CFA Institute

2015 Annual Report

BUILDING A SUSTAINABLE INVESTMENT MANAGEMENT PROFESSION

annualreport.cfainstitute.org

MESSAGE FROM OUR CHAIR

Beth Hamilton-Keen, CFA

As we close another fiscal year, I am both humbled and inspired by the state of the investment industry. On one hand, we continue to fight negative perceptions of our profession and a lack of trust among investors. The next decade is a critical time for our industry and investors. Many investors remain disengaged, with their financial futures hanging in the balance. On the other hand, we have an incredible opportunity as investment professionals to make a positive impact on the world around us. Every day, our members are in a position to impact the welfare of families, the success of businesses, the health of communities, and the economies of countries.

Unfortunately, many investors simply don't realize the role we can play in their financial lives and the world around them. This has to change. The sustainability of our profession is dependent on raising public awareness of both the work we do and the beneficial role we serve. We need to help investors see the positive impact investment management professionals can have on so many aspects of society, from the individual investor's financial dreams to the health of the worldwide economy.

"Sustainability of the investment management profession is dependent on leading essential change in the industry over the next decade."

–Beth Hamilton-Keen, CFA

Right now, CFA Institute has the opportunity to help lead this change and be the voice of the investment industry in this new, prolific chapter. In doing so, we must come together on behalf of our more than 135,000 members worldwide and speak with "one voice"—a voice that is steadfast in conveying our mission and standards of excellence and that effectively represents who we are as an organization and where the profession is headed. One voice—consistent from organizational leadership to each of our individual members—can enable us to have a greater reach and a more significant global impact.

Through one voice, we can help our stakeholders understand the importance of insisting on the highest standards for entry into the profession. We can help firms promote the value of hiring CFA charterholders above others and the importance of ongoing investment in their learning and development. One voice can help investors understand that when they place their trust in a CFA charterholder, they can achieve peace of mind knowing that they are in the hands of a professional with the proven expertise and integrity to meet their investment goals and put their interests first. That same voice can advocate for a strong, self-regulating professional body and help bring needed change to the capital markets.

These actions will improve our brand recognition and reputation, and our members will reap significant rewards. When the industry, regulators, employers, and investors all appreciate the value of CFA Institute, our members experience an even higher return on their investment in membership and in maintaining the esteemed credentials we offer.

> **One voice — consistent from organizational leadership to each of our individual members — can enable us to have a greater reach and a more significant global impact.**

OUR PROMISE TO INVESTORS

Over the next 10 years, it's predicted that 1 billion middle-class consumers will emerge globally, representing the largest single-decade increase in potential clients in history. Global investable assets are expected to increase to more than $100 trillion by 2020. What this means for CFA Institute and our members is that investors need financial and investment professionals now more than ever. More importantly, they need investment professionals they can trust and an industry that has their best interests in mind.

CFA Institute and CFA charterholders worldwide are committed to good stewardship, high ethical standards, and putting investors first.

The most powerful way to deliver this value we bring and to change negative public perceptions is through our actions. We must continue our efforts to build trust and embrace the responsibility to act ethically with prudence and care in the best interests of our clients. This means creating business models geared toward achieving investor outcomes—keeping fees transparent and reasonable; managing compensation; abandoning short-term, product-pushing models; and refocusing firms to work toward investor outcomes over profit maximization.

We need to effect change from the inside out. Each of us, as individual professionals and representatives of our firms, can employ these actions and help eradicate the value-destructing activities in our industry. As we look to the future, we need to deliver the clear message that we are a force for good. And we must make good on that promise.

> **As we look to the future, we need to deliver the clear message that we are a force for good, one that places the interests of investors above all else. And we must make good on that promise.**

A DRIVING FORCE FOR CHANGE

As an organization, our goal is to become the professional body for the investment management industry. To achieve this and become the voice of our industry, we must be a driving force for positive change, especially when it impacts the investor.

Recognizing that lasting change doesn't happen overnight, we must think and act long term. The changes we're advocating for—stricter fiduciary standards, investor-centered business models, improved governance, professional credentialing throughout the industry—are sweeping and will help shape the investment management industry worldwide for years to come.

CFA Institute must also lead the way when it comes to increasing diversity in the investment profession. Simply stated, our profession has a diversity problem as it relates to both ethnicity and gender. Studies show that mixed-gender and multiethnic teams bring much-needed diversity of thinking to the investment process and ultimately improve outcomes. Diverse investment teams often work well together because members think differently from one another and, as a team, can allocate capital more efficiently and deliver better results.

As the largest global association of investment professionals, we are in a unique position to bring awareness to this issue and create change. Through such efforts as our Women in Investment Management initiative, we can help shape the future of the investment industry by encouraging more diverse stakeholders to join the profession. We can connect and mobilize a diversity of students, candidates, and members to become engaged. Further, we can use our voice to continue building the business case for diversity and encourage firms to develop teams that will deliver better outcomes for clients.

Our work on the CFA Institute Board of Governors is focused on setting strategy to achieve the goals I have set forth in this message, including improving the organization's governance model, especially in the area of diversity, which ultimately improves the effectiveness of the board. We continue to support Paul Smith, CFA, as the new CEO in his efforts to move the organization forward. We are excited for the year ahead and look forward to working with you to help shape the future of this great profession.

Kind regards,

Beth Hamilton-Keen, CFA
Chair, Board of Governors, CFA Institute

MESSAGE FROM OUR PRESIDENT AND CEO

Paul Smith, CFA

Since I took the helm in January, it has been a great pleasure to meet and talk with many CFA Institute and society members. I very much enjoy listening to your ideas and to your concerns about our organisation and the investment management industry as a whole. I have learned a great deal and am grateful to everyone who has taken the trouble to talk to me or to otherwise contact me.

I am struck by the incredible opportunity we have as an organisation during these changing times. Our industry is evolving very rapidly due to improvements in technology, pressure from regulators, and the steadily rising volume of assets under management. The strength of CFA Institute in the developed world combined with our progress in developing markets sets a larger stage on which we can restore investor trust in our industry and better prove our worth to society at large. If we can accomplish this, then we will have gone a long way towards accomplishing 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."

"I am struck by the incredible opportunity we have as an organisation during these changing times."

–Paul Smith, CFA

It is our responsibility to help build a sustainable global industry through higher standards of professionalism at both the individual and corporate levels. This is especially true in the developing parts of the world, where we have a tremendous opportunity to play an early and influential role in shaping rules and practices. In particular, we are focusing on China, India, Africa, Brazil, Mexico, and the Middle East. Over the past year, we opened offices in Mumbai and Beijing, and we are carefully considering opportunities in other countries. I've seen firsthand the impact we can have and the positive influence we can be. By engaging at a deep level in these markets, we can influence the future.

We have choices to make because our industry is at a crossroads. We can choose to develop standards of professionalism through better credentialing and continuing education, by providing solutions to our clients and not just pushing products, and by instituting higher corporate fiduciary standards. Or we can take the road that leads to short-term profit maximisation at the expense of long-term client interests. Our foundation is built upon placing the interests of our clients first, second, and last, and we must never forget this. I believe that no other organisation is better positioned to take on this challenge. If not us, then who?

> **Investing is about people, and that focus is more important now than ever.**

BUILDING A SUSTAINABLE INVESTMENT PROFESSION
So, how do we get there? How do we advance the value of the investment management profession in society at large and in the communities we serve specifically?

In FY2015, the Leadership Team closely examined our mission and evaluated our progress towards mission achievement. We found that although we have a solid foundation, we still have a considerable amount of work to do together as a community to have a more measurable impact.

Putting the investor first is critically important as we set out to make change because investing is, and always has been, deeply personal. At the end of every investment transaction, there is an individual whose hopes and dreams depend on this capital, whether it’s putting the kids through college, paying the mortgage, or saving for retirement. Investment is about people, and that focus is more important now than ever before.

OUR FRAMEWORK FOR SUCCESS
As we move forward, the goal of building a sustainable investment profession will be at the heart of all that we do. We have created a new organising framework and action plan that supports mission achievement. Over the first two quarters of 2015, we more narrowly defined our focus to be our members and the investment management profession. We then established metrics to determine if we really are making progress towards our mission. The organising framework arranges our work in three strategic functions:

1. **CREDENTIALING** — To develop future investment management industry professionals who are competent and ethical
2. **MEMBER VALUE** — To support members in their professional practice so they can better serve their clients
3. **STANDARDS AND ADVOCACY** — To shape an investment management industry that works in the best interests of investors

We are refocusing on investment management professionals as the core of our membership and will target these professionals specifically while maintaining the interests of other market participants. Building a better profession will require active engagement with the core investment management industry and a long-term shift towards fostering high standards and engagement amongst all industry professionals.

We aim to greatly improve the value we bring to our members and help them be the best investment practitioners possible. We are working through our member societies to create impact in local communities. We want to improve market infrastructure, to improve the image and performance of our industry, and to raise awareness amongst investors of what it truly means to be a professional and why all investors deserve professional advice on their investments.

We introduced the new organising framework across the organisation in FY2015, and implementing it is a strategic priority for FY2016. The Leadership Team is now developing the three-year strategic plan for CFA Institute, which we will present to the Board of Governors in 2016.

A COLLECTIVE EFFORT

To truly build a sustainable investment profession, our work must extend beyond CFA Institute to the wider investment community. With this in mind, we are developing plans for firms, members, regulators, and educators that include three action steps:

1. Set High Standards of Entry and Professionalism in the Industry

For more than 50 years, CFA Institute has minted the most rigorously credentialed practitioners who adhere to the highest educational, professional, and ethical standards and are committed to putting investor interests first. To ensure this legacy into the future, educators, such as ourselves, must develop future professionals with the necessary technical skills, knowledge, and ethics and with a clear understanding of their role in society.

Regulators should seek to introduce stricter fiduciary standards for firms and professionals to minimise conflicts of interest and provide necessary transparency to investors. Firms should seek to hire properly credentialed employees so that they can bring the highest level of professionalism, knowledge, and skills to clients. Finally, investment professionals and firms must recognise and publicly promote the need for the highest standards of professional conduct as the foundation of a long-term, sustainable, and profitable industry.

