2013 ANNUAL REPORT

A global association of investment professionals, CFA Institute sets the standard for professional excellence and education credentials. We champion ethical behavior in investment markets with the end goal of creating an environment where investors' interests come first, markets function at their best, and economies grow.

A MESSAGE FROM OUR CHAIR
Charles Yang, CFA
Chair, Board of Governors

A MESSAGE FROM OUR CEO
John Rogers, CFA
President and CEO

PERFORMANCE
Tim McLaughlin, CPA, CFA
Chief Financial Officer

A Message from Our Chair

CHARLES YANG, CFA
Chair, Board of Governors

This is an exciting time to lead the CFA Institute Board of Governors. I joined the board in 2009, just as the chaos surrounding the global financial crisis was unfolding. In the years that followed, I have witnessed the impact that members, volunteers, member societies, and staff have had on mending the systemic and ethical ills that damaged the reputation of the investment management industry and finance profession.

Setting the highest standards in the finance profession has never been more important. The Board of Governors has as its charge to define CFA Institute's vision, mission, and strategies. A new strategy, launched in fiscal 2013, revolves around specific initiatives, such as the Future of Finance, and education programs, such as the CFA® Program and the Claritas® Investment Certificate. Our collective emphasis is on promoting a broad mission to serve the good of society, to be a bold voice for ethics, and to engage with a bigger community.

I have great respect for member society volunteers, who juggle their day jobs while also advocating for higher standards of education and professional integrity in their markets. Through partnerships, global collaboration, focused teamwork, and a commitment to ethical best practices, all of us, every active volunteer and change agent, can make a significant difference locally. And that difference has global implications. Moreover, these activities continue to enhance awareness of the global CFA Institute brand as well as local member society brands.

I have the utmost confidence that CFA Institute is in a unique position to make a difference in the professional lives of our members around the world. For example, through a strong partnership with a number of dedicated Beijing volunteer leaders over several years, the local support necessary to establish a society in China was achieved, and CFA Society Beijing celebrated its formation in 2013.

"I have great respect for member society volunteers, who juggle their day jobs while also advocating for higher standards of education and professional integrity in their markets."

I would like to highlight a few achievements around the world that have positioned CFA Institute as a respected thought leader.

CFA Society Singapore introduced the Investment Committee Code of Conduct at a seminar targeting not-for-profit organizations. Promotion of the code is part of the society's drive to encourage professional standards and ethical practice in financial analysis and investment management.

The Central and East European Conference was initiated last year by CFA Romania, and this year, CFA Association (Russia) organized it. The conference is a great initiative and shows the partnership among member societies in the region, and CFA Institute is delighted to support it through funding, providing speakers for the event, and conducting local outreach.

CFA Society Milwaukee and CFA Society Madison hosted a "Putting Investors First" event, which took place in early 2013. These member societies built a website to showcase resources from the Future of Finance initiative and managed the media for maximum coverage.

Reflecting on my career as a CFA charterholder, I have been fortunate to work with individuals from around the world who maintain high ethical standards, understand the importance of continuing education, and place the interest of their clients first. But such attributes are not found in all investment professionals. With the rapid growth of the financial industry, what may be common practice in one country may not be in another. Appreciating cultural differences and understanding diverse business practices is a learning process for all individuals, yet there must be uncompromising commitment to professional excellence on a global scale.

"Appreciating cultural differences and understanding diverse business practices is a learning process for all individuals, yet there must be uncompromising commitment to professional excellence on a global scale."

In fiscal 2014, our members, staff, volunteers, and stakeholders will see many opportunities to promote our mission and values while they help member societies grow and flourish. These efforts will be supported by renewed commitment on the part of CFA Institute to shape a trustworthy financial industry.

Join us as we network and collaborate with professionals around the world in support of the investment community to restore integrity and trust to financial services. The experience of meeting like-minded individuals to achieve a common mission is something you will remember for a long time to come. You can have a positive impact on future generations of investment professionals and on our global community at large.

Charles Yang, CFA

A Message from Our CEO

JOHN ROGERS, CFA
President and CEO

As I write this message, financial markets are near all-time highs. The global financial crisis, and the ensuing worst global economic recession in 70 years, seems long ago. But at this five-year anniversary of those dark days, we need to remain focused on some painful truths. Investor trust in the investment profession has suffered great damage, and the “Great Recession” generated many lingering social and economic costs. Clearly, positive ethical leadership oriented toward the social good is needed in the finance and investment industry. Thanks to your inspiration and commitment as members of CFA Institute, we are rising to that challenge.

Guiding our efforts is the CFA Institute strategic plan, which was launched at the start of the year under review. Our new strategy directs us to embrace a broader mission, a bolder voice for ethics, and engagement with a bigger community. In the next paragraphs, I will summarize key initiatives and progress in these areas.

Education
Demand for the CFA® Program remains strong despite the mixed picture for employment in financial services over the past year and the lingering reputational issues in the finance industry. In particular, developing markets, such as China, continue to grow. Other markets, including the United States and Hong Kong, have experienced a slight weakening in year-over-year demand.

