

Review of Income and Wealth
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**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Independent Auditors' Report
Statement of Financial Position
Statement of Revenue and Expenses
Statement of Changes in Net Assets
Statement of Cash Flows
Notes to Financial Statements

Authorized to practice public accounting by the Institute of Chartered
Accountants of Ontario

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INDEPENDENT AUDITOR'S REPORT

To the Directors of:

The International Association for Research in Income and Wealth:

We have audited the accompanying financial statements of The International Association for Research in Income and Wealth, which comprise the statement of financial position as at December 31, 2011, and the statement of changes in net assets, revenue and expenses and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of The International Association for Research in Income and Wealth as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "Franis Coupé". The signature is written in a cursive, flowing style.

Licensed Public Accountants

Ottawa, Ontario

June 19, 2012

THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011
(In U.S. dollars)

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 15,300	\$ 9,765
Accounts receivable	11,899	11,696
Due from Wiley-Blackwell Publishing Limited	31,008	39,548
Prepaid expenses	<u>1,225</u>	<u>0</u>
	59,432	61,009
INVESTMENTS (Note 4)	<u>992,774</u>	<u>957,904</u>
TOTAL ASSETS	\$ <u>1,052,206</u>	\$ <u>1,018,913</u>
CURRENT LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Investment margin account (note 5)	\$ 34,091	\$ 21,863
Accounts payable	40,819	56,692
Deferred membership revenue (note 6)	<u>14,412</u>	<u>9,987</u>
	<u>89,322</u>	<u>88,542</u>
NET ASSETS		
Unrestricted	\$ <u>962,884</u>	\$ <u>930,371</u>
TOTAL CURRENT LIABILITIES AND NET ASSETS	\$ <u>1,052,206</u>	\$ <u>1,018,913</u>

Approved on behalf of the Board:

Chair IARIW Peter van de Ven

Director Andrew Sharpe

(See accompanying Notes to Financial Statements)

THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH

STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
(In U.S. dollars)

	<u>2011</u>	<u>2010</u>
REVENUES		
Membership fees		
Institutional	\$ 97,176	\$ 96,560
Individuals	20,391	25,776
Wiley-Blackwell Publishing Limited royalties (note 7)	116,008	124,548
Investment Income	65,684	47,836
Other Income	<u>0</u>	<u>457</u>
	<u>299,259</u>	<u>295,177</u>
EXPENSES		
Loss on foreign exchange	3,857	2,693
Secretariat management fees (note 8)	96,144	92,853
RIW editorial	61,324	72,738
Conference Travel & Accommodations		
Bursaries	1,356	6,438
Subsidies	31,789	28,330
Training Session	0	1,118
General costs	24,504	15,217
Bank, PayPal and investment account charges	971	908
Postage and courier	393	959
Office supplies	2,039	2,384
Professional fees	6,705	5,770
Website	0	410
Miscellaneous	<u>970</u>	<u>546</u>
	<u>230,052</u>	<u>230,364</u>
NET INCOME (LOSS) FOR THE YEAR	\$ <u>69,207</u>	\$ <u>64,813</u>

(See accompanying Notes to Financial Statements)

THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In U.S. dollars)

	2011	2010
NET ASSETS INTERNALLY RESTRICTED FOR NANCY RUGGLES TRAVEL FUND		
Balance, beginning of year	\$ 0	\$ 20,652
Less: transfer from (to) unrestricted net assets	0	(20,652)
Balance, end of year	\$ 0	\$ 0
UNRESTRICTED NET ASSETS		
<u>Cumulative excess of revenues over expenses</u> <u>(excluding unrealized gains and losses) and internal</u> <u>transfers</u>		
Balance, beginning of year	\$ 841,226	\$ 755,761
Add: net revenue for the year	69,207	64,813
Add: transfer from (to) net assets internally restricted for Nancy Ruggles Travel Fund	0	20,652
Balance, end of year	910,433	841,226
<u>Cumulative unrealized net gains and losses on</u> <u>available-for-sale unrestricted financial assets</u>		
Balance, beginning of year	89,145	26,572
Change in unrealized gains and losses on availablefor-sale financial assets during the year	(36,694)	62,573
Balance, end of year	52,451	89,145
TOTAL	\$ 962,884	\$ 930,371

(See accompanying Notes to Financial Statements)

THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In U.S. dollars)