2. Create Business Models that Better Align with Investor Objectives

The investment profession is about people, and their needs and goals should be the driving force behind all that we do. This is as true of institutional investors as it is of individual investors. CFA Institute is urging investment firms to move away from business models that are based on fees embedded within products that often have little transparency and reorient the business to focus on solutions provided to investors. We're pushing firms to adopt globally recognised standards, establish incentive structures based on achieving investor outcomes, and create products that have more transparent fee structures and represent good value for the money invested.

3. Advocate for Regulations that Align Firms and Clients

Investors deserve an investment environment that is fair and transparent, and they have the right to be served by professionals who act as fiduciaries of their savings. To make this change happen, we must advocate for policy research and thought leadership that benefits investors and society in general. CFA Institute has been directly involved in discussions with regional and national regulators, government agencies, and standard-setting bodies, and we will continue to develop this work.

> **CFA Institute has made it our top priority to work collectively with our members, investment firms, educators, and regulators to build a sustainable investment profession and, ultimately, a better market for investors.**

It's an exciting time at CFA Institute. We have a tremendous opportunity to generate lasting change in the investment industry and lead the way in building a sustainable investment profession. I'm honored to lead the organisation at this time and have every confidence that if we work together and continue to put investor interests first, we can achieve this ambitious and very necessary goal.

Warm regards,

Paul Smith, CFA
President and CEO, CFA Institute

GOVERNANCE AND COMPENSATION

The CFA Institute Board of Governors in fiscal year 2016 includes: (standing, left to right) Robert Jenkins, Hua Yu, Giuseppe Ballocchi, Aaron Low, Attila Koksal, James Jones, George Spentzos, Daniel Gamba, Zouheir Tamim El Jarkass; (sitting, left to right) Lynn Stout, Michael Trotsky, Frederic Lebel, Beth Hamilton-Keen, Paul Smith, Colin McLean, and Heather Brilliant.

The Board of Governors is the highest governing authority of CFA Institute and is responsible for defining its vision, mission, and strategies. The Board is composed of 19 members (18 independent governors who serve in a volunteer capacity and the CEO) from 10 countries: Australia, Canada, China, India, Singapore, Switzerland, Turkey, the United Kingdom, the United Arab Emirates, and the United States.

Individuals are nominated to serve on the Board based on investment industry, governance, and leadership experience; participation in and commitment to CFA Institute and its activities; and the degree to which they can represent a geographic and professional diversity of our membership. Each governor is elected by the membership of CFA Institute for a three-year term that runs from 1 September to 31 August. Those currently serving on the Board of Governors are:

- Beth Hamilton-Keen, CFA, Chair (Canada), Mawer Investment Management Ltd.
- Frederic P. Lebel, CFA, Vice Chair (Switzerland), OFI MGA and HFS Hedge Fund Selection S.A.
- Giuseppe Ballocchi, CFA (Switzerland), Entelechia University of Lausanne
- Heather Brilliant, CFA (Australia), Morningstar Australasia Pty Ltd.
- Daniel Gamba, CFA (United States), BlackRock, Inc.
- Robert Jenkins, FSIP (United Kingdom), London Business School
- James G. Jones, CFA (United States), Sterling Investment Advisors, LLC
- Attila Koksal, CFA (Turkey), Unlu Securities
- Mark Lazberger, CFA (Australia), Colonial First State Global Asset Management (CFSGAM)
- Aaron Low, CFA (Singapore), Lumen Advisors
- Colin McLean, FSIP (United Kingdom), SVM Asset Management Ltd.

- Scott Proctor, CFA (United States), Capital One
- Sunil Singhania, CFA (India), Reliance Capital Asset Management Ltd.
- Paul Smith, CFA (Hong Kong), CFA Institute
- George Spentzos, CFA, FSIP (United Kingdom), LNG Capital LLP
- Lynn Stout (United States), Cornell Law School
- Zouheir Tamim El Jarkass, CFA (United Arab Emirates), Mubadala
- Michael G. Trotsky, CFA (United States), Massachusetts Pension Reserves Investment Management ("PRIM") Board
- Hua Yu, CFA (China), Morgan Stanley Huaxin Fund Management Company Ltd.

The Leadership Team of CFA Institute works in partnership with the Board to develop strategy for the organization and execute its objectives.

In fiscal year 2015, the Board of Governors held seven meetings (three in person—one in the Europe, Middle East, and Africa region and two in the Americas—and four by teleconference). The Board establishes committees to perform certain functions under its oversight. There are currently eight Board committees that governors serve on as members:

- Executive Committee, chaired by Beth Hamilton-Keen, CFA
- Compensation and Governance Committee, chaired by Aaron Low, CFA
- Nominating Committee, chaired by Aaron Low, CFA
- Investment Committee, chaired by Michael G. Trotsky, CFA
- Audit and Risk Committee, chaired by Colin McLean, FSIP
- External Relations and Volunteer Involvement Committee, chaired by Heather Brilliant, CFA
- Planning Committee, chaired by Robert Jenkins, FSIP
- Awards Committee, chaired by Frederic P. Lebel, CFA

GOVERNANCE

WE HOLD OURSELVES TO HIGH STANDARDS

A primary objective of CFA Institute is to advocate for high standards of governance and reporting in the investment management industry. In recognition of our leadership role in raising these standards, our Board of Governors this year resolved to implement the highest standards of governance at CFA Institute from both the US not-for-profit sector and US public company standards. Over the coming months, CFA Institute will adopt these standards unless a particular provision of such standards are not in the best interests of the organization and/or its membership. Should that occur, we will be transparent in our rationale for opting out. This year's annual report reflects enhancements toward this goal, as will the 2016 proxy statement with regards to additional disclosures on governance, conflicts of interest, the nominations process, and the compensation discussion and analysis.

Furthermore, the Board conducts annual self-assessments of its performance and effectiveness. The purpose is to track the Board's progress in certain areas targeted for improvement from year to year and to identify opportunities to enhance its own effectiveness. As the Board continues to reflect on the governance of CFA Institute to better serve our membership, the following matters have been approved by the Board:

- As part of a broader diversity initiative to bring more women into the investment management profession, the Board has committed to reaching a goal within three years of no less than 30% of the governors being women.

- Reduce the number of members serving on the Board within three years to a minimum of 10 governors and to a maximum of 15 governors.
- The option for oversight committee chairs to serve consecutive terms. Those chairs appointed to one-year terms shall now be eligible to be appointed to serve an additional consecutive one-year term.
- The use of independent legal counsel accessible directly by and to the governors at the direction of the Board chair.

DIVERSITY

DIVERSITY

Having a workforce that is as diverse as the clients and communities we serve is imperative to achieving our mission. We are working to build a workforce that stimulates new ideas and fresh ways of thinking and where every employee can contribute meaningfully to the business while being true to their authentic selves. Studies have shown that diversity improves financial performance and leverages talent. The majority of the organization's workforce (63%) is comprised of women and we are committed to advancing the talent of women within the organization.

We also strongly believe that we are uniquely positioned to further the cause of gender diversity in the investment industry so it better reflects the marketplace. In FY2015, we launched a global Women in Investment Management (WIM) initiative. By harnessing the expertise of our members and staff, WIM strives to encourage more women to pursue an education in finance, join the profession, and contribute their expertise for the ultimate benefit of society.

COMPENSATION

PHILOSOPHY AND OBJECTIVES OF OUR EXECUTIVE COMPENSATION PROGRAM

The compensation philosophy of CFA Institute is designed to help attract, motivate, and retain top-level executive talent necessary to deliver sustained high performance to our members and stakeholders. Overall, the same principles that govern the compensation of all our salaried employees apply to the compensation of our executives. Within this framework, we observe the following principles:

- Strive to provide compensation programs that support the strategic goals of the organization, are competitive with external markets, and are equitable internally.
- Reinforce a results-oriented culture through differentiated performance rewards that also recognize the means by which an individual accomplishes those results.
- Attract and retain top talent that is motivated by the organization's mission.
- Establish global consistency in the design of its compensation programs while recognizing the need to reflect local practices where necessary.
- Balance addressing the need to attract talent from industry and recognizing the not-for-profit structure of its business when designing its pay practices.
- Administer compensation programs in a manner that is consistent, fair, and free of discrimination.

FRAMEWORK FOR EXECUTIVE COMPENSATION DECISION MAKING

To ensure ongoing and effective corporate governance, the Board of Governors uses a Compensation and Governance Committee (CGC). It is composed of five governors who are independent of the management of CFA Institute and are free of any relationship that would interfere with their exercise of independent judgment. The executives at CFA Institute are the President and CEO and the Managing Directors. The CGC sets the compensation of the CEO, including any incentive, and engages independent consultants as needed to provide compensation recommendations. The CGC ensures that independent comparative compensation studies are conducted periodically to gauge the competitiveness of executive compensation at CFA Institute. CFA Institute generally targets total compensation positioned between the 50th and 75th percentiles on a blended basis relative to comparable not-for-profit and for-profit companies for its executives.

In fiscal year 2014, CFA Institute retained McLagan Partners, a global management consulting firm, to provide competitive pay benchmarks that reflect the markets from which CFA Institute would most likely recruit its executive talent. Peer group selection spanned different industry sectors, including not-for-profit firms, financial services firms, academia and higher education, and general industry. The McLagan study found the compensation programs of CFA Institute to be well aligned with the market, falling between the 50th and 75th percentiles of competitive practices for comparable positions in the not-for-profit sector. Positioning relative to the market composite comprising all four industry sectors mentioned above was also found to be competitive.

McLagan performed this study on an independent fee basis. Separately, the consulting firm of Steven Hall and Partners served as advisers to the CGC, helping to interpret how the reported market data apply to the executive positions at CFA Institute.

Compensation actions are determined by the CEO based on each executive's contribution, individually and collectively as an executive team, to the successful execution of the organization's strategic goals for the year and long-term strategy and internal equity factors. Other considerations related to making compensation decisions include such factors as individual experience, individual performance, internal pay equity, development and succession status, time in the position, and other individual or organizational circumstances.