The CFA Program is a well-known path to knowledge for investment decision makers, and it remains the gold standard in the industry. For those who support investment decision makers or are involved in related functions, however, there has been no clear path for learning in finance. This troubling lack of knowledge and training in finance is a critical need we hope to meet with the Claritas® Investment Certificate. Thanks to an extraordinary effort across the entire organization, Claritas was successfully launched in May following a pilot program involving 3,300 candidates in 50 countries. We anticipate significant corporate interest that will help move us toward our Claritas registration objectives for the first full year of operation.

> "Clearly, positive ethical leadership oriented toward the social good is needed in the finance and investment industry."

The CFA Program is also well known as a generalist program, but the need for more specialized knowledge is growing. Throughout fiscal 2013, staff and volunteers reframed and repositioned the Certificate in Investment Performance Measurement (CIPM®) program, an effort that included 15 new and two revised readings, and introduced the investment manager search and selection field. The first exams offering revised CIPM topic areas and weightings took place in April. Current registrations are off to an impressive start; the combined Principles and Expert level registrations are up by 33 percent year over year.

Professional development, encouraged for all members, continues to be a mainstay at CFA Institute. Last year, we received more than 71,000 attestations from members who completed 20 or more hours of continuing education.

Ethics

In March, CFA Institute launched the Future of Finance initiative, which continues to generate interest among our members, newcomers to CFA Institute, and the media. In the past year, we formed a high-profile advisory committee, developed a focused list of topic areas, and delivered two tools for maintaining high ethical standards: the Statement of Investor Rights and the Principles in Investment Reporting. Using the message "The Future of Finance Starts With You," we are promoting the idea that each industry participant can help shape a more trustworthy and forward-thinking finance sector that will serve society. The framework is designed to deliver a consistent, bold voice through all communication channels to broadcast CFA Institute's mission around the world.

This initiative and message have generated more than 380 pieces of significant global media coverage to date. The Statement of Investor Rights, which was translated into multiple languages, and the Principles for Investment Reporting, which lays out a framework for communicating investment information, have been well received. All reports, from advertising to social media, show that the Future of Finance initiative has captured the imagination of our stakeholders. Many member societies have already begun integrating Future of Finance themes and overall messaging into their events.

We also partnered with Edelman, a highly respected public relations firm, to release the results of a survey on trust in investment management. In addition, we released the 2013 Global Market Sentiment Survey, which reflected perspectives from CFA Institute members on key market and economic issues. In the last report, respondents cited an overwhelming lack of trust and suggested that a culture of ethics be encouraged inside financial firms. The 2014 survey results will be released in December.

> "Partnership is a value that CFA Institute treasures."

On the regulatory front, we co-sponsored the U.S.-based Systemic Risk Council in partnership with the Pew Charitable Trusts. The Council's chair, Sheila Bair (former chair of the U.S. Federal Deposit Insurance Corporation), continues to drive thought leadership by working with experts in investment, financial market regulation, policy making, and academia. Throughout the year, the council offered expert opinions on the structuring of proper systemic risk oversight and relevant regulatory proposals in the US markets. In the EMEA region, CFA Institute issued several reports, articles, and commentaries on issues of the day. We also participated in various meetings with and consultation responses to regulators on diverse topics. Our Asia Pacific team met with regulators across the entire region on various issues. In all regions, widespread interest from practitioners, policymakers, and the media confirms that we are on the right track.

In the Europe, Middle East, and Africa region, which supports 24,000 members and 36 member societies in 36 countries, we welcomed CFA Society Portugal to our community. CFA Institute executives continue to speak at various conferences in the region and have either hosted or partnered with member societies to deliver continuing education. Examples include the second Central and Eastern European Conference held in Moscow, a Financial Market History Roundtable held in London in partnership with Cass Business School, the European Investment Conference, and the Middle East Investment Conference.

In the Asia Pacific region, which supports 21,000 members and 17 member societies in 14 countries, we held the CFA Institute 66th Annual Conference in Singapore, our first annual conference in this region. Media coverage of the conference resulted in more than 150 print/on-line stories and 11 broadcast segments appearing in such media as Bloomberg, CNBC, *P&I*, *Asia Asset Management*, the *Times of India*, and *South China Morning Post*. Social media activity — blogs, live streamed presentations, webcasts, and Take 15 interviews — extended our reach considerably. The newly approved and first member society in China, CFA Beijing, is opening the door to greater member engagement, candidate growth, and increased brand visibility in China.

Partnership is a value that CFA Institute treasures. For example, our partnerships with universities, employers and member societies, have grown in recent years. The CFA Program Partner initiative has attracted high-profile universities and now includes 148 CFA Program Partners in 40 countries. Through the new University Recognition Program, we have teamed up with an additional 76 well-known universities in 25 countries. Last year, we built participation in the CFA Institute Global Research Challenge by more than 15 percent, with 3,500 students, 750 universities, and 113 member societies participating. We estimate more increases in university and student participation in the coming year.

Employer interest in CFA Institute codes and standards is also on the rise. More than 900 firms in 32 countries now claim compliance with the Asset Manager Code of Professional Conduct (AMC). A recent success was the decision by State Street Global Advisors to adopt the AMC. Although the majority of adopting firms are US based, outreach activities are under way in other regions.

