

# **Research Foundation of CFA Institute**

**Financial Statements**

**As of 31 August 2008 and 2007**

**And Report of Independent Auditors**

# Research Foundation of CFA Institute

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**Report of Independent Auditors**

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

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Research Foundation of CFA Institute (the Foundation) at 31 August 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

19 November 2008

**Research Foundation of  
CFA Institute  
Statements of Financial Position  
As of 31 August 2008 and 2007**

*(Rounded to Nearest Hundred)*

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 2)	\$ 90,100	\$ 159,300
Accounts receivable (Note 3)	2,700	2,100
Publication inventory	31,900	32,700
Total current assets	<u>124,700</u>	<u>194,100</u>
Investments, at fair value (Note 4)	<u>10,690,000</u>	<u>11,567,500</u>
Total assets	<u>\$ 10,814,700</u>	<u>\$ 11,761,600</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 32,300	\$ 8,200
Accounts payable - affiliated organization (CFA Institute)	7,900	23,300
Total current liabilities	<u>40,200</u>	<u>31,500</u>
Commitments and contingencies (Note 6)		
<b>Net assets</b>		
Unrestricted		
Undesignated	8,699,300	9,511,100
Designated - 11 September Memorial Scholarship Fund (Note 7)	1,000,000	1,000,000
Designated - Other	950,000	950,000
Total unrestricted	<u>10,649,300</u>	<u>11,461,100</u>
Temporarily restricted		
11 September Memorial Scholarship Fund (Note 7)	125,200	269,000
Total temporarily restricted	<u>125,200</u>	<u>269,000</u>
Total net assets	<u>10,774,500</u>	<u>11,730,100</u>
Total liabilities and net assets	<u>\$ 10,814,700</u>	<u>\$ 11,761,600</u>

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

**Research Foundation of  
CFA Institute  
Statements of Activities  
For the years ended 31 August 2008 and 2007**

<i>(Rounded to Nearest Hundred)</i>	<u>2008</u>	<u>2007</u>
<b>Changes in unrestricted net assets</b>		
Operating revenues		
Publication and other sales (Note 5)	\$ 88,900	\$ 77,800
Realized gains, interest and dividends (Note 4)	1,399,200	465,900
Operating contribution from CFA Institute (Note 5)	270,400	208,700
Contributions	49,300	62,000
Net assets released from program restrictions	147,000	160,700
Net assets released from time restrictions	-	20,000
Total operating revenues	<u>1,954,800</u>	<u>995,100</u>
Operating expenses		
Research expenses		
Research grants and awards	75,900	127,500
Conference expenses (Note 5)	49,200	74,800
Monographs	22,200	62,600
Book distributor fee	800	2,500
Research administration	61,000	56,800
CFA Institute expenditure allocation (Note 5)	107,600	47,600
Total research expenses	<u>316,700</u>	<u>371,800</u>
11 September Memorial Scholarship Fund expenses		
Scholarships granted	147,000	160,700
Scholarships fund administration (Note 5)	6,300	4,300
CFA Institute expenditure allocation (Note 5)	28,600	24,700
Total 11 September Memorial Scholarship Fund expenses	<u>181,900</u>	<u>189,700</u>
Administrative expenses		
Printing and postage	2,400	26,100
Legal and accounting	30,500	41,900
Boards and committees	38,100	41,900
Other	7,200	5,800
CFA Institute expenditure allocation (Note 5)	127,800	132,100
Total administrative expenses	<u>206,000</u>	<u>247,800</u>
Total operating expenses	<u>704,600</u>	<u>809,300</u>
Change in unrestricted net assets from operations	1,250,200	185,800
Other changes		
Net unrealized (losses) gains on investments (Note 4)	(2,061,900)	902,500
Change in unrestricted net assets	<u>\$ (811,700)</u>	<u>\$ 1,088,300</u>

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

**Research Foundation of  
CFA Institute  
Statements of Activities (Continued)  
For the years ended 31 August 2008 and 2007**