Governance best practices proposals that are recommended for adoption by public companies are an aspirational goal for CFA Institute, and steps are being taken to make a responsible effort toward improving the governance framework, which is integral to the sustainability and long-term effectiveness of the organization.

In an effort to enhance corporate governance through increased transparency and greater accountability, starting in fiscal year 2016, CFA Institute is introducing improvements in how executive compensation decisions are made. Performance shall be at the forefront of the executive compensation program. This performance orientation will be demonstrated by strengthening the link between performance and compensation decisions. There will be a strong focus on goal development for executives that shall involve careful consideration of the selection of the right metrics and performance assessment criteria. There will be an increased effort to recognize the needs of the organization, keeping in mind both financial and strategic priorities while creating value for our members.

CEO goals will require CGC approval prior to the beginning of each fiscal year. At the end of the year, the CGC will weigh the organization's overall performance and progress toward strategic objectives in addition to individual performance to determine the compensation for the CEO. The Chief Legal Officer and Chief Compliance, Risk, and Ethics Officer positions reporting to the board will also require CGC approval for decisions related to goals, performance evaluation, and compensation.

For other executives, the CGC will provide greater oversight by reviewing their goals and performance priorities prior to the beginning of each fiscal year to ensure focus and accountability. At the end of the performance cycle, the CEO will review his assessment of each executive's individual performance and his compensation recommendations with the CGC before confirming the decisions.

PERFORMANCE

Year in Summary

Timothy McLaughlin, CPA, CFA
Chief Financial Officer

Fiscal year 2015 was an exciting year with the appointment of Paul Smith, CFA, as President and CEO, in January 2015. In June 2015, senior management announced a new internal organizing framework, centered on three strategic functions and their corresponding mandates:

1. CREDENTIALING
To develop future investment management industry professionals who are competent and ethical

2. MEMBER VALUE
To support members in their professional practice so they can better serve their clients

3. STANDARDS AND ADVOCACY
To shape an investment management industry that works in the best interests of investors

The framework is tightly aligned with 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" and seeks to broaden impact and engagement with all investment industry stakeholders by creating an organizational focus squarely on investment management. This empowers the organization to focus on appropriate content, to provide more targeted, impactful service to our members, and to deliver more effectively on our mission.

Within Credentialing, the Chartered Financial Analyst® (CFA®) Program continues to set the educational standard for investment management professionals seeking to acquire a broad and generalist understanding of the investment decision-making process. During fiscal year 2015, the CFA Program administered more than 224,000 exams. In June 2015, over 159,000 exams were administered at more than 260 test centers in 195 cities across 91 countries. More than 14,600 candidates passed the June 2015 Level III exam (the final exam stage before being awarded the charter), and currently there are over 128,000 CFA charterholders across 149 countries worldwide. The program continues to be incorporated into the curricula of hundreds of universities globally through our CFA Program Partner initiative and University Recognition Program, recognized by regulators in qualifications frameworks, and positioned in the financial press as the gold standard for investment management professionals.

CFA Program exam administrations, which are the primary source of revenue for the organization, increased nearly 7% in fiscal year 2015. The June exam represented the largest exam administration in our 50-year history. Total new Level I candidates in fiscal year 2015, a leading indicator for potential future demand for the CFA Program and the financial performance of the organization, increased 10% versus fiscal year 2014.

CFA Program FY2015 Highlights

224,000+
Exams

260
Test centers

195
Cities

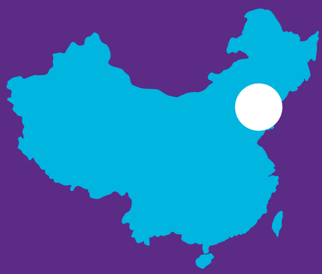
91
Countries

The Certificate in Investment Performance Measurement (CIPM®) Program experienced growth in fiscal year 2015, with a 25% increase in new candidates entering the program. Expanded content—with an emphasis on manager selection, performance evaluation, and application—connects with a broader audience of investment industry practitioners in such areas as investment consulting, financial advisory services, and accounting, as well as the program's core audience of investment performance and analytics professionals. Currently, over 1,600 investment industry professionals have completed the CIPM Program and earned the credential.

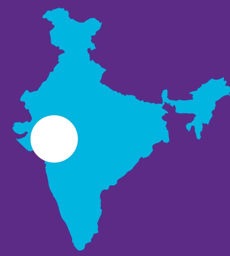
Fiscal year 2015 marked the second full year of the Claritas® Investment Certificate, a global self-study program launched in May 2013. The Claritas Program is designed to give individuals working with or supporting investment decision-makers a clear understanding of the investment industry and their professional responsibilities within it. During fiscal year 2015, more than 4,600 candidates from over 80 countries registered for the Claritas Program and nearly 4,400 exams were administered. Since the program's inception in May 2013, almost 7,000 candidates have passed the exam and earned the Claritas Investment Certificate. We continue to work closely with employers throughout the investment industry that are providing the Claritas Program to industry participants in a wide variety of functions, including operations, information technology, human resources, legal, accounting, and other roles.

Fiscal year 2015 also saw the opening of our offices in Beijing, China and Mumbai, India, extending our global presence and recognizing the importance of our work in the Asia-Pacific region. Under the banner of Member Value, our growing community of more than 135,000 members across 146 member societies in 71 countries worldwide represents the foremost professional body in the investment management profession. Knowing that our members play a critical role in amplifying and localizing our global mission where they practice, we made significant strides in fiscal year 2015 in the development of a new Society Funding Model. The model, to be deployed in fiscal year 2016, significantly scales up the operational funding provided to member societies over the next several years in order to deliver member value by advancing our common mission and building the CFA Institute brand in local investment communities.

FY2015 Office Openings



Beijing
CHINA



Mumbai
INDIA

Helping to ensure that the investment management profession nurtures the principles and practice of ethical behavior, investor protection, and market integrity in both developed and developing financial markets, our Standards and Advocacy work continued in fiscal year 2015 via an array of initiatives. Adoption of the Asset Manager Code of Professional Conduct has reached an all-time high, with nearly 1,200 firms across 38 countries claiming compliance. Similarly, to date, almost 1,600 firms from 40 countries have adopted the Global Investment Performance Standards (GIPS®). The Future of Finance initiative continues to influence the content provided through CFA Institute educational events, research, and publications. During the 68th CFA Institute Annual Conference held in Frankfurt, Germany, in April 2015, the Twitter hashtag #FutureFinance generated over 103 million impressions. In May 2015, more than 85,000 CFA Institute members across the globe participated in our second annual Putting Investors First Month, a global movement designed to raise awareness of investor rights.

As a not-for-profit entity defined by US Internal Revenue Code 501(c)(6), and an organization that does not issue publicly traded shares, CFA Institute is not required to meet reporting standards of US public companies regulated by the SEC. CFA Institute, however, is committed to greater transparency into its own operations. Directed by the Board of Governors at its most recent meeting in October 2015, the organization will continue to work toward greater alignment with public company standards. The effort will begin with a gap analysis en route to that goal. Incremental changes have been incorporated into this year's annual report to begin approaching those standards, including a new "Governance and Compensation" segment.

Financially, CFA Institute experienced a very positive year in fiscal year 2015, with a balanced approach toward advancing the organization's mission and maintaining a sound, long-term financial foundation. The organization seeks to maximize a "return on mission" for members and constituents while maintaining long-term financial viability. The focus on mission return guides organizational investment and activities across all areas of the organization, from information technology to advocacy and education. The year-end realized consolidated income from operations was $22.2 million.

PERFORMANCE

Financial Highlights

Our mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. We measure our success by the achievement of mission goals and objectives detailed in our strategic plan. Sound organizational financial health and sustainability are vital in our efforts to execute this plan. It is through this lens that our new and ongoing initiatives are viewed and prioritized.

CONSOLIDATED FINANCIAL RESULTS

($ in millions)	FY15	FY14	FY13	FY12	FY11
CFA Institute members	135,400	127,800	120,800	114,300	107,800
CFA Program administrations [1]	224,000	210,300	212,100	214,600	205,300
CIPM administrations	1,480	1,300	1,200	1,200	1,180
Claritas administrations [2]	4,390	2,070	50	—	—
Operating revenues	$ 260.2	$ 240.9	$ 224.9	$ 220.1	$ 211.5
Operating expenses	$ 238.0	$ 232.5	$ 224.0	$ 228.3	$ 210.9
Income from operations	$ 22.2	$ 8.4	$ 0.9	$ (8.2)	$ 0.6
Realized gains, interest, and dividends	$ 12.5	$ 15.8	$ 15.6	$ 12.1	$ 9.2
Unrealized (losses) gains on investments	(29.6)	17.4	(3.1)	3.1	10.8
Distribution to non-controlling interests	(0.1)	—	—	—	—
Capital contributions from non-controlling interests	—	5.4	1.2	—	—
Finance costs	(1.1)	(1.4)	—	—	—
Change in net assets	**$ 3.9**	**$ 45.6**	**$ 14.6**	**$ 7.0**	**$ 20.6**

[1] Realized net of adjustments

[2] Claritas Investment Certificate Program initiated in FY2013; figures exclude pilot administions

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 2015 and the ability to invest in mission-related activities in the future.

HIGHLIGHTS

- CFA Program exam administrations in fiscal year 2015 increased 7%, to 224,000 candidates, versus fiscal year 2014. The June 2015 exam represented the largest exam administration in the 50-year history of the CFA Program.
- Fiscal year 2015 new Level I exam administrations increased 10% versus fiscal year 2014.
- CFA Institute membership grew 6% in fiscal year 2015, to 135,400 members, up from 127,800 members in fiscal year 2014.
- Investments totaling $280.8 million support contingency planning and provide for a multi-year continuation of services in the event of a large-scale disruption to the CFA Program.

