

# Preparing for a Promising Future

**2013 ANNUAL REPORT**





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**180,000+**  
Members

**109**  
Institutes

**190**  
Countries

**161**  
North  
American  
Chapters

**120,000+**  
CIAs

They say success is not a destination, it's a journey.  
We couldn't agree more.

In our most recent fiscal year, we saw record-breaking conference attendance and new certifications numbering in the thousands globally. But The Institute of Internal Auditors' crowning achievement in 2013 was the commitment and investment made to ensure a thriving and impactful future for the association, our members, and the internal audit profession.

## Introduction

Indeed, 2013 was about laying the groundwork. It was about elevating internal auditors' professionalism, building relationships, and expanding our reach and influence on behalf of our more than 180,000 members around the world. As a result, the future holds possibilities that were unimaginable just a few short years ago.

In many ways, this annual report speaks to a moment in time, a snapshot of a year of milestones, but it simultaneously looks to the possibilities of tomorrow. We're thinking deeper. Pushing further. Dreaming bigger. And we're taking steps to make those dreams a reality.

In 2014 and beyond ... we're preparing for a promising future.

DURING THE PAST FIVE YEARS, The IIA has made extraordinary progress in serving the needs of our global members. I'm proud to look back on a period during which we not only successfully navigated the fiscal challenges of an extended economic downturn, but rolled out a number of major initiatives that are sure to have a lasting effect on the internal audit profession.

Among our achievements during the past five years, we:

- > Added 22,000 members and formed 12 institutes.
- > Launched the Audit Executive Center.
- > Initiated annual Pulse of the Profession studies.
- > Began offering regular educational webinars.
- > Brought *Internal Auditor* online, launched an app for enhanced mobile accessibility, and translated the magazine for our Spanish-speaking members.
- > Launched AuditChannel.tv.
- > Developed the new Certification in Risk Management Assurance (CRMA).
- > Engaged a reputable government relations firm to advance advocacy efforts in Washington, D.C.
- > Developed the American Center for Government Auditing (ACGA).



## President + CEO's Message

Despite such great progress, we never rest on our laurels. Even as we celebrate our achievements, our gaze remains fixed on the horizon, scanning for new opportunities to elevate the internal audit profession and to provide our members with the support and resources they need to successfully meet each challenge.

We take very seriously our responsibility to our more than 180,000 members in 190 countries around the globe. A deep commitment to serving our dedicated members and advancing the practice of internal auditing is what has driven The IIA's many initiatives since the association's founding more than seven decades ago, and it's that guiding philosophy that will lead us onward, toward a promising future.

Sincerely,  
Richard F. Chambers, CIA, CGAP, CCSA, CRMA  
*President and Chief Executive Officer*  
*The Institute of Internal Auditors, Global Headquarters*

IT'S BEEN A WONDERFUL YEAR and a privilege to serve as chairman of The IIA's Global Board of Directors. My chairman's theme for the year challenged us all to "Imagine the Possibilities." And I'm pleased to report that, once again, The IIA and its capable staff and dedicated volunteers around the world have answered the call.

Throughout the year, I spoke of the need for internal auditors to be proactive about the future of the profession, rather than to sit idly by and wait to see what hand we're dealt. I encouraged us to imagine a future in which internal auditors are viewed by stakeholders and society as enablers of sustainable value. And from that vision, we work backward, laying the groundwork that will enable us to achieve our goals.

Already, the wheels are in motion. During my year as chairman, I worked diligently with fellow senior volunteers, global institute leaders, and IIA staff to complete and implement numerous initiatives that will shape the profession for years to come. These include advancing advocacy, reassessing the International Professional Practices Framework (IPPF), emphasizing certification, identifying learning pathways, sharpening the board's focus on risk, and negotiating institute and chapter agreements. You'll learn about these and many more impactful initiatives on the pages that follow.

Now, at the end of my term as global chairman, I'd like to take this opportunity to thank each of you who took steps — no matter how small — to advance the internal audit profession in your organization and your part of the world. I encourage all of us to continue to "Imagine the Possibilities."

Sincerely,  
Paul Sobel, CIA, CRMA  
*2013–14 Global Chairman of the Board*  
*The Institute of Internal Auditors*