*(Rounded to Nearest Hundred)*

	<u>2008</u>	<u>2007</u>
<b>Changes in temporarily restricted net assets</b>		
General endowment		
Assets released from time restrictions	\$ -	\$ (20,000)
11 September Memorial Scholarship Fund		
Contributions	-	2,600
Realized gains, interest and dividends (Note 4)	103,500	86,200
Unrealized (losses) gains on investments (Note 4)	(100,400)	33,800
Net assets released from program restrictions	<u>(147,000)</u>	<u>(160,700)</u>
Total change in 11 September Memorial Scholarship Fund	<u>(143,900)</u>	<u>(38,100)</u>
Change in temporarily restricted net assets	<u>(143,900)</u>	<u>(58,100)</u>
Change in net assets	<u>(955,600)</u>	<u>1,030,200</u>
Net assets, beginning of year	<u>11,730,100</u>	<u>10,699,900</u>
Net assets, end of year	<u>\$ 10,774,500</u>	<u>\$ 11,730,100</u>

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

**Research Foundation of  
CFA Institute**  
**Statements of Cash Flow, Direct Method**  
**For the years ended 31 August 2008 and 2007**

*(Rounded to Nearest Hundred)*

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities:</b>		
Cash inflows		
Contributions	\$ 49,000	\$ 91,900
Publications	21,300	20,400
Interest and dividends	370,900	337,500
Total cash inflows from operating activities	<u>441,200</u>	<u>449,800</u>
Cash outlays		
Inventory and publications	26,700	26,000
Research-related expenses	108,100	197,700
Scholarship-related expenses	153,000	164,700
Conference expenses	10,000	50,000
Affiliate organization	27,900	6,100
Miscellaneous expenses	31,600	74,300
Total cash outlays from operating activities	<u>357,300</u>	<u>518,800</u>
Net cash provided by (used in) operating activities	<u>83,900</u>	<u>(69,000)</u>
 <b>Cash flows from investing activities:</b>		
Proceeds from sales/maturities of investments	14,162,300	1,192,100
Purchases of investments	<u>(14,315,400)</u>	<u>(1,102,600)</u>
Net cash (used in) provided by investing activities	<u>(153,100)</u>	<u>89,500</u>
 <b>Net increase (decrease) in cash and cash equivalents</b>	(69,200)	20,500
Cash and cash equivalents, beginning of year	<u>159,300</u>	<u>138,800</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 90,100</u>	<u>\$ 159,300</u>
 <b>Reconciliation of net income to net cash provided by operating activities:</b>		
Change in net assets	\$ (955,600)	\$ 1,030,200
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized losses (gains) on investments	2,162,200	(936,300)
Realized gains on investments	(1,131,700)	(214,600)
Changes in		
Pledges and accounts receivable	(600)	22,700
Publication inventory	900	36,800
Accounts payable	24,100	(28,700)
Accounts payable - affiliate organization (CFA Institute) (Note 5)	<u>(15,400)</u>	<u>20,900</u>
Net cash provided by (used in) operating activities	<u>\$ 83,900</u>	<u>\$ (69,000)</u>

**Research Foundation of  
CFA Institute  
Notes to Financial Statements  
31 August 2008 and 2007**

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**1. Organization**

Research Foundation of CFA Institute (the Foundation) is a not-for-profit organization based in Charlottesville, Virginia, USA. The purpose of the Foundation is to sponsor, publish, and distribute research on topics that contribute to or improve upon the CFA Institute Global Body of Investment Knowledge that investment professionals around the world use in their day-to-day practice. As such, the Foundation plays a vital role in connecting investment theory with its practical application in the marketplace, a position it is able to occupy through its relationships with luminaries of the investment profession and with a global community of more than 96,500 members of CFA Institute, all of whom are bound by a Code of Ethics, which, among other responsibilities, compels them always to put the interests of investors first. The Foundation also periodically delivers cutting-edge research through in-person conferences and recognizes excellence in contributions to the CFA Institute Global Body of Investment Knowledge through the James R. Vertin Award. In addition, the Foundation sponsors and administers the CFA Institute 11 September Memorial Scholarship Fund which benefits disabled survivors and families of the casualties of the 11 September terrorist attacks.

**2. Summary of significant accounting policies**

**Basis of accounting**

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

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Measure of operations**

Operating revenues include publication sales, realized gains and income from investments, and contributions. Net unrealized gains and losses on investments are reported as non-operating revenue. Changes in temporarily restricted net assets are considered non-operating revenues.

**Net assets**

The Foundation classifies net assets into three categories: unrestricted, temporarily restricted, or permanently restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted net assets are contributions with temporary donor-imposed time and/or program restrictions. Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purposes and are reported in the statements of activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are fulfilled in the same fiscal year that the contributions are received are reported in the statements of activities as temporarily restricted contributions and as contributions released from restrictions. The time restrictions expired in December 2006. The program restrictions relate to the 11 September Memorial Scholarship Fund.