> "We are inspiring our members and the community of financial services leaders to act on their broader responsibility to serve the greater good of society."

Our Industry Relations team has focused on building relationships with financial services employers. By learning more about their needs, we hope to strengthen our outreach capabilities and improve communication with these stakeholders.

We continue to partner with member societies on many fronts and more recently in advocacy efforts. CFA Institute hosted the second Global Advocacy Summit, bringing key volunteers together to discuss industry issues and strategies for generating more member and society engagement in advocacy worldwide.

In Closing

Working in the background is CFA Institute's devoted staff, whose commitment to the organization's financial strength, operational excellence and global talent, enables us to achieve our mission. We have completed a busy year of initiatives, and through careful use of revenues, our year-end operating margin was $0.9 million. For more details, I encourage you to review the Performance section of this report.

CFA Institute continues to speak boldly about the future of finance. We are inspiring our members and the community of financial services leaders to act on their broader responsibility to serve the greater good of society. We are working with our local member societies to engage with communities around the world to help build trust and shape a forward-thinking financial services industry. And we are challenging and educating the next generation of investment professionals to practice as ethical stewards. I thank you for your continued support and interest, and I look forward to working with members, staff, and others who are rallying behind this call to action.

John Rogers, CFA

President and CEO

Financial Highlights

TIM MCLAUGHLIN, CPA, CFA
Chief Financial Officer

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. A key component in the successful execution of this plan is the financial health and sustainability of the organization.

This fiscal year, CFA Institute began to operationalize the multi-year strategy for the next 3–10 years: Strategic Plan 2015/2022. The vision for this new plan begins with a focus on a **Broader Mission, Bolder Voice, and Bigger Community**. These "3 Bs" elevate the emphasis on restoring trust. It is through this strategic lens that our new initiatives are viewed and prioritized. In order to successfully implement the new strategic plan, the activities of CFA Institute are categorized into four key drivers: Education, Engagement, Ethics, and Enablers (the infrastructure resources necessary to accomplish CFA Institute initiatives). In other words, the "3 Bs" represent our strategy to further our mission and the "4 Es" address the plan for executing our strategy.

At a high level, the following charts show the sources of revenue and the sources of expenses for fiscal year 2013 (FY2013).

FY2013 REVENUES BY STRATEGIC AREA

86% Education *
14% Engagement

** Includes curriculum and scholarships*

FY2013 OPERATING EXPENSES BY STRATEGIC AREA

41% Education *
28% Enablers
24% Engagement
8% 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)	FY13	FY12	'13 vs. '12
CFA Program Registrations [1]	212,200	214,600	–1%
CFA Institute Members	120,800	114,300	6%
Operating Revenues [2]	$ 224.9	$ 220.1	2%
Operating Expenses	$ 224.0	$ 228.3	–2%
Income from Operations	0.9	(8.2)	
Realized Gains (Losses), Interest, and Dividends	15.6	12.1	29%
Rounding Adj.		(0.1)	
Change in Unrestricted Net Assets from Operations	16.5	4.0	313%
Unrealized Gains (Losses) on Investments	(3.1)	3.1	
Capital Contributions	1.2	—	
Rounding Adj.		(0.1)	
Change in Net Assets	**$14.6**	**$7.0**	**109%**

[1] Realized net of adjustments

[2] Includes net assets released from program restrictions

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 2013 and the ability to invest in mission-related activities in the future.

Highlights

- Fiscal year 2013 CFA Program exam registrations decreased 1% to 212,200 candidates. However, the June exam represented the second-largest exam administration in our 50-year history.
- Fiscal year 2013 realized new Level I registrations decreased 3% versus FY2012.
- CFA Institute membership grew 6% in fiscal year 2013 to 120,800 members, with an active charterholder member attrition of 5.0%, which is slightly higher than the 4.3% realized in FY2012.
- Investments totaling $242.0 million are available for contingency purposes which provide for a multiple-year continuation of services in the event of a large-scale disruption to the CFA Program.

Revenues

FY2013 REVENUES BY SOURCE			% Change
($ in millions)	FY13	FY12	'13 vs. '12
Education [1]	$ 192.6	$ 189.8	1%
Engagement [2]	32.3	30.3	7%
Total	**$224.9**	**$220.1**	**2%**

[1] Includes CFA Program, CIPM, conferences, curriculum, and scholarships

[2] Includes member dues and publications advertising

- Education revenue growth increased because of normal program pricing inflation adjustments which helped offset the lower candidate registrations relative to FY2012.
- Engagement revenue, composed primarily of member dues revenue, grew because of the increase in membership. The member dues rate was not increased for fiscal year 2013.

