Bonds are issued in local currency. The fund invests in approximately 180 securities.

5. Fair value measurements

The Fair Value Measurements topic of the FASB ASC established a framework for measuring fair value. Per this topic, a fair value measurement is determined based on the assumptions that a market participant would use in pricing an asset or liability. This topic also established a three-tiered hierarchy that draws a distinction between market participant assumptions based on: (i) observable inputs such as quoted prices in active markets (Level 1), (ii) significant inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2), and (iii) unobservable inputs that require the use of present value and other valuation techniques in the determination of fair value (Level 3).

For Level 1 assets and liabilities that are measured using quoted prices in active markets, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs.

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

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

The notes payable and derivative were previously reported as Level 1 instruments as of 31 August 2013. The fair value classifications of these instruments have been revised to properly reflect these items as Level 2 instruments as of 31 August 2013. This error was not material to the 31 August 2013 financial statements.

The following tables present information about assets and liabilities required to be carried at fair value on a recurring basis as of 31 August 2014 and 2013 (in thousands):

		Fair value measurements as of 31 August 2014 using:		
	Fair value as of 31 August 2014	Quoted market prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Global equity funds	$ 118,346	$ 118,346	$ —	$ —
Global fixed-income funds	107,904	107,904	—	—
Emerging market debt funds	21,356	—	21,356	—
Global real estate investment trust funds	21,925	21,925	—	—
Commodities funds	13,355	—	13,355	—
U.S. government securities	367	367	—	—
Mutual funds - IRC § 457 accounts	1,739	1,739	—	—
Derivative	762	—	762	—
Liabilities:				
Notes payable	(22,390)	—	(22,390)	—
Deferred compensation (note 11)	(1,739)	(1,739)	—	—
Derivative	(394)	—	(394)	—
Net assets and liabilities subject to fair value measurement	$ 261,231	$ 248,542	$ 12,689	$ —

		Fair value measurements as of 31 August 2013 using:		
	Fair value as of 31 August 2013	Quoted market prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Global equity funds	$ 121,849	$ 121,849	$ —	$ —
Global fixed-income funds	106,672	106,672	—	—
Emerging market debt funds	10,184	—	10,184	—
Global real estate investment trust funds	9,607	9,607	—	—
Commodities funds	4,630	—	4,630	—
U.S. government securities	369	369	—	—
Mutual funds - IRC § 457 accounts	1,374	1,374	—	—
Derivative	1,700	—	1,700	—
Liabilities:				
Notes payable	(22,900)	—	(22,900)	—
Deferred compensation (note 11)	(1,374)	(1,374)	—	—
Derivative	(400)	—	(400)	—
Net assets and liabilities subject to fair value measurement	$ 231,711	$ 238,497	$ (6,786)	$ —

6. Property and equipment

Property and equipment, including construction in progress, as of 31 August 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Land and buildings	$ 39,319	$ 27,631
Computer hardware and equipment	12,355	11,565
Furniture and fixtures	4,340	5,797
Leasehold improvements	3,904	8,090
Total property and equipment	59,918	53,083
Accumulated depreciation and amortization	(13,188)	(20,013)
Property and equipment, net	$ 46,730	$ 33,070

Construction in progress, included in the schedule above, as of 31 August 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Land and buildings	$ 64	$ 27,631
Computer hardware and equipment	360	218
Leasehold improvements	9	11
Furniture and fixtures	44	9
Total construction in progress	$ 477	$ 27,869

Charlottesville operations substantially completed renovation on its building project and consolidated to primarily one facility in December 2013. This resulted in transferring the property from construction in progress to in-service as well as disposing of a large volume of assets for which no cash was received. Disposals of leasehold improvements and furniture and fixtures totaled $7,828,000, resulting in a loss of $574,000 for the period ended 31 August 2014. The loss on these dispositions is shown in other support services on the consolidated statements of activities. Depreciation expense was $3,441,000 and $2,905,000 for the years ended 31 August 2014 and 31 August 2013, respectively.