REVENUES

REVENUES BY SOURCE

($ in millions)	FY15	FY14	FY13	FY12	FY11
Certification and certificate programs	$ 174.4	$ 161.9	$ 156.0	$ 138.0	$ 130.1
Education products	48.8	44.8	36.5	51.7	52.1
Member dues and other	36.7	34.0	32.3	30.4	29.3
Contributions	0.3	0.2	0.1	—	—
Total revenues	**$ 260.2**	**$ 240.9**	**$ 224.9**	**$ 220.1**	**$ 211.5**

- Certification and certificate programs revenue as well as educational products revenue increased over the prior year primarily owing to overall candidate growth for the CFA, CIPM, and Claritas Programs.
- Member dues revenue were higher than in the prior year because of an increase in member volume as well as campaigns aimed to promote early renewals. The member dues rate remained unchanged for fiscal year 2015.

EXPENSES

OPERATING EXPENSES BY SOURCE

($ in millions)	FY15	FY14	FY13	FY12	FY11
Operating expenses					
Certification and certificate programs	$ 62.0	$ 59.2	$ 58.7	$ 55.7	$ 48.8
Education content and products	36.7	34.8	36.4	49.7	49.6
Member and society services	19.4	18.3	21.9	20.6	20.5
Standards and financial market integrity	12.9	13.1	13.0	10.0	9.3
Marketing and communications	33.1	35.3	29.0	27.5	25.5
Scholarships - 11 September Memorial Fund	0.1	0.1	0.1	0.1	0.1
Support expenses					
Information technology	27.2	26.0	23.9	22.6	19.8
Financial operations and executive	20.8	19.4	17.8	18.9	17.5
Facility operations	9.6	10.6	9.3	8.8	8.1
Legal	4.2	3.9	3.3	4.1	4.7
Human resouces	5.9	5.6	5.6	5.6	3.4
Travel support and event management	3.3	2.9	2.4	2.2	1.9
Publishing and content services	2.8	2.7	2.5	2.5	1.7
Other support services	—	0.6	0.1	—	—
Total expenses	**$ 238.0**	**$ 232.5**	**$ 224.0**	**$ 228.3**	**$ 210.9**

- The certification and certificate area expenses were higher than in the prior year owing to increased expenses associated with CFA candidate volume and exam digitization efforts.
- Marketing and communications expenses were lower than in the prior year mainly because of the suspension of campaign spending in the latter half of the year, pending more targeted brand spending in the coming fiscal year.

- Information technology expenses were higher this year owing primarily to the amortization of development projects and maintenance expenses.
- Facility operations expenses were lower than in the prior year, which was to be expected given that this was the first full year the organization was able to realize the savings on the new Charlottesville facility.

CASH FLOW

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

CASH FLOW

($ in millions)	FY15	FY14	FY13	FY12	FY11
Cash inflows from operations	$ 293.8	$ 267.0	$ 248.8	$ 243.3	$ 235.7
Cash outlays to operations	240.9	240.8	227.4	232.1	212.6
Net cash from operations	52.9	26.2	21.4	11.2	23.1
Net cash from investing activities	(44.7)	(26.2)	(38.5)	14.4	(45.2)
Net cash from financing activities	(1.4)	4.6	24.1	—	—
Net increase (decrease) in cash	6.8	4.6	7.0	25.6	(22.1)
Cash, beginning of year	50.8	46.2	39.2	13.6	35.7
Cash, end of year	**$ 57.6**	**$ 50.8**	**$ 46.2**	**$ 39.2**	**$ 13.6**

Net cash from operations grew primarily because of increased inflows from certification and certificate programs, curriculum, and punctual member dues payments

FINANCIAL POSITION

($ in millions)	FY15	FY14	FY13	FY12	FY11
Cash, cash equivalents and current investments	$ 58.6	$ 50.8	$ 46.2	$ 39.2	$ 39.5
Other current assets	14.9	15.8	16.4	17.3	19.6
Total current assets	73.5	66.6	62.6	56.5	59.1
Investments	293.0	283.3	253.3	241.1	226.3
Net equipment and improvements	45.9	46.7	31.8	7.2	8.2
Other assets	14.4	14.2	11.4	8.6	8.4
Total assets	$ 426.8	$ 410.8	$ 359.1	$ 313.4	$ 302.0
Accounts payable	$ 10.8	$ 14.0	$ 16.8	$ 27.5	$ 29.2
Deferred revenue	150.2	135.5	128.9	124.2	118.4
Other liabilities	41.3	40.7	39.4	2.3	2.1
Total liabilities	202.3	190.2	185.1	154.0	149.7
Net assets	224.5	220.6	174.0	159.4	152.3
Total liabilities and net assets	**$ 426.8**	**$ 410.8**	**$ 359.1**	**$ 313.4**	**$ 302.0**

- 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. For more information, visit the Consolidated Statements of Financial Position.

- Deferred revenue increased in part because of demand for Level I of the CFA Program. In accordance with US GAAP, revenue collected for an exam offered the following fiscal year is deferred to that year. CFA Institute also applies US SEC SAB 104[1] and recognizes the one-time CFA Program enrollment fees over 3 years, the estimated average time a candidate participates in the CFA Program. This represents a change from the previous fiscal year estimate of 3.5 years, the mean time spent in the program by those candidates who pass the Level III exam. For more information, visit the Deferred Revenue section of the Summary of significant accounting policies outlined in the Notes to Consolidated Statements.
- Deferred revenue related to member dues also increased due to higher member totals.
- Please link here for information on Property and Equipment, Intangibles, and Commitments and Contingencies.

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

CASH AND INVESTMENT DETAIL

CASH AND INVESTMENT PORTFOLIO BALANCE

($ in millions at fair market value)	FY15	FY14	FY13	FY12	FY11
Cash, cash equivalents and current investments	$ 58.6	$ 50.8	$ 46.2	$ 39.2	$ 39.5
Non-current investments at fair value	293.0	283.3	253.3	241.1	226.3
Total cash, current, and non-current investments	**$ 351.6**	**$ 334.1**	**$ 299.5**	**$ 280.3**	**$ 265.8**

- Strategic, long-term, target investment portfolio weights are 65% risk assets (e.g., global equities, global REITs, commodities, and emerging market debt) and 35% risk-reducing assets (e.g., TIPS, global fixed income, and short-term bonds). For the year ended 31 August 2015, corresponding actual weights reflect 65% and 35%, respectively, owing to the dynamic asset allocation provision that is incorporated into the investment policy statement. The financial reserves serve as a self-insurance backstop and, combined with existing risk mitigation strategies, help provide for the continuation of services in the event of a large-scale disruption to the CFA Program. It is expected that this approach to managing the reserves will give CFA Institute additional risk management flexibility.
- The reserves are invested in accordance with the investment policy statement, which was developed by the CFA Institute Investment Committee according to principles taught in the CFA Program curriculum. The CFA Institute Investment Policy Statement is approved by the Audit and Risk Committee of the CFA Institute Board of Governors.
- Given the current size of the reserves, the Board of Governors agreed in July 2015 that more strategic direction, governance, and board oversight of the reserves was appropriate. The newly formed governor-chaired Investment Committee is drafting governance documents.

OUTLOOK

Fiscal year 2016 budgeted revenue is $275.2 million, while budgeted expense is $270.7 million, resulting in a projected ending operating margin of $4.5 million.

Major revenue drivers include increased candidate counts and corresponding enrollment, registration, and curriculum fees, particularly within the CFA Program. December 2015 CFA exam registration, for which revenue will be recognized in fiscal year 2016, closed in mid-September. New Level I registrations finished up 14% over the prior year and up 6% over budgeted targets. Similarly, the first of three registration deadlines for the June 2016 CFA exam also occurred in September. As of 30 September, new Level I registrations were up 36% over the prior year and up 20% over budgeted targets.

In fiscal year 2016, CFA Institute enters a three-year strategic planning cycle to be realized in fiscal years 2017–2019. Cornerstones of the plan, all of which are expense drivers in fiscal year 2016, include the following:

- Extension of our society partnership via the ramping up of the newly adopted Society Funding Model. Society funding will increase from $6.0 million in fiscal year 2015 to $9.0 million in fiscal year 2016, with a target funding level of $16.0 million per annum by fiscal year 2020.
- Continuation of a multi-year Digital Core Transformation, the aims of which are to replace legacy platforms with new technology; increase efficiency of internal operations; improve service to members, candidates, and other stakeholders; and lay the foundation for future innovation and digitalization. Expected capital spending is approximately $10.7 million over a three-year period beginning in fiscal year 2016. Expenses will be partially offset by a reduction in rising maintenance costs of existing platforms.
- Execution of a significant Brand Awareness Campaign, with global, regional, and local aspects, to increase the professional recognition of our members. Strong expected financial results provide the opportunity for an investment of up to $16.0 million in each of the next three years, beginning in fiscal year 2016.

Each of these initiatives is aligned with the new internal organizing framework. All are designed to better empower local execution of our global mission and deliver greater value to our members worldwide.

PERFORMANCE

Risks and Conclusions

RISKS

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

September 2015 saw the appointment of Darin Goodwiler as Managing Director and Chief Compliance, Risk, and Ethics Officer. With dual reporting lines to the President and CEO and to the Chair of the Audit and Risk Committee of the Board of Governors, Mr. Goodwiler is responsible for risk management planning and further developing the organization's compliance culture and programs. This represents a significant commitment to providing a comprehensive, global compliance and risk management framework and strategy for CFA Institute, its member societies, and affiliations.

As a service organization, the dedication and expertise of CFA Institute staff and volunteers constitute one of the organization's most valuable assets and remain an essential ingredient for long-term success. As a result, CFA Institute is exposed 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, staff training, and retention.

In the area of legal risk, we are pleased to disclose that there are no material legal proceedings or known legal proceedings contemplated by government authorities globally.

The CFA Institute business model continues to be primarily dependent on CFA Program exam fees and related revenue, which constitute approximately 85% 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. CFA Institute is working to better understand global and regional influences on new Level I demand. Inadequate or inaccurate projections could lead to suboptimal financial decisions. Additionally, disruptions to testing for reasons such as weather events, natural disasters, strikes, political upheaval, terrorism, and exposed test items could result in significant loss of profits. The organization has mitigation strategies in place; however, it cannot control the number and type of exogenous events that can negatively affect exam administration.