Expenses

FY2013 OPERATING EXPENSES BY STRATEGIC OBJECTIVE			% Change
($ in millions)	FY13	FY12	'13 vs. '12
Education [1]	$ 91.1	$ 101.2	–10%
Engagement	54.3	51.9	5%
Ethics	17.0	14.0	21%
Enablers	61.6	61.2	1%
Total Expenses	**$224.0**	**$228.3**	**–2%**

[1] Includes curriculum

- The Education area realized significant savings in FY2013 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 saw additional resources devoted to regional and global product marketing, brand awareness campaigns, and support services for members. Substantial investments were made for the online presence of the Claritas Investment Certificate pilot and global launch, and the ongoing Future of Finance initiative. In addition, we continued to extend our social media presence across platforms, content, regions, and constituent groups. In particular, additional resources were devoted to leveraging educational conferences and events into real-time and archived social media and online content streams.
- Ethics-related investments included the launch of the Future of Finance project, Professional Conduct-related activities, and additional capabilities to address the ethics-related strategic initiatives.
- Additional investments were made within the Enablers area to upgrade and strengthen the infrastructure 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			% Change
($ in millions)	FY13	FY12	'13 vs. '12
Cash Inflows from Operations	$ 248.7	$ 243.3	2%
Cash Outlays from Operations	227.4	232.1	–2%
Net Cash from Operations	21.3	11.2	90%
Net Cash from Investing Activities	(38.5)	14.4	n/a
Net Cash from Financing Activities	24.1	—	n/a
Net Increase in Cash	6.9	25.6	–73%
Cash, Beginning of Year	39.2	13.6	188%
Rounding Adj	0.1	—	—
Cash, End of Year	**$46.2**	**$39.2**	**18%**

Net cash from operations grew primarily because of increased inflows from punctual member dues payments and from a reduction in cash disbursements, most notably from program services related to curriculum. Cash utilized for investing activities has shown a significant increase, largely because of the new facility in Charlottesville and other capital expenditures, while cash inflows provided by financing are a result of the new building loan executed in September 2012.

Financial Position

FINANCIAL POSITION ($ in millions)	FY13	FY12	% Change '13 vs. '12
Cash and Cash Equivalents	$ 46.2	$ 39.2	18%
Other Current Assets	16.4	17.3	–5%
Total Current Assets	62.6	56.5	11%
Investments	253.3	241.1	5%
Net Equipment and Improvements	31.8	7.2	342%
Other Assets	11.4	8.6	33%
Total Assets	$ 359.1	$ 313.4	15%
Accounts Payable	16.8	13.4	25%
Deferred Revenue	128.9	124.2	4%
Other Liabilities	39.4	16.5	139%
Total Liabilities	185.1	154.1	20%
Net Assets	174.0	159.4	9%
Rounding Adj	—	(0.1)	—
Total Liabilities and Net Assets	**$ 359.1**	**$ 313.4**	**15%**

- 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 because of the historically strong demand for Level I CFA Program candidate registrations. 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)	FY13	FY12	'13 vs. '12
Operating Fund and Short-Term Investments	$ 41.3	$ 39.2	5%
Contingency Reserve/Business Opportunity Reserve	242.0	230.5	5%
CFA Institute Subtotal	283.3	269.7	5%
Research Foundation [1]	10.7	9.9	8%
11 September Scholarship Fund [1]	0.6	0.7	–14%
Total Cash, Short-Term, and Long-Term Investments	**$294.6**	**$280.3**	**5%**

[1] please see notes to audited financial statement for additional information

- As stated previously, the transition to the new reserve investment policy statement is ongoing. 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). It is expected that this approach will give CFA Institute additional risk management flexibility.
- The reserves are invested in accordance with the CFA Institute Investment Policy Statement, which was developed by the CFA Institute Investment Committee according to principles taught in the CFA Program curriculum. The Investment Policy Statement is approved by the Audit and Risk Committee of the CFA Institute Board of Governors.

Risks and Conclusions

CFA Institute supports a culture of informed risk awareness in pursuit of mission achievement. The organization employs a formalized enterprise risk management (ERM) process across the organization 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 and annually reviewed by senior management and the Audit and Risk Committee of the Board of Governors.

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.

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.

As a service organization, the dedication and expertise of CFA Institute staff and volunteers embody 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.

Underlying the risk management process, CFA Institute financial reserves are structured to provide protection from possible disruptions that may affect candidate registrations. 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 due 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 multiple-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.

Conclusion

Fiscal year 2013 represented the first year working under the Strategic Plan 2015/2022. The first year goals and objectives of the strategic plan were achieved. 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 the key issues in the industry is trust and significant resources have been focused on helping to restore trust in the investment industry. We continue in 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.

Consolidated Financial Statements

FINANCIAL POSITION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 AUGUST 2013 AND 2012

ASSETS (in thousands)	**2013**	**2012**
Current assets		
Cash and cash equivalents	$46,152	$39,243
Accounts receivable, net	1,098	1,384
Prepaid expenses	10,529	10,300
Publication inventory	3,356	4,402
Restricted cash	380	—
Other current assets	1,057	1,199
Total current assets	62,572	56,528
Non-current assets		
Investments, at fair value	253,311	241,107
Restricted cash	60	494
Property and equipment, net	31,770	7,246
Intangibles, net	10,010	6,924
Other non-current assets	1,374	1,149
Total non-current assets	296,525	256,920
Total assets	$359,097	$313,448

LIABILITIES AND NET ASSETS (in thousands)	**2013**	**2012**
Current liabilities		
Accounts payable and accrued liabilities	$16,819	$13,375
Deferred revenue	96,743	91,824
Employee related liabilities	13,590	12,254
Funds held for others	1,643	1,946
Notes payable	910	—
Total current liabilities	129,705	119,399
Non-current liabilities		
Deferred revenue	32,183	32,393
Employee related liabilities	1,843	1,572
Notes payable	20,690	—
Other liabilities	711	710
Total non-current liabilities	55,427	34,675
Total liabilities	185,132	154,074
Net assets		
Unrestricted		
Undesignated	171,234	157,731
Designated - 11 September Scholarship Fund	625	693
Designated - other	950	950
Non-controlling interest	1,156	—
Total net assets	173,965	159,374
Total liabilities and net assets	$359,097	$313,448

Please refer to accompanying notes, which are an integral part of these consolidated statements.