Permanently restricted net assets represent donor-restricted endowments to be held in perpetuity. As of 31 August 2008 and 2007, the Foundation had no permanently restricted net assets. Investment income from both temporarily and permanently restricted net assets is recorded as unrestricted income unless otherwise restricted by the donor.

**Research Foundation of  
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Notes to Financial Statements  
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Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions.

**Designated net assets**

The Institute of Chartered Financial Analysts (ICFA) merged with the Financial Analysts Federation (FAF) in 1990 to form AIMR (now CFA Institute). Prior to its merger, the ICFA contributed \$950,000 to the Foundation Research Fund during the period 1986-1990. In the event that the Foundation becomes unable to carry out its exempt purposes by reason of dissolution or otherwise, these contributions are returnable to CFA Institute. These net assets are shown on the Statements of Financial Position as Designated – Other Net Assets.

CFA Institute contributed \$1,000,000 to the 11 September Memorial Scholarship Fund in October 2001. Because of the relationship between CFA Institute and the Foundation, this contribution is required by Statement of Financial Accounting Standards (SFAS) No. 136, "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others" to be reported as a designated net asset rather than restricted. However, the gift from CFA Institute is intended to be used only for 11 September memorial scholarships.

**Cash and cash equivalents**

Cash and cash equivalents include short-term liquid investments with original maturities of three months or less and consist of the following at 31 August 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Foundation cash	\$ 45,300	\$ 35,000
11 September Memorial Scholarship Fund cash	44,800	124,300
Total cash and cash equivalents	<u>\$ 90,100</u>	<u>\$ 159,300</u>

**Publication inventory**

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

**Fundraising expenses**

Fundraising expenses for the Foundation were \$10,600 and \$35,800 for fiscal years ended 31 August 2008 and 2007, respectively, and are included in administrative expenses on the statement of activities. No fundraising expenses were incurred on behalf of the 11 September Memorial Scholarship Fund in fiscal years 2008 or 2007.

**Income taxes**

The Foundation is exempt from United States federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) except for unrelated business income, which is subject to United States federal and state income taxes. The Foundation has no unrelated business income, therefore, no income taxes are payable for the years ended 31 August 2008 and 2007.

**Research Foundation of  
CFA Institute**  
**Notes to Consolidated Financial Statements**  
**31 August 2008 and 2007**

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**3. Accounts receivable**

As of 31 August 2008 and 2007, there were no conditional promises to give. Accounts receivable was \$2,700 as of 31 August 2008 and \$2,100 as of 31 August 2007.

**4. Investments**

The Foundation accounts for its investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." This standard requires that investments be recorded at fair value and any change be reflected in the statements of activities.

Investments, at fair value as of 31 August 2008 and 2007, consist of the following:

	<u>2008</u>	<u>2007</u>
Research Foundation	\$ 9,610,000	\$ 10,422,800
11 September Memorial Scholarship Fund	1,080,000	1,144,700
Total investments	<u>\$ 10,690,000</u>	<u>\$ 11,567,500</u>

As of 31 August 2008 and 2007, investments consisted of U.S.-registered mutual funds that invest in U.S. and non-U.S. equity securities, U.S. fixed-income securities, and U.S. government securities. The following table details the fair value for the Foundation's major types of investments as of 31 August:

	<u>2008</u>	<u>2007</u>
Equity investments	\$ 6,969,000	\$ 7,582,800
Fixed-income investments	3,028,000	3,386,200
U.S. government obligations	693,000	598,500
Total investments	<u>\$ 10,690,000</u>	<u>\$ 11,567,500</u>

Investment gains consist of the following:

	<u>2008</u>	<u>2007</u>
Realized gains, interest, and dividends		
Research Foundation	\$ 1,399,200	\$ 465,900
11 September Memorial Scholarship Fund	103,500	86,200
Total realized gains, interest, and dividends	1,502,700	552,100
Unrealized (losses) gains		
Research Foundation	(2,061,900)	902,500
11 September Memorial Scholarship Fund	(100,400)	33,800
Total unrealized (losses) gains	<u>(2,162,300)</u>	<u>936,300</u>
Total investment (losses) gains, interest and dividends	<u>\$ (659,600)</u>	<u>\$ 1,488,400</u>

**Research Foundation of  
CFA Institute**  
**Notes to Consolidated Financial Statements**  
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**5. Major Contributions and Sales**