CFA Institute faces the same cyber risks that now confront all businesses. Despite our focus on intrusion detection systems, continuous monitoring, firewalls and layered defenses, a cyber-attack could result in system unavailability, lost proprietary information, exposed test items, or exposed personally identifying information about customers. To further develop our cyber defense posture, CFA Institute has hired a leading information security firm to evaluate our current cyber program and recommend future state enhancements. These recommendations will be implemented over the next two to three years.

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

The assessment of risks by country is a prominent component of CFA Institute ERM activities. The country risk management process was designed because we have members in more than 140 countries and administer the CFA Program in more than 90 countries worldwide. As the organization continues to expand, CFA Institute faces higher compliance risks and costs. Many jurisdictions in which we do business have less predictable or robust regulatory systems than the UK and the US. Despite resources expended for the purposes of compliance and monitoring, the organization cannot fully assure complete compliance in all jurisdictions. Additionally, CFA Institute is vulnerable, to varying degrees, to political or financial instability in various jurisdictions. 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.

Because the Charter is not required for investment practice in any jurisdiction (except the Philippines), it is possible for regulators to step in and create their own qualifying exam, which would occupy the field, making the Charter less attractive. In a large jurisdiction this would result in a significant downturn in candidate enrollment and revenue.

In order to help achieve high levels of ethical behavior, CFA Institute maintains an ethics and reporting hotline, which allows employees to anonymously report suspected ethical or legal violations at CFA Institute. Additionally, the hotline has been made available to graders, as well as vendors, contractors, volunteers, and other non-employees who require access to CFA computer networks or our office locations in the performance of services for CFA Institute.

Finally, as part of its program for fiscal year 2016, CFA Institute will continue to improve its reporting, endeavoring to meet the highest standards of not-for-profit governance and either meet public company reporting standards or transparently report our rationale for opting out. Although CFA Institute has made progress on several fronts, the organization does not currently meet the standard for the “Management Assessment of the effectiveness of Internal Controls,” as defined in Section 404 of the Sarbanes–Oxley Act. Directed by the Board of Governors, this will be a renewed area of focus for the organization in fiscal year 2016.

CONCLUSION

CFA Institute continues to execute its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. Bolstered by the appointment of Paul Smith, CFA, as President and CEO, and solid financial performance, fiscal year 2015 was a strong year. Adoption of the new organizing framework, centered on Credentialing, Member Value, and Standards and Advocacy, positions CFA Institute to broaden its impact even further and engage more meaningfully with investment industry stakeholders by creating an organizational focus on investment management. Developing future investment management industry professionals who are competent and ethical, supporting members in their professional practice so they can better serve their clients, and shaping an investment industry that works in the best interests of investors remain paramount to the mission of CFA Institute. As such, fiscal year 2016 is shaping up to be an exciting year.

PERFORMANCE

Consolidated Statements

FINANCIAL POSITION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 AUGUST 2015 AND 2014

ASSETS (in thousands)	**2015**	**2014**
Current assets		
Cash and cash equivalents	$ 57,641	$ 50,762
Investments, at fair value	1,000	—
Accounts receivable, net	682	785
Prepaid expenses and other assets	12,389	12,756
Publication inventory	1,695	1,980
Restricted cash	62	278
Total current assets	73,469	66,561
Non-current assets		
Investments, at fair value	292,999	283,253
Derivative contracts	257	762
Prepaid expenses and other assets	3,653	3,648
Property and equipment, net	45,863	46,730
Intangibles, net	10,569	9,874
Total non-current assets	353,341	344,267
Total assets	$ 426,810	$ 410,828

LIABILITIES AND NET ASSETS (in thousands)	**2015**	**2014**
Current liabilities		
Accounts payable and accrued liabilities	$ 10,821	$ 13,988
Deferred revenue	117,352	102,421
Employee-related liabilities	14,846	13,118
Funds held for others	2,760	2,141
Derivative contracts	333	394
Notes payable	1,290	1,250
Interest payable	38	20
Total current liabilities	147,440	133,332
Non-current liabilities		
Accounts payable and accrued liabilities	296	504
Deferred revenue	32,843	33,070
Employee-related liabilities	1,888	2,176
Notes payable	19,850	21,140
Total non-current liabilities	54,877	56,890
Total liabilities	202,317	190,222
Net assets		
Unrestricted		
Undesignated	215,288	211,721
Designated	1,533	1,634
Non-controlling interests	7,672	7,251
Total net assets	224,493	220,606
Total liabilities and net assets	$ 426,810	$ 410,828

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

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED 31 AUGUST 2015 AND 2014

(in thousands)	2015	2014
Change in net assets		
Operating revenues		
Certification and certificate programs	$ 174,492	$ 161,847
Educational products	48,769	44,850
Member dues and other	36,690	34,023
Contributions	273	219
Total operating revenues	260,224	240,939
Operating expenses		
Program services		
Certification and certificate programs	62,057	59,238
Educational content and products	36,746	34,768
Marketing and communications	33,051	35,328
Member and society services	19,380	18,326
Standards and financial market integrity	12,947	13,112
Scholarships—11 September Memorial Fund	74	75
Support services		
Information technology	27,159	26,004
Financial operations and executive	20,822	19,361
Facility operations	9,598	10,649
Human resources	5,888	5,612
Legal	4,158	3,866
Publishing and content services	2,762	2,743
Travel support and event management	3,327	2,871
Fundraising	23	23
Other support services	—	583
Total operating expenses	237,992	232,559
Income from operations	22,232	8,380
Realized gains, interest and dividends	12,438	15,908
Change in net assets from operations	34,670	24,288
Other changes		
Unrealized (losses) gains on investments	(29,560)	17,357
Capital contributions from non-controlling interests	—	5,380
Distributions to non-controlling interests	(127)	—
Finance costs	(1,096)	(1,410)
Change in net assets	3,887	45,615
Net assets, beginning of year	220,606	175,265
Syndication costs	—	(274)
Net assets, end of year	$ 224,493	$ 220,606

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

CASH FLOW, DIRECT METHOD

CONSOLIDATED STATEMENTS OF CASH FLOW, DIRECT METHOD FOR THE YEARS ENDED 31 AUGUST 2015 AND 2014

(in thousands)	2015	2014
Cash flows provided by operating activities		
Cash inflows		
Certification and certificate programs	$ 186,770	$ 166,212
Educational products	48,582	45,215
Member dues and other	52,657	48,673
Contributions	273	220
Interest and dividends	5,560	6,614
Total cash inflows	293,842	266,934
Cash outlays		
Program services		
Certification and certificate programs	62,122	61,849
Educational content and products	34,795	32,856
Marketing and communications	32,595	35,928
Member and society services	30,427	30,434
Standards and financial market integrity	12,860	12,898
Scholarships 11 September Memorial Fund	74	75
Support Services		
Information technology	21,397	21,388
Financial operations and executive	22,612	22,222
Facility operations	8,005	8,489
Human resources	6,290	5,372
Legal	3,964	3,808
Publishing and content services	2,651	2,627
Travel support and event management	3,085	2,794
Fundraising	23	24
Total cash outlays	240,900	240,764
Net cash provided by operating activities	52,942	26,170
Cash flows provided by (used in) financing activities		
Loan repayments	(1,250)	(511)
Capital contributions from non-controlling interests	—	5,380
Distributions to non-controlling interests	(127)	—
Syndication costs	—	(274)
Net cash provided by financing activities	(1,377)	4,595

Cash flows provided by (used in) investing activities		
Purchases of property and equipment	(6,178)	(19,162)
Purchases of intangible assets	(5,080)	(3,702)
Purchases of investments	(126,177)	(70,386)
Proceeds from investments	92,749	67,095
Net cash used in investing activities	(44,686)	(26,155)
Net increase in cash and cash equivalents	6,879	4,610
Cash and cash equivalents, beginning of year	50,762	46,152
Cash and cash equivalents, end of year	**$ 57,641**	**$ 50,762**

Reconciliation of change in net assets to net cash		
Change in net assets	$ 3,887	$ 45,615
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	7,955	6,890
Losses on disposition of fixed assets	—	583
Unrealized losses (gains) on investments	29,560	(17,357)
Realized gains on investments	(6,878)	(9,294)
Finance costs	444	932
Capital contributions from non-controlling interests	—	(5,380)
Distributions to non-controlling interests	127	—
Changes in:		
Accounts receivable	70	346
Prepaid expenses and other assets	362	(3,444)
Publication inventory	285	1,376
Restricted cash	216	162
Accounts payable and accrued liabilities	133	(1,203)
Deferred revenue	14,704	6,565
Employee related liabilities	1,440	(139)
Funds held for others	619	498
Interest payable	18	20
Net cash provided by operating activities	**52,942**	**26,170**

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

PERFORMANCE

Notes to Consolidated Statements

1. ORGANIZATION

CFA Institute is a not-for-profit professional association, incorporated in Virginia, with a mission of leading the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program and serves more than 135,000 members, as well as 146 member societies around the world. CFA Institute also administers the Certificate in Investment Performance Measurement (CIPM®) Program and serves more than 1,400 members of the CIPM Association. In addition, CFA Institute administers the Claritas® Investment Certificate (Claritas) Program and has awarded almost 7,000 Claritas Investment Certificates since the inception of the program. CFA Institute has offices in Beijing; Brussels; Charlottesville, Virginia; Hong Kong; London; Mumbai; New York City; Shanghai; and Singapore.

CFA Institute qualifies as a tax-exempt organization under Internal Revenue Code (IRC) § 501(c)(6). CFA Institute was incorporated in 1986 as Association for Investment Management and Research (AIMR) as a result of the combination of the Financial Analysts Federation (FAF) and the Institute of Chartered Financial Analysts (ICFA). The FAF and ICFA have histories dating back to 1947 and 1962, respectively. AIMR changed its name to CFA Institute in 2004.