ACTIVITIES

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED 31 AUGUST 2013 AND 2012

(in thousands)	**2013**	**2012**
Change in net assets		
Operating revenues		
Certification and certificate programs	$155,916	$137,928
Educational products	36,513	51,687
Member dues and other	32,335	30,439
Contributions	100	44
Total operating revenues	224,864	220,098
Operating expenses		
Program services		
Certification and certificate programs	58,750	55,663
Educational content and products	36,397	49,647
Marketing and communications	28,998	27,485
Member and society services	21,922	20,636
Standards and financial market integrity	13,004	10,040
Scholarships - 11 September Memorial Fund	88	104
Support services		
Information technology	23,916	22,602
Financial operations and executive	17,788	18,911
Facility operations	9,252	8,814
Human resources	5,566	5,576
Legal division	3,301	4,076
Publishing and content services	2,509	2,481
Travel support and event management	2,376	2,225
Fundraising	33	3
Other support services	69	9
Total operating expenses	223,969	228,272
Income (loss) from operations	895	(8,174)
Realized gains, interest and dividends	15,600	12,128
Change in net assets from operations	16,495	3,954
Other changes		
Unrealized (losses) gains on investments	(3,066)	3,074
Capital contributions	1,162	—
Change in net assets	14,591	7,028
Net assets, beginning of year	159,374	152,346
Net assets, end of year	$173,965	$159,374

Please refer to accompanying notes, which are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOW, DIRECT METHOD FOR THE YEARS ENDED 31 AUGUST 2013 AND 2012

(in thousands)	2013	2012
Cash flows from operating activities		
Cash inflows		
Certification and certificate programs	$159,661	$143,200
Educational products	36,116	51,919
Member dues and other	44,975	41,338
Contributions	100	44
Interest and dividends	7,859	6,840
Total cash inflows	248,711	243,341
Cash outlays		
Program services		
Certification and certificate programs	58,053	56,567
Educational content and products	37,714	44,528
Marketing and communications	28,258	29,674
Member and society services	30,938	30,931
Standards and financial market integrity	12,656	9,910
Scholarships - 11 September Memorial Fund	88	104
Support Services		
Information technology	18,696	17,312
Financial operations and executive	19,140	21,091
Facility operations	8,468	7,406
Human resources	5,345	5,580
Legal division	3,203	4,287
Publishing and content services	2,411	2,412
Travel support and event management	2,372	2,283
Fundraising	30	3
Other support services	—	43
Total cash outlays	227,372	232,131
Net cash provided by operating activities	21,339	11,210
Cash flows provided by financing activities		
Loan proceeds	22,900	—
Capital contributions	1,162	—
Net cash provided by financing activities	24,062	—

Cash flows (used in) provided by investing activities		
Purchases of property and equipment	(24,050)	(2,112)
Purchases of intangible assets	(6,913)	(2,934)
Purchases of investments	(189,608)	(93,462)
Proceeds from investments	182,079	112,911
Net cash (used in) provided by investing activities	(38,492)	14,403
	6,909	25,613
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning of year	39,243	13,630
Cash and cash equivalents, end of year	$46,152	$39,243

Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	$14,591	$7,028
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	6,183	6,941
Losses on disposition of fixed assets	69	9
Unrealized losses (gains) on investments	3,066	(3,074)
Realized gains on investments	(7,742)	(5,288)
Capital contributions	(1,162)	—
Changes in		
Accounts receivable, net	286	(363)
Prepaid expenses	(229)	(3,104)
Publication inventory	1,046	6,114
Current restricted cash	(380)	—
Other current assets	143	(387)
Non-current restricted cash	434	250
Other non-current assets	(225)	(208)
Accounts payable and accrued liabilities	(754)	(3,646)
Current deferred revenue	4,919	4,505
Employee related liabilities	1,336	648
Funds held for others	(303)	345
Non-current deferred revenue	(210)	1,269
Non-current employee related liabilities	270	138
Other non-current liabilities	1	33
Net cash provided by operating activities	$21,339	$11,210

Please refer to accompanying notes, which are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

1. ORGANIZATION

CFA Institute is a not-for-profit professional association 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 120,000 members, as well as 139 member societies around the world. CFA Institute also administers the Certificate in Investment Performance Measurement (CIPM®) Program and serves more than 1,100 members of the CIPM Association. In addition, CFA Institute administers the Claritas® Investment Certificate Program. CFA Institute has offices in Charlottesville, Virginia; New York; London; Hong Kong; and Brussels.

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.