7. Intangibles

Intangibles, including work in process, as of 31 August 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Computer software (developed)	$ 18,288	$ 22,955
Computer software (website development)	9,192	11,128
Computer software (packaged)	6,493	6,617
Other intangibles	3,271	2,708
Total intangibles	37,244	43,408
Accumulated amortization	(27,370)	(33,398)
Intangibles, net	$ 9,874	$ 10,010

Work in process, included in the schedule above, as of 31 August 2014 and 2013, consisted of the following (in thousands):

	2014	2013
Computer software (developed)	$ 1,818	$ 2,473
Computer software (website development)	185	—
Computer software (packaged)	467	447
Other intangibles	210	—
Total work in process	$ 2,680	$ 2,920

Amortization expense was $3,448,000 for the year ended 31 August 2014 and $3,278,000 for the year ended 31 August 2013.

CFA Institute capitalized $185,000 and $0 of new website development costs for the years ended 31 August 2014 and 2013, respectively. Amortization of software and website development costs was $5,000 and $3,204,000 for the years ended 31 August 2014 and 2013, 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, and intellectual property consisting of materials used in the CFA Program curriculum. Total amortization expense for other intangibles was $75,000 and $74,000 for the years ended 31 August 2014 and 2013, respectively.

Intangible software assets of $9,476,000 were disposed during the year ended 31 August 2014, primarily due to obsolete sales software. The assets were fully amortized and no gain or loss was recorded on the disposals.

8. Commitments and contingencies

CFA Institute has entered into various operating leases with original terms ranging from one to ten years that expire on various dates through December 2023. These operating leases cover office space and temporary residential apartments in various cities in which the company operates as well as leased office equipment.

Certain operating leases contain escalation clauses. CFA Institute has recorded deferred rent for those additional costs and recognizes the expense on a straight-line basis over the term of the lease.

Rental expense related to these operating leases was $6,341,000 and $6,419,000 for the years ended 31 August 2014 and 2013, 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. Minimum payments are reflected in the schedule below.

For the following fiscal years, future minimum payments under these agreements at 31 August 2014 are as follows (in thousands):

	Lease Payments	Revenue Sharing	Total
2015	$ 5,044	$ 100	$ 5,144
2016	3,263	100	3,363
2017	2,336	100	2,436
2018	1,805	100	1,905
2019	642	100	742
Thereafter	911	—	911
Total future minimum payments	$ 14,001	$ 500	$ 14,501

The Foundation awards grants to individuals subject to completion of their respective research projects. Unpaid grants, subject to this condition, totaled $95,000 and $126,000 as of 31 August 2014 and 2013, respectively. Due to the conditional nature of these unpaid grants, they are not accrued for in the accompanying consolidated statements of financial position (See Note 2, designated net assets).

9. Retirement plans

In the U.S., the 401(k) Plan allows for discretionary employer and employee contributions up to a certain percentage of individual compensation for active participants. The plan's vesting schedule enables participants to become fully vested after three years of service. Employee contributions are always 100% vested. Oversight of this plan is provided by a committee of employees authorized by the Board of Governors of CFA Institute.

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 and is responsible for the administration of the plan, including determining the available investment vehicles for the plan's assets. A committee of employees executes a policy to select and provide a broad range of investment alternatives. Each eligible participant may direct the investment of his or her balance in up to nineteen mutual fund alternatives offered by the plan. Contribution expense for the 401(k) Plan totaled $5,238,000 and $4,969,000 for the years ended 31 August 2014 and 2013, respectively. Plan forfeitures of $36,000 and $68,000 were netted against company contributions for the years ended 31 August 2014 and 2013, respectively. CFA Institute accrues for incentive compensation and the related 401(k) contribution. Accruals for the related 401(k) contribution of $568,000 and $572,000 were made for the years ended 31 August 2014 and 2013, respectively.

In the Europe, Middle East, and Africa region, CFA Institute provides a retirement program consisting of a Group Stakeholder Pension Plan, a defined contribution plan. Contribution expense totaled $472,000 and $368,000 for the years ended 31 August 2014 and 2013, respectively.

In the Asia Pacific region, employees are enrolled in a mandatory provident funds (MPF) scheme, a defined contribution plan. Contribution expense totaled $557,000 and $555,000 for the years ended 31 August 2014 and 2013, respectively. Accruals for contributions to the related MPF scheme of $266,000 and $226,000 were made for the years ended 31 August 2014 and 2013, respectively.