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

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

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

CFA Institute China Limited (CFA Institute China), a wholly-owned subsidiary of CFA Institute, is a limited company incorporated in 2008 in Hong Kong. CFA Institute China has two representative offices located in the Peoples Republic of China—one in Beijing and one in Shanghai. CFA Institute China and its two representative offices provide auxiliary services to its members in China, including continuing professional education, conferences, workshops, exhibitions, and other networking events.

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

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

CFA Institute India Private Limited (CFA Institute India) is a private corporation incorporated in 2014 under the laws of India whose function is to provide marketing, promotional, and outreach services to CFA Institute for a fee, as well as to provide limited auxiliary services to CFA Institute members in India, including continuing professional education, conferences, workshops, exhibitions, and other networking events.

CFA Global Holdings, LLC (Global), a wholly-owned subsidiary of CFA Institute, is a private corporation incorporated in 2014 under the laws of Virginia whose function is to act as a holding company for a one hundredth percent (0.01%) share of CFA Institute India. CFA Institute retained a ninety-nine and ninety-nine hundredths percent (99.99%) share of CFA Institute India. Global transacted no business in the fiscal year ended 31 August 2015.

During the year ended 31 August 2015, CFA Institute formed and capitalized Si Wei Beijing Enterprise Management Consulting Company Limited (Si Wei), a wholly-owned subsidiary of CFA Institute China. Si Wei is a private corporation incorporated under the laws of China whose function is to provide marketing, promotional, and outreach services to CFA Institute for a fee, as well as to provide limited auxiliary services to CFA Institute members in China, including continuing professional education, conferences, workshops, exhibitions, and other networking events.

During the year ended 31 August 2015, CFA Institute formed, but had not yet capitalized, CFA Institute Singapore Private Limited (CFA Institute Singapore), a wholly-owned subsidiary. CFA Institute Singapore is a private corporation incorporated under the laws of Singapore whose function is to provide consulting and training services on capital markets general knowledge and professional ethics, conference services, social and economic consulting services, market intelligence consultation, enterprise management consultation services, marketing strategy and market research services to CFA Institute for a fee, as well as to provide limited auxiliary services to CFA Institute members in Singapore, including continuing professional education, conferences, workshops, exhibitions, and other networking events. CFA Institute Singapore transacted no business in fiscal year ended 31 August 2015.

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 (US). All monetary values are presented in USD ($) throughout these financial statements.

CONSOLIDATION

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

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

USE OF ESTIMATES

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

MEASURE OF OPERATIONS

Operating revenues include candidate fees, educational products sales, member dues, and contributions. Realized gains and losses and income from investments are reported separately and are included in the change in net assets from operations. Unrealized gains and losses on investments are reported as other changes in net assets. Changes in temporarily restricted net assets are also reported as other changes in net assets.

CONCENTRATION OF CREDIT RISK

CFA Institute maintains cash balances in global accounts which exceed insured limits established by the Federal Deposit Insurance Corporation in the U.S. and other national deposit protection programs. To mitigate risk exposure, the policy of CFA Institute is to deposit funds only in financially sound institutions and to maintain a daily cash balance of no more than $12,000,000 to support operational and business continuity needs and to offset bank transactional fees. The chief financial officer is notified of operational exigencies that require a temporary balance in excess of $12,000,000. This policy pertains to operating accounts of CFA Institute that are in the U.S. Other accounts with minimal balances are maintained for operational purposes. Cash in excess of the $12,000,000 ceiling is maintained in US Treasury bills. Balances in excess of the deposit protection limits and amounts held in US Treasury bills are subject to some degree of credit risk.

NET ASSETS

CFA Institute classifies net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. Contributions to the Foundation are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions to the Foundation with donor restrictions are recorded as temporarily restricted or permanently restricted depending on the nature of the restrictions.

Temporarily restricted net assets are contributions with donor-imposed program restrictions. Temporarily restricted net assets become unrestricted when the funds are used for their restricted purposes and are reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted contributions, whose restrictions are satisfied in the same fiscal year that the contributions are received, are reported in the consolidated statements of activities as both temporarily restricted contributions and as net assets released from restrictions. The program restrictions relate to the Scholarship Fund. As of 31 August 2015 and 2014, 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 2015 and 2014, CFA Institute had no permanently restricted net assets.

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

	CFA Institute	Non-controlling interest	Consolidated
Balance as of 31 August 2014	$ 213,356	$ 7,250	$ 220,606
Change in net assets from operations	34,249	421	34,670
Unrealized losses on investments	(29,560)	—	(29,560)
Distributions	—	(127)	(127)
Finance costs	(1,096)	—	(1,096)
Balance as of 31 August 2015	$ 216,949	$ 7,544	$ 224,493

DESIGNATED NET ASSETS

In 1986, the Association for Investment Management and Research (AIMR, now CFA Institute) was formed as a result of the combination of ICFA and FAF. Prior to the combination, ICFA contributed $950,000 to the Foundation. CFA Institute contributed $1,000,000 to the Foundation to establish the Scholarship Fund in October 2001. Because of the control relationship between CFA Institute and the Foundation, both contributions are reported as net assets-designated.

The Scholarship Fund is recorded as an unrestricted, designated net asset. Contributions by CFA Institute to the Foundation for the Scholarship Fund are recorded as unrestricted, and so designated in both the Foundations separate financial statements and the consolidated financial statements, as required by the Not-for-Profit Entities topic of the FASB ASC, because of the control relationship between CFA Institute and the Foundation.

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

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

	2015	2014
ICFA Contribution	$ 950	$ 950
11 September Memorial Fund	518	589
Unpaid research grants	65	95
Total designated net assets	$ 1,533	$ 1,634

CONTRIBUTED SERVICES

CFA Institute receives contributed services from member volunteers for contributions of their time on various task forces and committees. The organization utilizes the committees and task forces for governance and to address different aspects of the CFA examinations, the CFA Program curriculum, continuing education, industry standards-setting, and other areas for its membership. In accordance with the Not-for-Profit Entities topic of the FASB ASC, CFA Institute has not recorded the value of the contribution of member volunteers’ time in the accompanying consolidated financial statements.

CASH FLOW REPORTING

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

COST CLASSIFICATION

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

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

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.

INVESTMENTS

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

PUBLICATION INVENTORY

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

RESTRICTED CASH

Restricted cash is classified as either current or non-current, depending on whether its use is restricted for greater than twelve months after 31 August 2015 or 31 August 2014, depending on the reporting year. The cash serves as collateral for bank-issued letters of credit as well as escrowed deposit accounts and is restricted as to withdrawal. Income earned from these funds is unrestricted and available for company use.

DERIVATIVE

CFA Institute is subject to risk from adverse fluctuations in interest rates associated with notes payable pertaining to the acquisition and construction of the Charlottesville property. This risk is mitigated through the use of an interest rate swap (a derivative financial instrument) that economically hedges the exposure associated with variable-rate debt. The objective of CFA Institute is to manage exposure to this risk by limiting the impact of changes in interest rates on operations and cash flow. CFA Institute does not actively invest in derivative instruments for investment purposes.

The 16.5-year interest rate swap agreement was executed concurrently with the note payable. HUB pays a fixed rate of two point ninety-one percent (2.91%) on a descending principal balance of $21,140,000 in return for a variable-rate interest of 30-day LIBOR plus ninety basis points. There is no prepayment penalty on the variable-rate loan, and the swap can be exited at any time. The interest rate swap had a fair value of $76,000 and was in a net liability position to CFA Institute and $368,000 and was in a net asset position to CFA Institute as of 31 August 2015 and 31 August 2014, respectively.

CFA Institute's outstanding derivative financial instrument is recognized in the consolidated statements of financial position at its fair value. The change in value due to annual fluctuations is recognized on the finance costs line in the consolidated statements of activities and was $444,000 and $932,000 for the years ended 31 August 2015 and 2014, respectively. The effect on operations from recognizing the fair value of this derivative financial instrument depends on its intended use, its hedge designation, and its effectiveness in offsetting changes in the fair value of the exposure it is hedging.

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. Leasehold improvements are amortized over the shorter of the estimated life of the related asset or the remaining term of the lease.

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

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

INTANGIBLES

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

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

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

DEFERRED REVENUE

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

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

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

NOTES PAYABLE

Notes payable is classified as either current or non-current, depending on the amount of principal scheduled to be repaid within twelve months after 31 August 2015 and 31 August 2014.

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).

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 years, the estimated average time a candidate participates in the CFA Program. During the year ended 31 August, 2015, CFA Institute performed an annual review of deferred revenue amortization assumptions. Based upon the availability of better data, a change in estimate was incorporated for the current and future years. To recognize CFA candidate enrollment revenue based on the expected period of performance, the three year average time a candidate participates in the program replaces the three and one half year average time a successful candidate participates used in prior years. On the basis of the revised expected period of performance, only a half year revenue is now conservatively recognized in the first year for the June exam, given in the latter half of the fiscal year.

The effect of the change in estimate to income from operations is summarized below (in thousands):

	2015	2016	2017	2018
Prior performance period	$ 36,047	$ 26,047	$ 16,052	$ 5,526
Revised performance period	37,845	27,891	14,561	3,375
Effect of change inestimate	$ 1,798	$ 1,844	$ (1,491)	$ (2,151)

CFA Program and CIPM Program examination fees included in certification and certificate programs in the accompanying consolidated statements of activities are recognized as revenue when the candidate sits for the respective examinations. Educational product sales are recognized as revenue when those products are shipped or otherwise made available to the customer regardless of the associated examination date. Member dues are recognized as revenue on a pro-rata basis over the membership year.

Claritas examination fees are included in deferred revenue as either a two-year voucher or a six-month registration. Vouchers are either exercised, or recognized as revenue upon expiration or cancellation. When a voucher is exercised or a registration is purchased, the curriculum portion is recognized immediately and included in educational content and products in the accompanying consolidated statements of income. The registration portion of examination fees is recognized when the registrant sits for the exam, or upon expiration or cancellation of the registration and is included in 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 $4,107,000 for the year ended 31 August 2015 and $3,598,000 for the year ended 31 August 2014. These scholarship awards are separate and distinct from the scholarships awarded by the 11 September Memorial Scholarship Fund (see Note 10).