Research Foundation of CFA Institute (the Foundation), a wholly-owned subsidiary of CFA Institute, is a not-for-profit organization 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) 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, a wholly-owned subsidiary of CFA Institute, is a limited company incorporated in Hong Kong. CFA Institute China Limited has two representative offices located in the People's Republic of China—one in Beijing and one in Shanghai. CFA Institute China Limited and its two representative offices provide auxiliary services to its members in China, including continuing professional education, conferences, workshops, exhibitions, and other networking events.

In June 2012, CFA Institute established three new legal entities: Cville Operations Hub, LLC, Cville Operations Holdings, Inc., and Cville Master Tenant, LLC, all Virginia corporations, based in Charlottesville, Virginia, to establish a legal entity relationship qualifying for the capture and use of Historic Rehabilitation Tax Credits pursuant to IRC § 47 and 48 and Virginia Code § 58.1-339.2. None of the entities transacted any business activities in the year ended 31 August 2012. As of 31 August 2012, all entities were wholly owned affiliates of CFA Institute.

During the year ended 31 August 2013, partial interests in Cville Operations Hub, LLC, and Cville Master Tenant, LLC, were conveyed to unrelated third parties. In accordance with the Cville Operations Hub, LLC, Second Amended and Restated Operating Agreement dated 21 May 2013, Cville Operations Hub, LLC, 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, Cville Master Tenant, LLC, granted a ninety nine point ninety nine percent (99.99%) non preferred equity interest to an unrelated third party. The conveyance of the interest in Cville Master Tenant, LLC, 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, Cville Operations Holdings Inc., a wholly owned subsidiary of CFA Institute, remains the managing member of Cville Operations Hub, LLC, and Cville Master Tenant, LLC, and retains operational control of both of these entities (see Note 2, Consolidation).

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 (U.S.).

Consolidation

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

Cville Operations Holdings, Inc., Cville Operations Hub, LLC, and Cville Master Tenant, LLC, operate on a calendar year basis. It is anticipated that no intervening events will materially affect these consolidated financial statements during the period between the date of these financial statements and calendar year end 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 set 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. 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. This policy pertains to CFA Institute's U.S. operating account; other accounts with minimal balances are maintained for operational purposes.

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 2013 and 2012, 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 2013 and 2012, CFA Institute had no permanently restricted net assets.

Unrestricted net assets include an element of non-preferred, equity non-controlling 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 2012	$159,374	$ —	$159,374
Capital contributions	—	1,162	1,162
Change in net assets	13,435	(6)	13,429
Balance as of 31 August 2013	$172,809	$1,156	$173,965

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 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 $625,000 for the year ended 31 August 2013, 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.

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 and cash equivalents

Cash and cash equivalents include short-term liquid investments with original maturities of ninety 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

During the year ended 31 August 2012, the Investment Committee and the Audit and Risk Committee of the Board of Governors approved an investment policy statement which incorporates more dynamic asset allocation within predetermined ranges, further diversification of the portfolio into additional global, liquid asset classes, more appropriate risk management and mitigation, and future growth opportunities for the overall portfolio. 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 and global fixed income). Each new asset class in the IPS was funded during the year ended 31 August 2013, with Vanguard and BlackRock being selected as investment managers for the added funds. Minor revisions were made to the IPS during the current fiscal year, specifically to include revised Vanguard benchmark changes and to incorporate updated language to accommodate the new international bond portfolio. These changes 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. Included in this balance is the CFA Program candidate curriculum.

Restricted cash

Restricted cash is classified as either current or non-current, depending on whether its use is restricted for greater than twelve months past 31 August 2013. 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.

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 fifty 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 disposal.

Notes payable

Notes payable is classified as either current or non-current, depending on the amount of principal scheduled to be repaid within twelve months past 31 August 2013.

Derivatives

CFA Institute is subject to risk from adverse fluctuations in interest rates pertaining to the acquisition and construction of the Charlottesville office. These risks are managed through a program that includes the use of derivative financial instruments, primarily an interest rate swap to economically hedge its exposure associated with variable rate debt. CFA Institute's objective in managing exposure to these risks is to limit the impact on operations and cash flow. CFA Institute does not use derivative instruments for trading or speculative purposes and uses them solely as a business strategy to offset risk in interest rates pertaining to the acquisition and construction of the Charlottesville office.

CFA Institute's outstanding derivative financial instruments are recognized in the consolidated statements of financial position at their fair values. The effect on operations from recognizing the fair values of these derivative financial instruments depends on their intended use, their hedge designation, and their effectiveness in offsetting changes in the fair values of the exposures they are hedging.

To mitigate interest rate risk, a 16.5 year interest rate swap agreement was executed concurrently with the note payable. Cville Operations Hub, LLC, pays a fixed rate of 2.91% on $22,900,000 in return for receipt of variable rate interest in the amount 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. This is the associated normal risk of successfully exiting the swap. The interest rate swap had a fair value of $1,300,000 as of 31 August 2013 and was in an asset position to CFA Institute. This is the only derivative that CFA Institute possesses.

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 takes the respective examinations. Educational product sales are recognized as revenue when those products are shipped or otherwise made available to the customer. Member dues are recognized as revenue on a pro-rata basis over the membership year.