## Chairman's Message

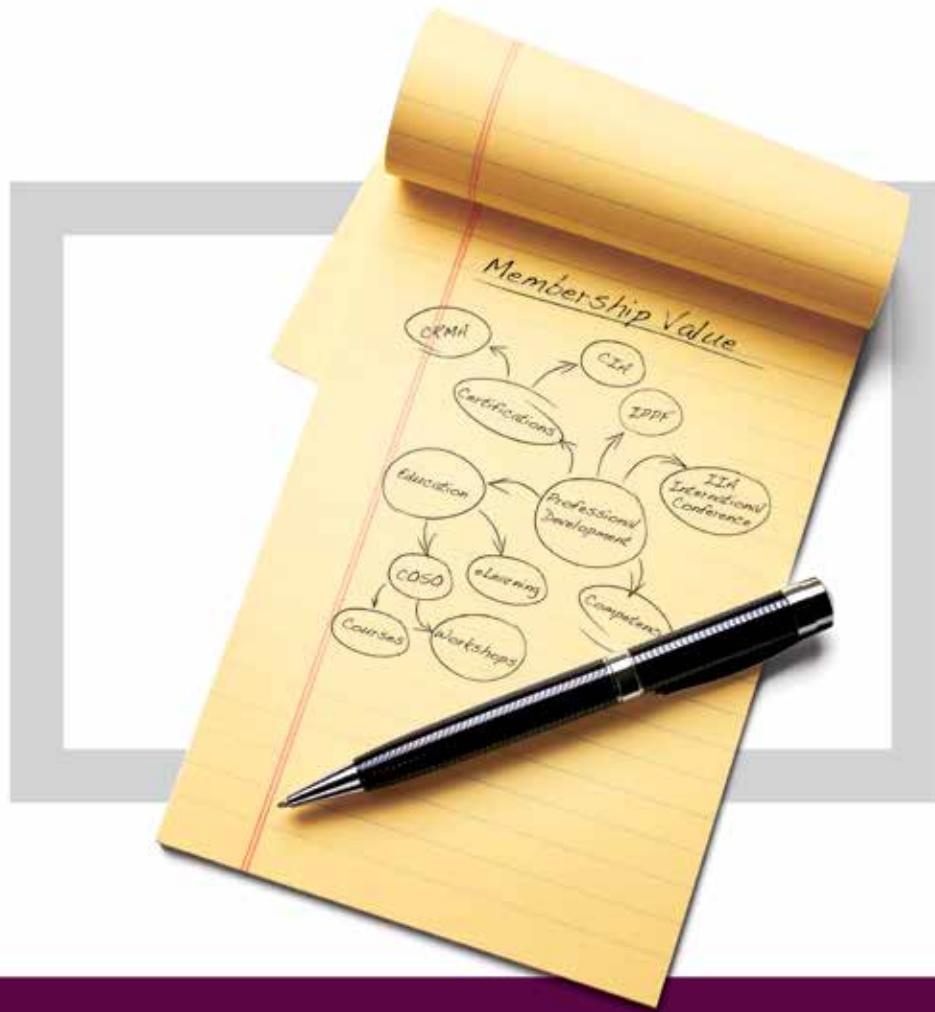
# Think Deeper

**T**he Institute of Internal Auditors (IIA) supports continuous professional development, not only for our members but for all practitioners — regardless of experience, industry, or nationality. In fact, enhancing internal auditors' professionalism is one of our top strategic goals. And, in 2013, we undertook a number of initiatives to ensure that practitioners worldwide receive unparalleled professional support to advance their skills and hone their craft. These include:

**Competency Framework** | We partnered with volunteers and researchers around the world to develop a comprehensive Global Internal Audit Competency Framework, which identifies the 10 core competencies needed for internal audit professionalism. Practitioners at the staff, manager, and chief audit executive (CAE) level can use the framework to identify the personal skills and technical expertise they need to perform their jobs successfully.

**COSO Resources** | As a member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), The IIA recognized early on the need to provide resources to our members who relied on COSO's *Internal Control—Integrated Framework* (1992), but who soon would face transitioning to the revised *2013 Framework*. In anticipation of the myriad needs and expectations, we created a centralized COSO

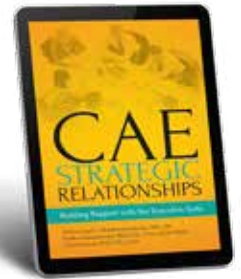




Resource Center on our website to serve as a hub for up-to-date COSO-related developments and other important news. On this site, we offer a number of complimentary resources, including a webcast, video broadcast series, roundtable report, and feature articles. We also developed a highly successful two-day COSO course and partnered with eight U.S. chapters and five institutes to host half-day workshops — all efforts that enabled us to train more than 1,500 professionals within the first six months of the revised framework’s release.

**International Conference** | For the first time, IIA Global Headquarters hosted our annual International Conference in nearby Orlando, Fla. Approximately 200 headquarters staff members and local Central Florida Chapter volunteers united to offer the 72<sup>nd</sup> annual event, which attracted more than 2,000 attendees from a record 109 countries. The remarkable event featured 11 educational tracks, 77 concurrent sessions, and an impressive lineup of general session speakers. One such speaker was the 64<sup>th</sup> U.S. Secretary of State, Madeleine Albright, who captivated the audience with her candor, wit, and sense of humor. Her onstage discussion with IIA President and CEO Richard F. Chambers was both informative and entertaining, drawing strong audience participation in the form of probing questions, applause, and even laughter.

**Digital Books** | The IIA Research Foundation began converting its popular educational resources to new digital formats in 2013 and proudly launched more than 30 new and best-selling eBook titles, offering readers easier accessibility and portability as well as enhanced search and bookmarking features. One of our new eBooks, *CAE Strategic Relationships: Building Rapport with the Executive Suite*, was even recognized by Digital Book World as a 2013 Digital Book Award Finalist.