ADVERTISING COSTS

Advertising costs are expensed as incurred. Total advertising expense is $4,794,000 and $7,864,000 for the years ended 31 August 2015 and 2014, respectively.

INCOME TAXES

CFA Institute and the Foundation are exempt from US federal income taxes under IRC §§ 501(c)(6) and 501(c)(3), respectively, and Virginia state income taxes, except for unrelated business income. Unrelated business income is subject to US federal and Virginia state income taxes. Unrelated business income is generated from advertising revenue from CFA Institute publications and its website, as well as from revenue from online career development resources. In addition, various income taxes are paid according to the requirements in other jurisdictions. Federal income tax estimated payments made by CFA Institute were $258,000 and $66,000 for the years ended 31 August 2015 and 2014, respectively. The Foundation had no unrelated business income for the years ended 31 August 2015 and 2014, respectively.

CFA Institute and the Foundation have performed evaluations of all unrelated business income and have maintained their tax exempt status. CFA Institute and the Foundation believe that they have adequately provided for all open tax years under the Income Taxes topic of the FASB ASC and have no uncertain tax positions.

HUB and CMT have elected to be taxed as pass-through partnership entities pursuant to Regs. § 301.7701-3 of the Internal Revenue Code. Accordingly, all profits and losses of these companies are recognized by each member on its respective tax return. Holdings has elected to be taxed as a C corporation under that same section. Therein, any tax effect on the results of operations will be taxed on Holdings' tax return. Holdings reported $885,000 and $14,555 in taxable income (loss) for the periods ended 31 December 2014 and 2013, respectively. Federal income tax estimated payments made by Holdings were $300,000 and $1,000 for the years ended 31 August 2015 and 2014, respectively.

INTEREST COSTS

CFA Institute incurred interest costs for the acquisition and construction of the Charlottesville property of $652,000 and $664,000 for the years ended 31 August 2015 and 31 August 2014, respectively. Of these amounts, interest expense was $652,000 and $478,000 for the periods respectively, and $0 and $186,000 was capitalized in land and buildings for the periods, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2015, FASB issued Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement. The new guidance applies to reporting entities that elect to measure the fair value of an investment using the practical expedient net asset value per unit available in the fair value measurement standard. The amendments in the Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments in this Update are effective for fiscal years beginning after December 15, 2016, with early application permitted. The Company expects this guidance to have an impact on the fair value disclosure in the Consolidated Financial Statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue From Contracts with Customers. The new revenue recognition standard eliminates the transaction and industry-specific revenue recognition guidance under current GAAP and replaces it with a principle-based approach for determining revenue recognition. Nonpublic entities are required to apply the revenue recognition standard for reporting periods beginning after December 15, 2018, and interim and annual reporting periods thereafter. Nonpublic entities are permitted to apply this guidance one year earlier. The Company is evaluating the impact of this standard on its Consolidated Financial Statements.

In April 2014, FASB issued new guidance that modifies the requirements for reporting discontinued operations. The new guidance requires the reporting of the disposal of an entity or component of an entity as discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the entitys operations and financial results. The new guidance also expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation. This guidance is effective for interim and fiscal years beginning after December 15, 2014. Early adoption is permitted for disposals that have not been reported in financial statements previously issued or available for issuance. The impact of the guidance on the Company's Consolidated Financial Statements will depend on its future disposal activity.

In August 2014, FASB issued new guidance that requires management to assess the Company's ability to continue as a going concern and to provide related disclosures in certain circumstances. This guidance is effective for fiscal years ending after December 15, 2016, with early adoption permitted. The Company does not expect this guidance to have an impact on its Consolidated Financial Statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable as of 31 August 2015 and 2014 consist of the following (in thousands):

	2015	2014
Accounts receivable	$ 872	$ 851
Allowance for bad debt	(190)	(66)
Total accounts receivable	$ 682	$ 785

4. INVESTMENTS

Investments, at fair value (Note 5) as of 31 August 2015 and 2014 consist of the following (in thousands):

	2015	2014
CFA Institute	$ 281,780	$ 270,423
The Foundation – endowment	11,706	12,244
The Foundation – the Scholarship Fund	513	586
Total investments	$ 293,999	$ 283,253

As of 31 August 2015 and 2014, investments at fair value consisted of US registered mutual funds and collective trusts that invest in global equity, global fixed-income, emerging market debt, global real estate investment trusts, commodities, and US government securities.

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

	2015	2014
Global equity	$ 121,929	$ 118,346
Global fixed-income	102,954	107,904
Commodities	23,535	13,355
Emerging market debt	22,581	21,356
Global real estate investment trusts	21,634	21,925
US government securities	1,366	367
Total investments	$ 293,999	$ 283,253

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

	2015	2014
Realized gains		
CFA Institute	$ 6,849	$ 9,151
The Foundation – endowment	9	122
The Foundation – the Scholarship Fund	20	21
Total realized gains	6,878	9,294
Interest and dividends		
CFA Institute	5,272	6,305
The Foundation – endowment	279	298
The Foundation – the Scholarship Fund	9	11
Total interest and dividends	5,560	6,614
Unrealized (losses) gains		
CFA Institute	(28,758)	15,993
The Foundation – endowment	(776)	1,357
The Foundation – the Scholarship Fund	(26)	7
Net unrealized (losses) gains	(29,560)	17,357
Investment (losses) gains, interest and dividends	$ (17,122)	$ 33,265

Description of major investments that represent more than 5% of total investments as of 31 August 2015:

a. Vanguard Total Bond Market Index Fund Institutional Shares—Goal is to track the performance of a broad, market-weighted bond index. Invests in more than 7,600 bonds, including a wide spectrum of public, investment-grade, taxable, fixed-income securities in the US with maturities of greater than one year.

b. Vanguard Total International Bond Index Fund Institutional Shares—Goal is to track the performance of a US dollar hedged benchmark index that measures the investment return of investment-grade bonds issued outside the US. Invests in approximately 3,900 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 US stock market. Invests in more than 3,800 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 US. Invests in more than 5,800 stocks of companies located in 41 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 at least 80% of assets in inflation-indexed bonds issued by the US Treasury, government agencies, and corporations. May invest up to 20% of assets in nominal Treasury and corporate bonds, although this option is generally not used.

f. BlackRock Emerging Market Local Bond Index Fund B—Goal is to track the performance of a broad, emerging market bond index. Bonds are issued in local currency. The fund invests in approximately 200 securities.

g. BlackRock Dow Jones-UBS Commodity Index Fund B—Goal is to provide broadly diversified representation of commodity markets as an asset class. The index is made up of exchange-traded futures on physical commodities. The index currently represents 22 commodities.

5. FAIR VALUE MEASUREMENTS

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

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

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

The commodities fund and the emerging market debt fund are valued using net asset value per unit (NAV), the practical expedient available in the FASB ASC. CFA Institute has the ability to redeem its investment in these funds at the valuation date. Accordingly, investments in these funds are classified as Level 2. CFA Institute has no unfunded commitments related to the investments in either of these two funds. Note 4 (Investments) describes the investment strategies of these funds.

Since the valuation inputs available for the Level 2 note payable and derivative are not quoted prices in an active market, management has reviewed and concurs with valuation obtained from independent specialists who used FASB ASC applicable methods.

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

The following tables present information about assets and liabilities required to be carried at fair value on a recurring basis as of 31 August 2015 and 2014 (in thousands):

	Fair value measurements as of 31 August 2015 using:			
	Fair value as of 31 August 2015	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	$ 121,929	$ 121,929	$ —	$ —
Global fixed-income funds	102,954	102,954	—	—
Commodities funds	23,535	—	23,535	—
Emerging market debt funds	22,581	—	22,581	—
Global real estate investment trust funds	21,634	21,634	—	—
Mutual funds – IRC § 457 accounts	1,538	1,538	—	—
US government securities	1,366	1,366	—	—
Derivative	257	—	257	—
Liabilities:				
Notes payable	(19,381)	—	(19,381)	—
Deferred compensation (note 11)	(1,537)	(1,537)	—	—
Derivative	(333)	—	(333)	—
Net assets and liabilities subject to fair value measurement	$ 274,543	$ 247,884	$ 26,659	$ —

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

6. PROPERTY AND EQUIPMENT

Property and equipment, including construction in progress, as of 31 August 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Land and buildings	$ 39,614	$ 39,319
Computer hardware and equipment	14,062	12,355
Furniture and fixtures	4,525	4,340
Leasehold improvements	4,372	3,904
Total property and equipment	62,573	59,918
Accumulated depreciation and amortization	(16,710)	(13,188)
Property and equipment, net	$ 45,863	$ 46,730

Construction in progress, included in the schedule above, as of 31 August 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Computer hardware and equipment	451	360
Leasehold improvements	194	9
Furniture and fixtures	44	44
Land and buildings	—	$ 64
Total construction in progress	$ 689	$ 477

Charlottesville operations substantially completed renovation on its building project and consolidated to primarily one facility in December 2013. This resulted in transferring the property from construction in progress to in service as well as disposing of a large volume of assets for which no cash was received. Disposals of leasehold improvements and furniture and fixtures totaled $7,828,000, resulting in a loss of $574,000 for the period ended 31 August 2014. The loss on these dispositions is shown in other support services on the consolidated statements of activities. Property and equipment assets of $202,000 were disposed during the year ended 31 August 2015. The assets were fully amortized, and no gain or loss was recorded on the disposals. Depreciation expense was $3,722,000 and $3,441,000 for the years ended 31 August 2015 and 2014, respectively.