CFA Claritas™ examination fees are included in deferred revenue either as a two-year voucher or a six-month registration. Vouchers are either exercised or are 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 takes 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 $3,921,000 for the year ended 31 August 2013 and $3,450,000 for the year ended 31 August 2012.

Deferred revenue

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

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 programs.

Advertising costs

Advertising costs are expensed as incurred. Total advertising expense is $7,152,000 and $6,603,000 for the years ended 31 August 2013 and 2012, 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 were $93,000 and $118,000 for the years ended 31 August 2013 and 2012, 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.

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., as recommended by the CFA Program curriculum and the CFA Institute Comprehensive Business Reporting Model.

Reclassifications

Certain prior year financial information has been reclassified to conform to the current year presentation.

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.

Interest costs

CFA Institute incurred interest costs for the acquisition and construction of the Charlottesville office of $630,000 and $0 for the years ended 31 August 2013 and 31 August 2012, respectively. Of these amounts, no interest was expensed in either period, and $630,000 and $0 was capitalized in construction in progress-land and buildings for the periods, respectively.

Subsequent events

CFA Institute has assessed the impact of subsequent events through 20 November 2013, 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 May 2011, FASB issued authoritative guidance to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). Non-public entities were required to adopt the new guidance for annual periods beginning after 15 December 2011. CFA Institute adopted the guidance as required, and its adoption resulted in no material impact on its financial statements.

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.

3. ACCOUNTS RECEIVABLE

Accounts receivable as of 31 August 2013 and 2012 consist of the following (in thousands):

	2013	2012
Accounts receivable	$1,365	$1,566
Allowance for bad debt	(267)	(182)
Total accounts receivable	$1,098	$1,384

The accounts receivable aging report is reviewed periodically. All accounts over ninety 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 2013 and 2012, consist of the following (in thousands):

	2013	2012
CFA Institute	$242,023	$230,525
The Foundation	10,667	9,895
The Scholarship Fund	621	687
Total investments	$253,311	$241,107

As of 31 August 2013 and 2012, 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, 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):

	2013	2012
Global equity funds	$121,849	$116,301
Global fixed-income funds	106,672	124,361
Emerging market debt funds	10,184	—
Real estate investment trust funds	9,607	—
Commodities funds	4,630	—
U.S. government securities	369	445
Total investments	$253,311	$241,107

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

	2013	2012
Realized gains		
CFA Institute	$7,661	$4,665
The Foundation	79	619
The Scholarship Fund	2	4
Total realized gains	7,742	5,288
Interest and dividends		
CFA Institute	7,492	6,551
The Foundation	350	271
The Scholarship Fund	16	18
Total interest and dividends	7,858	6,840
Unrealized (losses) gains		
CFA Institute	(3,637)	3,357
The Foundation	572	(283)
The Scholarship Fund	(1)	—
Net unrealized (losses) gains	(3,066)	3,074
Investment gains, interest and dividends	$12,535	$15,202

Description of major investments that represent more than 5% of total investments as of 31 August 2013:

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. Vanguard Short-Term Bond Index Fund Institutional Shares – Goal is to track the performance of a market-weighted bond index with a short-term dollar-weighted average maturity. Invests in high quality medium and large issues of U.S. government and investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities between one and five years.

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) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2), and (iii) unobservable inputs that require the use of present value and other valuation techniques in the determination of fair value (Level 3).

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

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

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

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

		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	—
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	—	—
Swap contract	1,300	1,300	—	—
Liabilities:				
Notes payable	(22,900)	(22,900)	—	—
Deferred compensation (note 11)	(1,374)	(1,374)	—	—
Net assets and liabilities subject to fair value measurement	$231,711	$216,897	$14,814	$ —

6. PROPERTY AND EQUIPMENT

Property and equipment, including construction in progress, as of 31 August 2013 and 2012, consisted of the following (in thousands):

	2013	2012
Land and buildings	$26,331	$910
Computer hardware and equipment	11,565	11,670
Leasehold improvements	8,090	7,528
Furniture and fixtures	5,797	5,851
Total property and equipment	51,783	25,959
Accumulated depreciation and amortization	(20,013)	(18,713)
Property and equipment, net	$31,770	$7,246

Construction in progress, included in the schedule above, as of 31 August 2013 and 2012, consisted of the following (in thousands):

	2013	2012
Land and buildings	$26,331	$910
Computer hardware and equipment	218	71
Leasehold improvements	11	—
Furniture and fixtures	9	—
Total construction in progress	$26,569	$981

Depreciation and amortization expense was $2,905,000 for the year ended 31 August 2013 and $3,023,000 for the year ended 31 August 2012.

7. INTANGIBLES

Intangibles, including construction in progress, as of 31 August 2013 and 2012, consisted of the following (in thousands):

	2013	2012
Computer software (developed)	$22,955	$17,775
Computer software (website development)	11,128	11,128
Computer software (packaged)	6,617	6,011
Other intangibles	2,708	2,708
Total intangibles	43,408	37,622
Accumulated amortization	(33,398)	(30,698)
Intangibles, net	$10,010	$6,924

Construction in progress, included in the schedule above, as of 31 August 2013 and 2012, consisted of the following (in thousands):

	2013	2012
Computer software (developed)	$2,473	$3,568
Computer software (packaged)	447	170
Other intangibles	—	279
Total construction in progress	$2,920	$4,017

Amortization expense was $3,278,000 for the year ended 31 August 2013 and $3,918,000 for the year ended 31 August 2012.