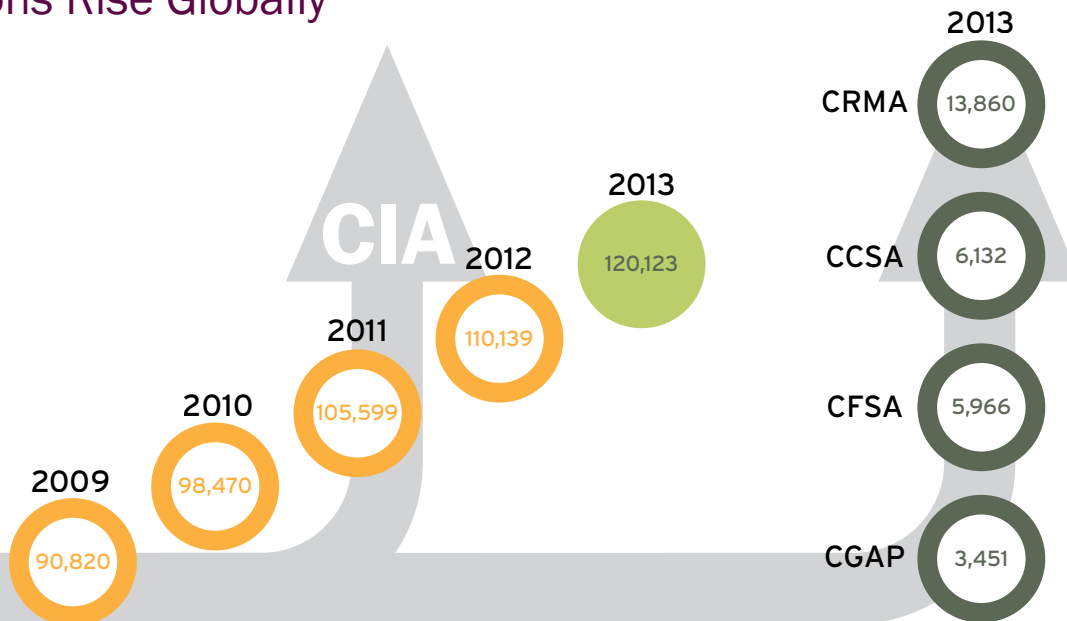
**CRMA** | In 2013, we launched the new Certification in Risk Management Assurance (CRMA) exam globally. Designed especially for internal audit and risk management professionals tasked with providing risk and quality assurance, the CRMA designation demonstrates an individual's ability to evaluate the dynamic components that make up an organization's governance and enterprise risk management program —



**Raise the Bar** “I have always thought that The IIA’s certifications suite is comprehensive. However, I have been thoroughly impressed with The IIA’s ability to be forward thinking and add timely new certifications. The addition of the CRMA is a perfect example of adding just-in-time, meaningful certifications.” — **KARLA D. MUNDEN, CIA, CCSA, CFSA, CRMA**, Senior Vice President, General Auditor, Lincoln National Corp.

## Certifications Rise Globally

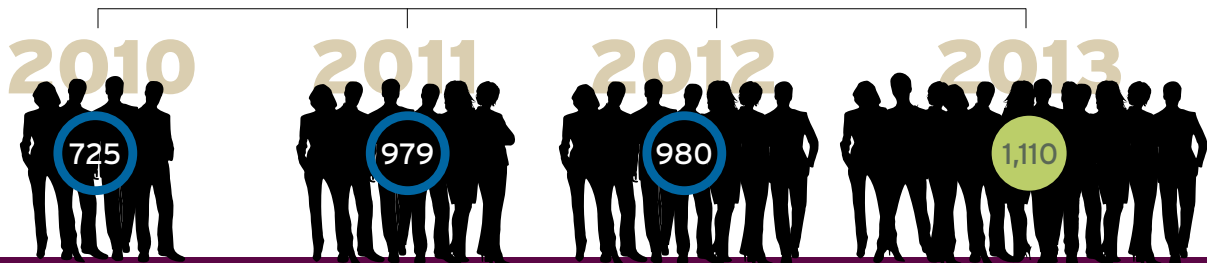
(CUMULATIVE TOTALS)



and to provide advice and assurance around these issues. As of May 2014, more than 13,800 professionals have earned the CRMA globally.

**CIA |** Another certification success story was our successful transition from a four-to three-part Certified Internal Auditor (CIA) exam. The new exam reflects an evolution in the profession since the last exam content change, in 2004, and offers focused sections on internal audit basics, practice, and knowledge. In 2013, we also celebrated the CIA designation's 40<sup>th</sup> anniversary and the more than 120,000 candidates who have earned the prestigious certification since the program launched in 1973. Throughout the years, the CIA has remained the standard by which individuals demonstrate their competency and professionalism in internal auditing.

## Increased General Audit Management (GAM) Conference Attendance



Think Deeper



*Former U.S. Secretary of State Madeleine Albright captivated the audience with her candor and wit as she conversed with IIA President and CEO Richard F. Chambers at the 2013 International Conference in Orlando, Fla.*

# Push Further

**A**s the world's leading advocate for the internal audit profession globally, The IIA continually works to increase the profession's stature and profile among key stakeholder groups. Advocacy is one of The IIA's key strategic goals. It's a collective effort to educate regulators, legislators, and other elected and appointed officials, as well as standard-setting bodies, boards, audit committees, and others about the value that a well-resourced, independent internal audit function brings to any organization. Our vision is that internal audit professionals will be universally recognized as indispensable to effective governance, risk management, and control. In 2013, our messages were carried to new places, thanks in large part to the many volunteers who worked tirelessly to forge relationships, educate stakeholders, and advocate for the internal audit profession. Those efforts included:

**Capitol Hill Outreach** | With the assistance and guidance of our government-relations consulting firm, we made tangible inroads in building relationships with key targets in Washington, D.C., on behalf of our U.S. members. We engaged with members and staff of the congressional CPA Caucus, House Financial Services Committee, and Senate Banking Committee. And, on the regulatory front, we interacted with key staff from the Office of the Comptroller of the Currency, Consumer Financial Protection Bureau, and Public Company Accounting Oversight Board, to name a few.