	<u>2011</u>	<u>2010</u>
CASH FROM OPERATING ACTIVITIES		
Net revenue for the year	\$ 69,207	\$ 64,813
Non-cash portion of investment income	(29,027)	(13,985)
Foreign exchange loss	<u>3,857</u>	<u>2,097</u>
	<u>44,037</u>	<u>52,925</u>
Changes in non-cash working capital		
Accounts Receivable	(204)	(6,284)
Due from Wiley-Blackwell Publishing Limited	8,539	(8,795)
Accounts Payable	(15,872)	17,550
Deferred membership revenue	<u>4,425</u>	<u>(5,713)</u>
	<u>40,925</u>	<u>49,683</u>
CASH FROM INVESTING ACTIVITIES		
Purchase of investments	(306,622)	(180,983)
Proceeds on sale of investments	<u>259,004</u>	<u>117,043</u>
	<u>(47,618)</u>	<u>(63,940)</u>
NET DECREASE IN CASH AND EQUIVALENTS		
	(6,693)	(14,257)
CASH AND EQUIVALENTS, beginning of year	<u>(12,098)</u>	<u>2,159</u>
CASH AND EQUIVALENTS (OVERDRAFT), End of Year		
	\$ <u>(18,791)</u>	\$ <u>(12,098)</u>
Cash on account		
	\$ 15,300	\$ 9,765
Investment margin account overdraft	<u>(34,091)</u>	<u>(21,863)</u>
CASH AND EQUIVALENTS (OVERDRAFT), End of Year		
	\$ <u>(18,791)</u>	\$ <u>(12,098)</u>

(See accompanying Notes to Financial Statements)

THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH

NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. PURPOSE OF THE ORGANIZATION

The International Association for Research in Income and Wealth (IARIW) has the following purposes and activities: furthering research on national and economic and social accounting, including the development of concepts and definitions for the measurement and analysis of income and wealth; the development and further integration of systems of economic and social statistics; and related problems of statistical methodology.

The Association was incorporated as a non-profit organization without share capital on December 21, 2004 under the Canada Corporations Act. As a registered charity, it is exempt from Canadian income taxes. An unincorporated predecessor organization operated until December 31, 2004 and then transferred its remaining net assets to the new corporation effective January 1, 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

a. *Revenue recognition*

The Association follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Membership fees are recognized as revenue proportionately over the fiscal year to which they relate. Membership fees received in advance for the following fiscal year are recorded as deferred revenue. Royalties from Wiley-Blackwell Publishing Limited are recognized in the fiscal period that they relate to.

b. *Cash and equivalents*

Cash and equivalents comprise cash held on account and investment margin account with investment broker.

c. *Investments*

Investments are recorded at market value and are considered as “available-for-sale”. Consequently, realized investment income and gains and losses are recorded on the statement of revenue and expenses and unrealized market gains and losses are recorded as increases and decreases to unrestricted net assets.

d. *Estimates and assumptions*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

e. Translation of foreign currencies

Monetary items denominated in foreign currency are translated to U.S. dollars at exchange rates in effect at the statement of financial position date. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

f. Financial instruments

IARIW's financial assets and financial liabilities are recorded on the "available-for-sale" basis. Consequently, realized gains and losses are recorded on the statement of revenue and expenses and unrealized fair value gains and losses are recorded as increases and decreases to unrestricted net assets. The organization has elected to apply the recommendations of "Financial Instruments—Disclosure and Presentation," Section 3861, of the Canadian Institute of Chartered Accountants Handbook to present and disclose its financial instruments.

IARIW adopted Section 3855, Financial Instruments—Recognition and Measurement, except for the paragraphs related to embedded derivatives. This section establishes standards for recognizing and measuring financial assets and financial liabilities, including non-financial derivatives. This standard did not affect the IARIW's financial position or revenue and expenses.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, due from Wiley-Blackwell Publishing Limited, investment margin account and accounts payable approximate their fair value due to the relatively short periods to maturity of the instruments. Investments have been recorded at market value. It is management's opinion that the Association is not exposed to significant interest, currency or credit risks arising from these financial instruments.

4. INVESTMENTS

	2011		2010	
	Cost	Market Value	Cost	Market Value
Corporate and US Bonds	\$ 73,710	\$ 90,192	\$ 75,333	\$ 81,841
Shares in international indexes	847,863	889,961	774,439	862,276
Money market mutual funds	<u>18,750</u>	<u>12,621</u>	<u>19,109</u>	<u>13,788</u>
TOTAL	\$ <u>940,323</u>	\$ <u>992,774</u>	\$ <u>868,879</u>	\$ <u>957,904</u>

The US government bonds have interest rates of 7.125% and 8.125% and have maturity dates between 2019 and 2023. As of December 31, 2011, the investments show an unrealized gain in market value of approximately 5.4%.