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

	<u>2008</u>	<u>2007</u>
CFA Institute contribution for operating expenses	\$ 264,000	\$ 204,400
CFA Institute purchases of monographs	13,000	13,000
CFA Institute contribution for 11 September Scholarship Memorial Fund operating expenses	<u>6,300</u>	<u>4,300</u>
Total revenue from CFA Institute	283,300	221,700
CFA Institute allocated operating expenses	<u>264,000</u>	<u>204,400</u>
Net revenue from CFA Institute	<u>\$ 19,300</u>	<u>\$ 17,300</u>
Expenses paid by the contributions		
Research expenses	\$ 107,600	\$ 47,600
11 September Scholarship Memorial Fund expenditure allocation	28,600	24,700
Administrative expenses	127,800	132,100
11 September Scholarship Memorial Fund administrative expenses	<u>6,300</u>	<u>4,300</u>
Total expenses paid by the contributions	<u>\$ 270,300</u>	<u>\$ 208,700</u>

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

	<u>2008</u>	<u>2007</u>
Publication sales to CFA Institute	\$ 12,700	\$ 13,000
Publication sales to the public	<u>20,900</u>	<u>23,900</u>
Total publication sales	33,600	36,900
Conference registrations	<u>55,300</u>	<u>40,900</u>
Total publication and other sales	<u>\$ 88,900</u>	<u>\$ 77,800</u>

For the fiscal year ended 31 August 2008, conference registrations of \$55,300 were included in publication and other sales operating revenue, and conference expenses of \$49,200 were included in operating expenses. For the fiscal year ended 31 August 2007, conference registrations revenue of \$40,900 and conference expenses of \$74,800 were netted in publication and other sales operating revenue.

**Research Foundation of  
CFA Institute  
Notes to Consolidated Financial Statements  
31 August 2008 and 2007**

**6. Commitments and contingencies**

The Foundation awards grants to individuals subject to completion of their respective research projects. Unpaid grants, subject to this condition, totaled \$44,000 and \$46,875 as of 31 August 2008 and 2007, respectively. Due to the conditional nature of these unpaid grants, they are not accrued for in the accompanying statements of financial position.

**7. 11 September Memorial Scholarship Fund**

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

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

Contributions to the Scholarship Fund, which is intended to be a twenty-year, self-liquidating fund, are recorded as temporarily restricted, except for the gift from CFA Institute which is presented in accordance with SFAS No. 136. According to the standard, the contribution by CFA Institute is not temporarily restricted because of the relationship between CFA Institute and the Foundation. However, the gift from CFA Institute is intended to be used only for 11 September Memorial Scholarships. All Scholarship Fund contributions and investment income are considered available to meet the scholarship funding requirements. CFA Institute reimburses the Scholarship Fund for all other expenses, except for scholarships. The Scholarship Fund awarded scholarships of \$147,000 for the year ended 31 August 2008, and \$160,700 for the year ended 31 August 2007. CFA Institute contributed \$31,300 and \$29,000 to cover non-scholarship operating expenses of the Scholarship Fund for the years ended 31 August 2008 and 2007, respectively.

The activity in the Scholarship Fund for the years ended 31 August 2008 and 31 August 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Net assets, beginning of year	\$ 1,269,000	\$ 1,307,100
Contributions - other	-	2,600
Realized gains, interest and dividends	103,500	86,200
Net unrealized (losses) gains on investments	(100,400)	33,800
Net assets released from program restrictions	<u>(147,000)</u>	<u>(160,700)</u>
Net assets, end of year	<u>\$ 1,125,100</u>	<u>\$ 1,269,000</u>

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

	<u>2008</u>	<u>2007</u>
Designated	\$ 1,000,000	\$ 1,000,000
Temporarily restricted	<u>125,100</u>	<u>269,000</u>
Net assets, end of year	<u>\$ 1,125,100</u>	<u>\$ 1,269,000</u>

**Research Foundation of  
CFA Institute**  
**Notes to Consolidated Financial Statements**  
**31 August 2008 and 2007**

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**8. Subsequent Event**

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect valuation of investments. As a result, and as of the date of the distribution of this document, the fair value of investments held by Research Foundation of CFA Institute has declined subsequent to 31 August, 2008. Research Foundation of CFA Institute utilizes indexed investment strategies in accordance with investment objectives and at acceptable levels of risk. All reserves are invested in highly marketable securities.