In October, The IIA's Audit Executive Center hosted a two-day event during which a dozen chief audit executives from Fortune 500 companies held a roundtable discussion on health-care reform, cybersecurity, and corporate taxation. Participants then met with staff from both the House and Senate to discuss topical issues and provide insight on the internal audit profession and how it plays a crucial role in corporate governance.

Each of these steps brings The IIA closer to achieving its advocacy goals — one of which is to become a trusted and vital resource for U.S. regulators and lawmakers and to lend our voice to the conversations and decision-making processes that ultimately impact organizational governance, risk management, and internal control.

**Anti-fraud Collaboration** | Four years ago, we began working with three organizations — the National Association of Corporate Directors (NACD), Center for Audit Quality (CAQ), and Financial Executives International (FEI) — that share The IIA's commitment to promoting integrity in financial reporting. This partnership, known as the Anti-Fraud Collaboration ([www.antifraudcollaboration.org](http://www.antifraudcollaboration.org)), has prompted valuable open discussions among internal auditors, external auditors, financial executives, and audit committee members. In 2013, the collaboration produced a number of useful resources, adding to the robust collection of case studies, webcasts, and research and roundtable reports.

**Educating Our Future** | We're reaching out to the next generation of internal auditors by working with 45 universities in 11 countries to ensure that young professionals enter the workforce armed with the skills and knowledge they need to do the job well. Through the Internal Auditing Academic Advancement Fund, we've awarded more than US \$1.2 million in grants — including nearly \$200,000 in 2013 — to Internal Auditing Education Partnership (IAEP) program universities globally since 2006. Participating IAEP program schools work closely with The IIA to develop meaningful internal audit curricula and assist other colleges and universities in establishing similar programs.



*Kennesaw State University IAEP Coordinator Richard Clune, Ph.D., CIA, (second from the left) poses with students at the September 2013 IAEP Leadership and Networking Retreat in Orlando, Fla.*

**IIRC** | Our commitment to serving as the global voice of the internal audit profession is further demonstrated by IIA President and CEO Richard F. Chambers' service on the International Integrated Reporting Council (IIRC), a coalition that supports the

## Push Further

evolution of corporate reporting to promote financial stability and sustainability. In 2013, we lent internal audit's perspective to the design and implementation of a new International Integrated Reporting Framework. Through our involvement with the IIRC, we continue to build awareness of the critical role internal audit can and should undertake in integrated reporting.

**ISACA Partnership** | We collaborated with the international IT governance association ISACA in August 2013 to cohost, for the first time, our annual Governance, Risk, and Control Conference (GRC). The event was well received and drew a record attendance of more than 500 delegates. Response to the joint effort was so positive that we're doing it again in 2014. Additionally, we're harnessing the knowledge, expertise, and global practices of both organizations for other joint initiatives, such as a research project on cybersecurity that's currently under way.

## Partnership Grows GRC Attendance



**IFAC Agreement** | In July 2013, we signed an updated Memorandum of Understanding (MoU) with the International Federation of Accountants (IFAC), signaling a refreshed commitment to ongoing coordination, collaboration, and resource-sharing. In support of the agreement, we're developing an annual work plan that draws upon the strengths and expertise of both groups. Through this enhanced relationship, we're also seeking to garner IFAC's formal acknowledgement of The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.

**INTOSAI** | Embracing our role as chief advocate of the global internal audit profession, Richard Chambers accepted an invitation to address more than 600 delegates from supreme audit institutions around the world at the International Organization of Supreme Audit Institutions (INTOSAI) triennial congress in Beijing. Chambers



**Reach Beyond** “The IIA has partnered with some of the most influential organizations in the corporate governance world and is now seen as a key player and asked to contribute when matters of internal control, risk management, or corporate governance are discussed or considered.”

— GERRY COX, CIA, CRMA, Chief Executive, South West Audit Partnership Ltd.

spoke to delegates about the essential elements for government internal audit organizations, and shared his views on the various ways government internal auditors can add value and foster public trust.

**Exposure Draft Responses** | We constantly seek opportunities to provide crucial input in the development of new rules, regulations, frameworks, and guidance affecting the profession. In 2013, we responded to 18 consultation documents and exposure drafts on issues such as the U.S. Securities and Exchange Commission's New York Stock Exchange internal audit requirement, International Federation of Accountants' Conceptual Framework for Public Sector Entities, NASDAQ's proposed rule requiring listed companies to have an internal audit function, and the Financial Stability Board's Principles for an Effective Risk Appetite Framework.

**Chapter Compacts** | We collaborated with hundreds of volunteer leaders in an effort to strengthen ties between IIA Global Headquarters and our North American chapters. The effort led to the creation of a comprehensive IIA Chapter Compact, an operating agreement that reinforces our reciprocal relationship with chapters and outlines the roles and responsibilities of each. The new Chapter Compact boosts coordination and collaboration to advance the internal audit profession and serve IIA members.

# Dream Bigger

**P**erhaps most exciting about all The IIA accomplished in 2013 is the fact that the year's successes provided a sturdy springboard from which to launch into the next year. In the early part of 2014, we introduced several key initiatives that will further advance knowledge-sharing, elevate internal auditors' professionalism worldwide, and provide enhanced support for public-sector auditors as well as risk and compliance professionals. Among these initiatives:

**CBOK |** The IIA Research Foundation is developing the 2015 Common Body of Knowledge (CBOK) study, a massive effort that delves into how the profession is developing and being practiced worldwide toward understanding the implications of future changes. The effort involves drafting then translating survey questions and responses for more than 20 languages and culling the resulting data from over 10,000 professionals in more than 100 countries. CBOK 2015 will actually include two studies — targeting internal audit practitioners and their stakeholders — and will utilize new user-friendly technology for easy data mining by researchers, authors, and others.