Investment income consists of the following;

	<u>2011</u>		<u>2010</u>
Net interest income	\$ 2,614	\$	2,581
Dividend income net of foreign tax	37,237		27,217
Realized capital gains	<u>25,833</u>		<u>18,038</u>
Total investment income	\$ <u>65,684</u>	\$	<u>47,836</u>

5. INVESTMENT MARGIN ACCOUNT

IARIW overdrew on its investment cash account in fiscal 2011 to cover operational cash flow needs, thereby avoiding transactional costs associated with investment redemptions. This liability to the broker is secured by investments. The account was being charged variable interest that was 5.75% at December 31, 2011.

6. DEFERRED MEMBERSHIP REVENUE

Deferred membership revenue consists of membership fees received which relate to future years. They will be recognized as revenue in corresponding future periods.

	<u>2011</u>		<u>2010</u>
Deferred membership revenue, beginning of year	\$ 9,987	\$	15,700
Membership fees received in the year	18,458		6,466
Less: amount recognized as revenue in the year	<u>(14,033)</u>		<u>(12,179)</u>
Deferred membership revenue at end of year	\$ <u>14,412</u>	\$	<u>9,987</u>

7. WILEY-BLACKWELL PUBLISHING LIMITED ROYALTIES

Wiley-Blackwell Publishing Limited provides a royalty to IARIW representing 63% of the profit generated from the Review of Income and Wealth. IARIW also contracts with Wiley to perform some publishing projects and these costs are deducted from the gross royalties.

8. RELATED PARTY

The Centre for the Study of Living Standards (CSLS) was contracted to provide secretariat services at a cost of \$92,500 plus HST services taxes in 2011 (2010-\$90,000 plus taxes). These transactions were carried out in the normal course of operations and represent fair value of the amounts exchanged. CSLS and IARIW are related parties since they have the same senior management, enabling CSLS to exercise significant influence over IARIW's operations. There is a man-

agement contract commitment with CSLS of \$92,500 for 2011, \$95,000 for 2012, \$97,500 for 2013 and \$100,000 for 2014 (plus HST services taxes each year).

9. NET ASSETS INTERNALLY RESTRICTED FOR NANCY RUGGLES TRAVEL FUND

The Nancy Ruggles Travel Fund had been established by the Board to enable award winners to attend IARIW conferences. However, award expenses are easily being financed from general operations and consequently these internally restricted net assets have been returned to unrestricted net assets in 2010.

10. INVESTMENT POLICY

IARIW has a target equity/fixed investment allocation for its investment portfolio of 25/75 based on market values. At December 31, 2011 the actual ratio was 21/79 due to market value fluctuations. The investment portfolio is re-balanced at the beginning of each year to the target ratio.

11. CAPITAL DISCLOSURES

IARIW defines the capital that it manages as net assets.

The capital management objectives of IARIW include ensuring the ability to continue as a going concern and maintaining sufficient liquidity to meet its obligations as they become due.

IARIW is not subject to any externally imposed capital requirements.

12. FINANCIAL RISK MANAGEMENT POLICY

IARIW is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at December 31, 2011:

a) *Credit risk*

Credit risk associated with investments is minimized by investing these assets in a diverse portfolio, comprising corporate and US government bonds, shares in international indexes and money market mutual funds. An ongoing review is performed to evaluate changes in the status of investments under the organization's investment policy. Credit risk associated with receivables is minimal since it consists primarily of royalties receivable from Wiley—Blackwell Publishing Limited for which there is prior history of collection. IARIW must make estimates with respect to the allowance for doubtful accounts.

b) *Currency risk*

The organization's functional currency is the US dollar. The organization enters into foreign currency transactions and holds bonds and money market mutual funds in Canadian currency. However, the impact of currency risk is

mitigated by holding bank accounts in both Canadian and US currency; IARIW does not use foreign exchange forward contracts.

c) *Liquidity risk*

The organization manages its liquidity risk by regularly monitoring forecasted and actual cash flow and financial liability maturities, and by utilizing its investment margin account when required. Accounts payable are normally paid within 30 days.

d) *Interest rate risk*

The organization is exposed to interest rate risk with regard to its cash and equivalents and investments. The organization also has an interest-bearing overdraft with the broker. Fluctuations in market rates of interest on cash do not have a significant impact on the organization's results of operations. The impact of interest rate risk on investments is not significant in 2011 as only 9.08% of the investment portfolio consists of corporate and US government bonds (8.54% in 2010). The interest rate on the margin account with the broker is nominal and hence does not expose IARIW to significant interest rate risk.

13. COMPARATIVE FIGURES

The prior year comparative figures have been reclassified to conform to this year's presentation.