10. 11 September Memorial Scholarship Fund

The Scholarship Fund, owned and operated by the Foundation, was established in October 2001, to benefit disabled survivors and families of the casualties of the 11 September terrorist attacks. CFA Institute made an initial contribution of $1,000,000 to the Foundation to establish the Scholarship Fund.

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

Contributions to the Scholarship Fund, which is a 20-year, self-liquidating fund, are recorded as temporarily restricted, except for the contribution from CFA Institute. According to the Not-for-Profit Entities topic of the FASB ASC, the contribution by CFA Institute is not temporarily restricted because of the control relationship between CFA Institute and the Foundation (see note 1). 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 $75,000 and $88,000 for the years ended 31 August 2014 and 2013, respectively. CFA Institute contributed $26,000 and $26,000 to cover operating expenses of the Scholarship Fund for the years ended 31 August 2014 and 2013, respectively.

The activity in the Scholarship Fund for the years ended 31 August 2014 and 2013 was as follows (in thousands):

	2014	2013
Designated net assets, beginning of year	$ 625	$ 693
Contribution - other	—	3
Realized gains, interest and dividends	32	18
Unrealized gains (losses) on investments	7	(1)
Scholarships awarded	(75)	(88)
Designated net assets, end of year	$ 589	$ 625

11. Long-term incentive and deferred compensation

CFA Institute has an agreement with certain key employees whereby the organization will pay these employees a specified amount at a future point in time. Liabilities of $2,475,000 and $2,208,000 were recorded as of 31 August 2014 and 2013, respectively. These amounts have been included in employee related liabilities, current and non-current, in the accompanying consolidated statements of financial position.

The following schedule provides detail for these programs (in thousands):

	2014	**2013**
Long-term incentive – current	$ 299	$ 365
Long-term incentive and deferred compensation – non-current	2,176	1,843
Total long-term incentive and deferred compensation	$ 2,475	$ 2,208

The details for the non-current portion of the total long-term incentive and deferred compensation are as follows (in thousands):

	2014	**2013**
Long-term incentive – non-current	$ 437	$ 469
Deferred compensation – non-current (note 5)	1,739	1,374
Total long-term incentive and deferred compensation – non-current	$ 2,176	$ 1,843

12. Notes payable

In the year ended 31 August 2013, CFA Institute acquired a downtown Charlottesville 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 certain 16.5 year term note with an original amount of $22,900,000 and a remaining balance of $22,390,000 as of 31 August 2014, with a variable interest rate of 30-day LIBOR plus 90 basis points (0.90%). CFA Institute is the unconditional guarantor of the term note. Monthly interest-only payments were made for the first eighteen months of the loan period, with principal and interest payments made thereafter based upon a predetermined amortization schedule ending in 2029. To mitigate the risk of a variable interest rate note, HUB also entered into a 16.5 year interest rate swap agreement.

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 to 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. Additionally, CFA Institute is in compliance with all loan covenants and no Event of Default exists.

Minimum principal payments are as follows:

	Principal payments
2015	$ 1,250
2016	1,287
2017	1,325
2018	1,364
2019	1,404
Thereafter	15,760
Grand Total	$ 22,390

PERFORMANCE
INDEPENDENT AUDITOR'S REPORT

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 statements of financial position as of 31 August 2014 and 31 August 2013, and the related consolidated statements of activities and consolidated 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.

Auditor's 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 at 31 August 2014 and 31 August 2013 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

6 November 2014

McLean, Virginia

ABOUT THE ORGANIZATION

CFA Institute, a global, not-for-profit organization, is the world's largest association of investment professionals. With more than 127,000 members and 144 local member societies around the world, we are dedicated to developing and promoting the highest educational, ethical, and professional standards in the investment industry for the ultimate benefit of society.

We offer a range of educational and career resources, including the Chartered Financial Analyst (CFA) designation, the Certificate in Investment Performance Measurement (CIPM) designation, and the Claritas Investment Certificate. CFA Institute is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community.

Although CFA Institute began operations primarily in the United States and Canada over 50 years ago, more than one-third of members are now located outside North America, in over 140 countries. The global distribution of new candidates entering the CFA Program in fiscal year 2014, with less than a third from North America and almost half from the Asia-Pacific region, is indicative of the expected future membership composition of the organization.