**Career Map |** We are developing a Career Map that enables internal audit professionals to validate and evaluate their proficiencies, by competency and task, based on the new Global Internal Audit Competency Framework. The tool recommends





resources — such as learning opportunities, certifications, books, guidance, and research — to advance the internal audit professional's career. In addition, we're developing a dynamic chief audit executive (CAE) dashboard, which will enable CAEs to understand the proficiencies of their department and develop team learning plans.

**IPPF Relook** | We formed a global task force to revisit the current structure of the International Professional Practices Framework (IPPF) — the framework that houses the internal audit profession's definition, *Standards*, Code of Ethics, and other guidance. The goal is to ensure that the IPPF structure provides optimal support for our evolving profession. If substantive changes are recommended and approved by The IIA's Global Board of Directors, we'll initiate a global public exposure period for any proposed changes in the second half of 2014.

**Event Management Tool** | In early 2014, we tested a new event-management software tool to support chapters' local training and networking events. This program will enable IIA chapters to set up an event, accept registrations, and manage the event logistically — from sending out communications, to printing badges, running reports, and distributing continuing professional education (CPE) certificates. The tool will also serve to populate a speaker database, enabling chapters to identify engaging subject

matter experts for their events. The turnkey tool will be available to North American chapters for a nominal fee. In 2015, we will also develop and implement the tool to support IIA Global Headquarters events.

**Qualification in Internal Audit Leadership |** IIA global market studies have indicated a consistently strong level of support for creation of a professional development program that meets the specific needs of career internal auditors and practitioners striving to advance to the CAE level. Based on feedback through those studies, we're designing a new global leadership qualification program geared specifically for this group, which will complement our existing certifications suite. The unique leadership qualification program — the QIAL — is expected to launch in 2014 and present candidates with a series of case studies, as well as a live panel presentation and interview.



Qualification in  
Internal Audit Leadership

**One IIA |** As of the second quarter 2014, IIA Global Headquarters collaborates with 108 institutes around the world to advance the profession and meet member needs. It's an expansive network that — until now — has been unified by numerous separate legal contracts pertaining to specific areas, such as certifications, translations, and cooperative education. In 2014, we will put the finishing touches on a new Master Relationship Agreement (MRA), which will combine all of these individual agreements into one, streamlining processes and enabling the use of consistent terminology

Dream Bigger



to outline the relationship between IIA Global Headquarters and each of our affiliated institutes. Developing the MRA has been a substantial effort involving a joint task force, two global exposure periods, and final approval from the Executive Committee and Global Board.

**SmartBriefs** | In January, we launched *IIA SmartBrief*, a complimentary weekly email featuring news and other developments affecting the internal audit profession from a variety of credible sources. *SmartBrief* enables busy professionals to keep current with the latest issues and trends in our profession. We also launched targeted monthly *SmartBriefs* for our financial services, gaming, and public-sector members.



**ACGA** | In March, The IIA launched the American Center for Government Auditing (ACGA) to enhance our support for auditors working in government at the local, state, and federal level. ACGA intends to advance the professional practice of auditing in the public sector by advocating its value through timely and relevant thought-leadership, communication, collaboration, and education. It is focused on providing high-quality, low-cost professional development and networking opportunities and advocating public-sector auditors' critical role in good governance. Our existing government members in the United States and the Caribbean have already been rolled into the program, and those in Canada have been granted special access.



**Propelling the Profession** “The IIA has been a great resource for networking and development. With the creation of the American Center for Government Auditing, public-sector auditors like myself will be able to develop even further and find the resources we need to address the unique industry challenges we face.”

— TATIANA FOSTER, CPA, CFE, Senior Auditor, Office of Audits & Advisory Services, County of San Diego

**CGAP Re-engineering** | Our heightened focus on providing specialized support for government auditors also means that we're taking a closer look at our Certified Government Auditing Professional (CGAP) certification, launched in 2000, and assessing whether it is optimally structured to meet the needs of our global membership. The assessment is a two-phase project involving an international task force of public-sector professionals who represent key centers of government practice. We conducted a market study in early 2014 to help us understand public-sector professionals' existing needs. Our research will continue throughout the year and, based on the results of these efforts, in 2015 we will begin preparing content for the re-engineered CGAP exam.