CFA Institute capitalized $0 and $7,000 of new website development costs for the years ended 31 August 2013 and 2012, respectively. Amortization of software and website development costs was $3,204,000 and $3,858,000 for the years ended 31 August 2013 and 2012, respectively.

During the year ended 31 August 2013, CFA Institute purchased no intangible assets other than software or website development costs. CFA Institute has three intangible assets which are not software or website development costs: one is being amortized over sixty months and two are fully amortized. These three assets include copyrighted materials, Investment Research Challenge rights, and assigned rights used in a textbook.

Total amortization expense for intangible assets other than software or website development costs was $74,000 and $60,000 for the years ended 31 August 2013 and 2012, respectively.

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 September 2018.

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 $6,419,000 and $6,100,000 for the years ended 31 August 2013 and 2012, 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 2013 are as follows (in thousands):

	Lease Payments	Revenue Sharing	Total
2014	$5,607	$100	$5,707
2015	3,668	100	3,768
2016	2,437	100	2,537
2017	1,530	100	1,630
Thereafter	1,243	200	1,443
Total future minimum payments	$14,485	$600	$15,085

The Foundation awards grants to individuals subject to completion of their respective research projects. Unpaid grants, subject to this condition, totaled $126,000 and $94,000 as of 31 August 2013 and 2012, respectively. Due to the conditional nature of these unpaid grants, they are not accrued for in the accompanying consolidated statements of financial position.

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 an independent 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 responsible for holding the plan's assets. 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 $4,969,000 and $4,537,000 for the years ended 31 August 2013 and 2012, respectively. Plan forfeitures of $68,000 and $153,000 were netted against company contributions for the years ended 31 August 2013 and 2012, respectively. CFA Institute accrues for incentive compensation and the related 401(k) contribution. Accruals for the related 401(k) contribution of $572,000 and $554,000 were made for the years ended 31 August 2013 and 2012, 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 $368,000 and $253,000 for the years ended 31 August 2013 and 2012, respectively.

In the Asia Pacific region, employees are enrolled in a mandatory provident funds scheme, a defined contribution plan. Contribution expense totaled $555,000 and $406,000 for the years ended 31 August 2013 and 2012, respectively.

10. 11 SEPTEMBER MEMORIAL SCHOLARSHIP FUND

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

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

Contributions to the Scholarship Fund, which is a twenty-year, self-liquidating fund, are recorded as temporarily restricted, except for the contribution from CFA Institute. 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 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 $88,000 and $104,000 for the years ended 31 August 2013 and 2012, respectively. CFA Institute contributed $26,000 and $46,000 to cover operating expenses of the Scholarship Fund for the years ended 31 August 2013 and 2012, respectively.

The activity in the Scholarship Fund for the years ended 31 August 2013 and 2012 was as follows (in thousands):

	2013	2012
Designated net assets, beginning of year	$693	$775
Contribution - other	3	—
Realized gains, interest and dividends	18	22
Unrealized losses on investments	(1)	—
Scholarships awarded	(88)	(104)
Designated net assets, end of year	$625	$693

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 $2,208,000 and $1,911,000 were recorded as of 31 August 2013 and 2012, 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):

	2013	2012
Long-term incentive - current	$365	$339
Long-term incentive and deferred compensation - non-current	1,843	1,572
Total long-term incentive and deferred compensation	$2,208	$1,911

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

	2013	2012
Long-term incentive - non-current	$469	$424
Deferred compensation - non-current (note 5)	1,374	1,148
Total long-term incentive and deferred compensation - non-current	$1,843	$1,572

12. NOTES PAYABLE

In the year ended 31 August 2012, CFA Institute began the process of acquiring real property with which it will consolidate Charlottesville operations into one primary location. In the year ended 31 August 2013, CFA Institute acquired such a property located in downtown Charlottesville. The property, a designated historic structure, would be refurbished 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: Cville Operations Holdings, Inc., Cville Operations Hub, LLC, and Cville Master Tenant, LLC, in the year ended 31 August 2012.

Acquisition of the property and the planned subsequent rehabilitation of the building by Cville Operations Hub, LLC, are being financed by a certain 16.5 year term note in the amount of $22,900,000 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 are made for the first eighteen months, 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, Cville Operations Hub, LLC, also entered into a 16.5 year interest rate swap agreement.

Under the financial covenants of the loan, Cville Operations Hub, LLC, 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.

Minimum principal payments are as follows (in thousands):

Principal payments	
2014	$510
2015	1,250
2016	1,287
2017	1,325
2018	1,364
Thereafter	17,164
Total principal payments	$22,900

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 2013 and 31 August 2012, 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 2013 and 31 August 2012 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

20 November 2013

McLean, Virginia

About the Organization

CFA Institute is a global, not-for-profit organization and is the world's largest association of investment professionals. With more than 110,000 members and 139 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 for 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 2013, with less than one third from North America and almost one half from the Asia-Pacific region, is indicative of the expected future membership composition of the organization.