7. INTANGIBLES

Intangibles, including work in process, as of 31 August 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Computer software (developed)	$ 22,213	$ 18,288
Computer software (website development)	9,007	9,192
Computer software (packaged)	6,768	6,493
Other intangibles	4,134	3,271
Total intangibles	42,122	37,244
Accumulated amortization	(31,553)	(27,370)
Intangibles, net	$ 10,569	$ 9,874

Work in process, included in the schedule above, as of 31 August 2015 and 2014 consisted of the following (in thousands):

	2015	2014
Computer software (developed)	$ 1,180	$ 1,818
Computer software (website development)	—	185
Computer software (packaged)	109	467
Other intangibles	145	210
Total work in process	$ 1,434	$ 2,680

Amortization expense was $4,233,000 for the year ended 31 August 2015 and $3,448,000 for the year ended 31 August 2014.

CFA Institute capitalized $0 and $185,000 of new website development costs for the years ended 31 August 2015 and 2014, respectively. During the year ended 31 August, 2015, CFA Institute reclassified top-level internet domain costs of $185,000 from website development to other intangibles. Amortization of software and website development costs was $1,000 and $5,000 for the years ended 31 August 2015 and 2014, respectively.

Intangible assets other than software or website development are considered other intangibles. Other intangibles includes copyrighted materials, Investment Research Challenge rights, assigned rights used in a textbook, intellectual property consisting of materials used in the CFA Program curriculum, and a top-level internet domain. Total amortization expense for other intangibles was $227,000 and $75,000 for the years ended 31 August 2015 and 2014, respectively.

Intangible software assets of $52,000 were disposed during the year ended 31 August 2015. The assets were fully amortized, and no gain or loss was recorded on the disposals.

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

	Intangible amortization
2016	$ 5,462
2017	2,986
2018	1,992
2019	18
2020	18
Thereafter	93
Total intangible amortization	$ 10,569

8. COMMITMENTS AND CONTINGENCIES

CFA Institute has entered into various operating leases with original terms ranging from one to ten years that expire on various dates through December 2024. These operating leases cover office space and temporary residential apartments in various cities in which the company operates as well as leased office equipment.

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

Rental expense related to these operating leases was $5,215,000 and $6,341,000 for the years ended 31 August 2015 and 2014, 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 2015 are as follows (in thousands):

	Lease payments	Revenue sharing	Total
2016	5,186	100	5,286
2017	4,293	100	4,393
2018	3,738	100	3,838
2019	1,299	100	1,399
2020	$ 541	—	$ 541
Thereafter	727	—	727
Total future minimum payments	$ 15,784	$ 400	$ 16,184

The Foundation awards grants to individuals subject to completion of their respective research projects. Unpaid grants, subject to this condition, totaled $65,000 and $95,000 as of 31 August 2015 and 2014, respectively. Due to the conditional nature of these unpaid grants, they are not accrued for in the accompanying consolidated statements of financial position. (See Note 2, designated net assets.)

9. RETIREMENT PLANS

In the United States, the 401(k) Retirement Plan allows for discretionary employer and employee contributions, and fixed employer contributions, subject to IRS limits. Per the plan's vesting schedule, participants become fully vested after three years of service. Employee contributions are always 100% vested. Plan oversight is the responsibility of the Compensation and Governance Committee of the Board of Governors of CFA Institute; administrative oversight is delegated to the Managing Director, Human Resources. The Retirement Investment Policy Committee, which is made up of qualified CFA Institute employees, selects and monitors plan investments.

A third party investment management company is the trustee for the plan and is the custodian. CFA Institute is both the plan sponsor and the plan administrator. Each eligible employee may direct the investment of his or her balance in up to twenty-two mutual fund alternatives offered by the plan. Contribution expense for the 401(k) Plan totaled $5,280,000 and $5,238,000 for the years ended 31 August 2015 and 2014, respectively. Plan forfeitures of $76,000 and $36,000 were netted against company contributions for the years ended 31 August 2015 and 2014, respectively. CFA Institute accrues for incentive compensation and the related 401(k) contribution. Accruals for the related 401(k) contribution of $627,000 and $568,000 were made for the years ended 31 August 2015 and 2014, respectively.

In Europe, employees are enrolled in relevant plans as mandated by local statutes. In the United Kingdom, CFA Institute provides a retirement program consisting of a Group Stakeholder Pension Plan, a defined contribution plan. Contribution expense totaled $483,000 and $472,000 for the years ended 31 August 2015 and 2014, respectively. In Belgium, employees are enrolled in an insurance-based plan with a mandatory employer contribution of 14.6%.

In the Asia Pacific region, employees are enrolled in relevant retirement fund schemes as mandated by the local registrations. For our Hong Kong office, employees are enrolled in the mandatory provident fund (MPF) scheme. Contribution expense totaled $749,000 and $557,000 for the years ended 31 August 2015 and 2014, respectively. Accruals for contributions to the related MPF scheme of $364,000 and $266,000 were made for the years ended 31 August 2015 and 2014, respectively. In China and India, employees are enrolled in the government's social insurance scheme and the central government employee's pension scheme respectively.

10. 11 SEPTEMBER MEMORIAL SCHOLARSHIP FUND

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

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

Contributions to the Scholarship Fund, which is a 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. The contribution from CFA Institute is designated to fund scholarships granted by the Scholarship Fund. All of the Scholarship Fund's contributions and investment income are available to meet the scholarship funding requirements. CFA Institute reimburses the Scholarship Fund for all other expenses. The Scholarship Fund awarded scholarships of $74,000 and $75,000 for the years ended 31 August 2015 and 2014, respectively. CFA Institute contributed $30,000 and $26,000 to cover operating expenses of the Scholarship Fund for the years ended 31 August 2015 and 2014, respectively.

The activity in the Scholarship Fund for the years ended 31 August 2015 and 2014 was as follows (in thousands):

	2015	2014
Designated net assets, beginning of year	$ 589	$ 625
Realized gains, interest and dividends	29	32
Unrealized (losses) gains on investments	(26)	7
Scholarships awarded	(74)	(75)
Designated net assets, end of year	$ 518	$ 589

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 $2,247,000 and $2,475,000 were recorded as of 31 August 2015 and 2014, 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):

	2015	2014
Long-term incentive – current	$ 359	$ 299
Long-term incentive and deferred compensation – non-current	1,888	2,176
Total long-term incentive and deferred compensation	$ 2,247	$ 2,475

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

	2015	2014
Long-term incentive – non-current	$ 351	$ 437
Deferred compensation – non-current (note 5)	1,537	1,739
Total long-term incentive and deferred compensation – non-current	$ 1,888	$ 2,176

12. NOTES PAYABLE

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

Acquisition of the property and the rehabilitation of the building by HUB are financed by a certain 16.5 year term note, maturing March, 2029, with an original amount of $22,900,000 and a remaining balance of $21,140,000 as of 31 August 2015, with a variable interest rate of 30-day LIBOR plus ninety basis points. CFA Institute is the unconditional guarantor of the term note. Monthly interest-only payments were made for the first eighteen months of the loan period, with principal and interest payments made thereafter based on a predetermined amortization schedule ending in 2029. To mitigate the risk of a variable interest rate note, HUB also entered into a 16.5 year interest rate swap agreement.

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

Minimum principal payments are as follows:

	Principal payments
2016	$ 1,290
2017	1,322
2018	1,364
2019	1,404
2020	1,446
Thereafter	14,314
Grand Total	$ 21,140

13. SUBSEQUENT EVENTS

CFA Institute has assessed the impact of subsequent events through 12 November 2015, 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.

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 2015 and 31 August 2014, 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 as of 31 August 2015 and 31 August 2014, 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.

/s/ PricewaterhouseCoopers LLP
McLean, Virginia
12 November 2015

ABOUT THE ORGANIZATION

CFA Institute, a global, not-for-profit organization, is the world's largest association of investment professionals. With more than 135,000 members and 146 affiliated local member societies, we are dedicated to developing and promoting the highest educational, ethical, and professional standards in the investment industry for the ultimate benefit of society.

135,000
Members

146
Member societies

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. 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.

The CFA credential, first offered in 1963, has become the most respected and recognized investment designation in the world. Its curriculum connects academic theory with current practice and ethical and professional standards to provide a strong foundation of advanced investment analysis and real-world portfolio management skills. The CIPM Program offers advanced, globally relevant and practice-based investment performance measurement and attribution skills. The Claritas Program, designed for individuals who support investment decision-makers, provides a clear understanding of the global investment industry and includes the essentials of finance, ethics, and the roles of investment professionals.

CFA Institute is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. An integral part of our mission is to develop and administer codes, best practice guidelines, and standards to guide the investment industry. A primary focus of these standards is the critical importance of placing client interest first. These standards include but are not limited to the Global Investment Performance Standards (GIPS®), the CFA Institute Code of Ethics and Standards of Professional Conduct, and the Asset Manager Code of Conduct.

The growth of CFA Institute over the past five years is reflected in its financial, technological, structural, and human resources global footprint. Our operations are based in Charlottesville, Virginia, where approximately 410 employees work in a building purchased and renovated in 2013. This facility earned gold Leadership in Energy and Environmental Design (LEED) status demonstrating that the building saves money and resources, has a positive impact on the health of occupants, promotes renewable, clean energy, and contributes to a socially responsible local community. For more than five years, we have also leased office space and operated in New York, London, and Hong Kong. More recently, geographic operational expansion has been in Brussels, where we maintain a small office for staff focused on standards and advocacy, and in Beijing and Mumbai, to support our growing number of CFA candidates and members in those countries.

Charlottesville, Virginia

The continued growth of new candidates entering the CFA Program over the past five years, with less than a third now from North America and almost half from the Asia-Pacific region, is indicative of the expected future membership composition of the organization. To meet the demand for the CFA Program and our growing membership, more member societies have been approved to serve the needs in local communities. This has also required an increase in employees and office locations. Over the past five years, employee headcounts have increased from 462 in FY2011; 500 in FY2012; 520 in FY2014; 532 in FY2014; and 565 in FY15.

The 146 CFA Institute member societies are local or regional independent organizations that share a common purpose with CFA Institute. We work closely with the volunteer leaders of these local organizations to advance our respective missions. These volunteers are significant contributors to the continued success of the organization. CFA Institute allocates resources to member societies and encourages them to provide a consistently outstanding member experience.