# Promising Plan

# E

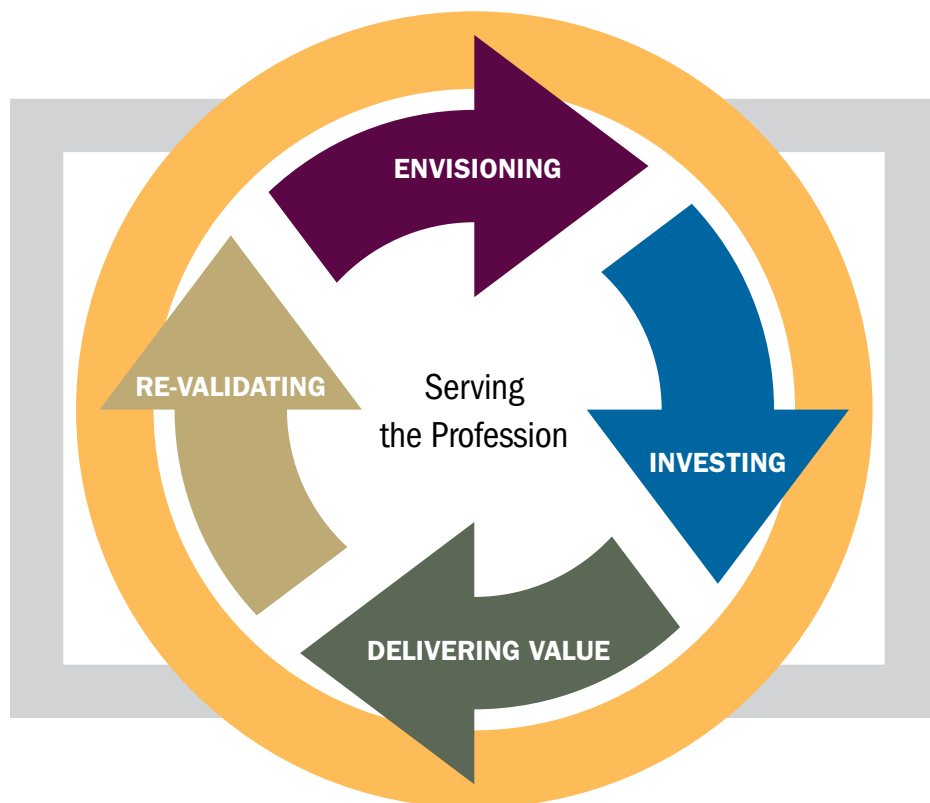
Each of the successes realized in 2013 and the early part of 2014 came to fruition as a result of timely goals and a vision that keeps us strategically focused on serving our members and advancing the internal audit profession around the world. On behalf of our global membership, our aim is to continue building upon these successes.

In addition to operational objectives focused on financial, staffing, technology, and risk management, our 2014 IIA Global Headquarters strategic objectives include:

- > Enhancing internal auditors' professionalism.
- > Enhancing the value proposition for members and other stakeholders.
- > Advocating internal auditing by enhancing the global profile of, and demand for, the profession.
- > Supporting the development and implementation of a global operating model, aligning all affiliated institutes on core principles.

We will update our long-term global goals and vision in late 2014 through a proven strategic planning process that involves a diverse group of institute leaders, committee members, board members, and staff executives. This refresh will enable us to identify and elaborate on key objectives and projects for the next three to five years, leading the way toward continued growth and prosperity. It's a renewing process that remains rooted in our mission to advance and elevate the internal audit profession — and it's an integral part of preparing for a promising future.

# Promising Future



# IIA Global Board of Directors

## Executive Committee



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*Vice President, Internal Audit*  
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*The Institute of Internal Auditors*  
 Global Headquarters  
 USA

# 2013 Financial Discussion and Analysis

AS THE IIA REVIEWS ITS 2013 FISCAL POSITION, it is pleased to outline the financial performance that supported the aforementioned achievements.

The 12 months ending December 31, 2013, resulted in total revenue of \$51.7 million for The Institute of Internal Auditors Inc., and related entities (The IIA) which represented an increase of \$8.6 million (20.1%). Change in Net Assets (Net Contribution) for that same time period was \$9.0 million, or an increase of 43% compared with the change in net assets in 2012.

In 2013, The IIA experienced revenue growth in all major operating areas highlighted by a 70% increase in Educational Program revenue, 28% increase in Certification revenue, and a 6% increase in Membership revenue. Contributing to the increase in Total revenue and Education Program revenue was the addition of the 2013 International Conference, hosted for the first time by IIA Headquarters and held in Orlando, Florida. The Conference generated revenue of \$3.8 million before operating expenses.

The IIA also tracks revenue and expenses by geographic segment between North American operations and Global operations. Both segments exceeded their 2013 revenue targets by \$732,000 and \$6.7 million, respectively.

As a result of the strong financial performance, The IIA ended the year with approximately \$10 million in cash and cash equivalents. This represents a year-over-year decrease of \$1.1 million (9.7%) as during the year \$9 million in excess daily operating cash was moved into long-term investments. The IIA continues to have available a \$2 million line of credit from CNL Bank to fund any cash-flow shortage; however, there are no funds currently drawn upon the line.

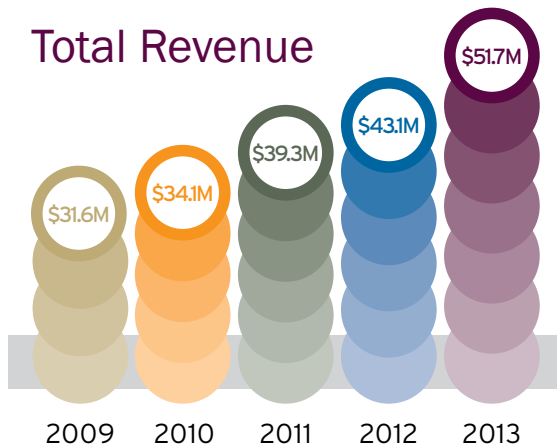
During 2013, The IIA continued to invest and improve the products and services offered to our members. For the year, The IIA invested \$1.3 million into capital related projects, bringing the two-year (2012-2013) total investment to \$2.3 million.

In 2013, the investment portfolio of The IIA increased from \$18.1 million to \$29.1 million as a result of \$9.0 million moved from excess daily operating cash, \$689,705 investment interest income reinvested back into the portfolio, and a positive \$1.2 million mark-to-market adjustment. Overall, the investment portfolio has performed consistent with expectations given the more conservative nature of the investment policy implemented in 2011.

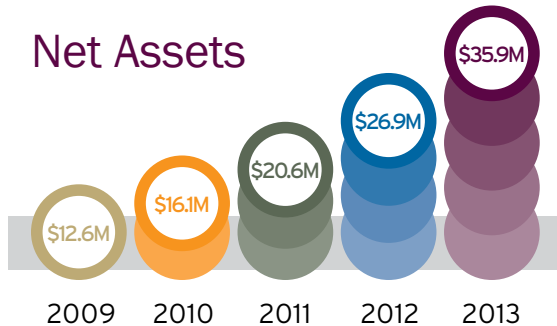
The 2013 total net assets for The IIA are \$35.9 million, versus \$26.9 million in 2012.

*(All monetary figures represent U.S. dollars.)*

## Total Revenue



## Net Assets





# Report of Independent Auditors

The Board of Directors  
The Institute of Internal Auditors, Inc.  
Altamonte Springs, Florida

**Report on the Consolidating Financial Statements** | We have audited the accompanying consolidating financial statements of The Institute of Internal Auditors, Inc. (“the Institute”) and Affiliates, which comprise the consolidating statement of financial position as of December 31, 2013, and the related consolidating statements of activities and cash flows for the year then ended, and the related notes to the consolidating financial statements.

**Management’s Responsibility for the Consolidating Financial Statements** | Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating financial statements that are free from material misstatement, whether due to fraud or error.

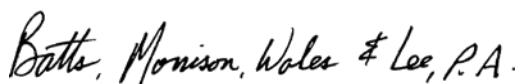
**Auditor’s Responsibility** | Our responsibility is to express an opinion on these consolidating financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute’s preparation and fair presentation of the consolidating 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 Institute’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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of The Institute of Internal Auditors, Inc. and Affiliates as of December 31, 2013, the consolidating changes in its net assets, and its consolidating cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information** | We have previously audited The Institute of Internal Auditors, Inc.’s 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 8, 2013. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Batts Morrison Wales & Lee, P.A.

Orlando, Florida

May 1, 2014

# Consolidating Statement of Financial Position

DECEMBER 31, 2013

(With Summarized Comparative Consolidated Totals as of December 31, 2012)

	2013					2012	
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	IIA Quality Services, LLC	Eliminations	Consolidated Total	Consolidated Total
<b>ASSETS</b>							
Cash and cash equivalents	\$8,527,479	\$711,894	\$349,513	\$316,841	—	\$9,905,727	\$10,965,547
Investments	26,938,310	2,169,797	—	—	—	29,108,107	18,127,905
Due from affiliates, net	—	—	652,101	—	(652,101)	—	—
Accounts receivable, net	2,597,500	245,762	3,000	297,618	—	3,143,880	3,909,348
Funds advanced for international conference	—	—	—	—	—	—	3,104,340
Inventories	7,113	394,191	—	—	—	401,304	328,639
Prepaid expenses and other assets	1,322,336	12,380	—	—	—	1,334,716	1,434,692
Property and equipment, net	5,208,665	16,882	—	—	—	5,225,547	5,233,180
Deferred project costs, net	1,043,732	240,055	—	—	—	1,283,787	1,380,545
Employee savings plans	1,569,500	—	—	—	—	1,569,500	1,218,400
Restricted investments	—	135,000	—	—	—	135,000	135,000
<b>Total Assets</b>	<b>\$47,214,635</b>	<b>\$3,925,961</b>	<b>\$1,004,614</b>	<b>\$614,459</b>	<b>\$(652,101)</b>	<b>\$52,107,568</b>	<b>\$45,837,596</b>
<b>LIABILITIES</b>							
Accounts payable and accrued expenses	\$5,908,573	\$187,089	—	\$50,073	—	\$6,145,735	\$5,226,200
Due to international conference	—	—	—	—	—	—	4,328,479
Due to affiliates, net	7,717	103,533	—	540,851	(652,101)	—	—
Deferred revenue	8,464,242	55,084	—	—	—	8,519,326	8,177,074
Deferred employee compensation	1,569,500	—	—	—	—	1,569,500	1,218,400
<b>Total Liabilities</b>	<b>15,950,032</b>	<b>345,706</b>	<b>—</b>	<b>590,924</b>	<b>(652,101)</b>	<b>16,234,561</b>	<b>18,950,153</b>
<b>NET ASSETS</b>							
Unrestricted	31,170,813	2,959,839	976,169	23,535	—	35,130,356	26,111,323
Temporarily restricted	93,790	485,416	28,445	—	—	607,651	641,120
Permanently restricted	—	135,000	—	—	—	135,000	135,000
<b>Total Net Assets</b>	<b>31,264,603</b>	<b>3,580,255</b>	<b>1,004,614</b>	<b>23,535</b>	<b>—</b>	<b>35,873,007</b>	<b>26,887,443</b>
<b>Total Liabilities and Net Assets</b>	<b>\$47,214,635</b>	<b>\$3,925,961</b>	<b>\$1,004,614</b>	<b>\$614,459</b>	<b>\$(652,101)</b>	<b>\$52,107,568</b>	<b>\$45,837,596</b>

# Consolidating Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2013  
(With Summarized Comparative Consolidated Totals as of December 31, 2012)

	2013					2012	
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	IIA Quality Services, LLC	Eliminations	Consolidated Total	Consolidated Total
<b>CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS REVENUES</b>							
Relationship management	\$12,207,532	—	—	—	—	\$12,207,532	\$11,498,964
Certification	11,984,591	—	—	—	—	11,984,591	9,352,109
Seminars	9,717,852	—	—	—	—	9,717,852	8,363,089
Conferences	7,464,344	—	—	—	—	7,464,344	4,385,428
Publishing	1,318,984	2,941,167	—	—	(111,910)	4,148,241	3,786,590
Other program revenue	1,491,573	—	—	—	—	1,491,573	1,031,633
Quality assessment	551,660	—	—	924,248	(15,562)	1,460,346	1,638,597
North American services	1,362,439	—	—	—	—	1,362,439	1,237,186
Technology based learning	885,577	—	—	—	—	885,577	704,585
Dividend and interest income	624,361	57,052	1,724	—	—	683,137	743,966
Contributions	—	213,848	102,068	—	—	315,916	337,890
<b>Total revenues</b>	<b>47,608,913</b>	<b>3,212,067</b>	<b>103,792</b>	<b>924,248</b>	<b>(127,472)</b>	<b>51,721,548</b>	<b>43,080,037</b>
Net assets released from use restrictions	—	183,884	68,589	—	—	252,473	166,639
<b>Total revenues and net assets released from use restrictions</b>	<b>47,608,913</b>	<b>3,395,951</b>	<b>172,381</b>	<b>924,248</b>	<b>(127,472)</b>	<b>51,974,021</b>	<b>43,246,676</b>
<b>EXPENSES</b>							
Seminars	8,480,953	—	—	—	—	8,480,953	8,503,748
Certification	7,140,597	—	—	—	—	7,140,597	6,385,920
Relationship management	6,753,992	—	—	—	—	6,753,992	5,942,328
Other	5,647,543	501,705	95,402	—	(75,000)	6,169,650	5,260,571
Conferences	6,109,655	—	—	—	—	6,109,655	2,787,319
Educational products	—	2,317,803	—	—	—	2,317,803	2,071,272
Professional practices	2,059,636	—	—	—	—	2,059,636	1,936,354
North American services	1,673,198	—	—	—	—	1,673,198	1,762,423
Quality assessment	712,192	—	—	900,713	(15,562)	1,597,343	1,479,707
Technology based learning	785,603	—	—	—	—	785,603	899,633
Publishing	727,559	—	—	—	(111,910)	615,649	785,025
Research projects	—	196,115	—	—	—	196,115	87,038
Grants	—	—	145,553	—	—	145,553	158,843
Academic programs	—	59,358	—	—	—	59,358	41,154
<b>Total expenses</b>	<b>40,090,928</b>	<b>3,074,981</b>	<b>240,955</b>	<b>900,713</b>	<b>(202,472)</b>	<b>44,105,105</b>	<b>38,101,335</b>
<b>Change in unrestricted net assets from operations</b>	<b>7,517,985</b>	<b>320,970</b>	<b>(68,574)</b>	<b>23,535</b>	<b>75,000</b>	<b>7,868,916</b>	<b>5,145,341</b>

(continued on next page)

THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

# Consolidating Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2013  
(With Summarized Comparative Consolidated Totals as of December 31, 2012)

(continued from previous page)	2013					2012	
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	IIA Quality Services, LLC	Eliminations	Consolidated Total	Consolidated Total
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS</b>							
Contributions	—	157,586	54,850	—	(75,000)	137,436	100,752
Dividend and interest income	—	6,568	—	—	—	6,568	8,832
Net assets released from use restrictions	—	(183,884)	(68,589)	—	—	(252,473)	(166,639)
<b>Change in temporarily restricted net assets from operations</b>	<b>—</b>	<b>(19,730)</b>	<b>(13,739)</b>	<b>—</b>	<b>(75,000)</b>	<b>(108,469)</b>	<b>(57,055)</b>
<b>NON-OPERATING ACTIVITIES</b>	<b>\$1,148,973</b>	<b>\$76,144</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>\$1,225,117</b>	<b>\$1,192,507</b>
<b>CHANGE IN NET ASSETS</b>	<b>8,666,958</b>	<b>377,384</b>	<b>(82,313)</b>	<b>23,535</b>	<b>—</b>	<b>8,985,564</b>	<b>6,280,793</b>
<b>NET ASSETS - Beginning of year</b>	<b>22,597,645</b>	<b>3,202,871</b>	<b>1,086,927</b>	<b>—</b>	<b>—</b>	<b>26,887,443</b>	<b>20,606,650</b>
<b>NET ASSETS - End of year</b>	<b>\$31,264,603</b>	<b>\$3,580,255</b>	<b>\$1,004,614</b>	<b>\$23,535</b>	<b>—</b>	<b>\$35,873,007</b>	<b>\$26,887,443</b>

THE INSTITUTE OF INTERNAL AUDITORS, INC. AND AFFILIATES

# Consolidating Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, 2013  
(With Summarized Comparative Consolidated Totals as of December 31, 2012)

	2013					2012	
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	IIA Quality Services, LLC	Eliminations	Consolidated Total	Consolidated Total
<b>OPERATING CASH FLOWS</b>							
Cash received from members and customers	\$44,143,927	\$3,233,085	\$153,918	\$626,630	—	\$48,157,560	\$47,031,559
Cash paid for operating activities and costs	(35,496,451)	(2,740,801)	(244,701)	(309,789)	—	(38,791,742)	(40,526,243)
Investment income received	624,361	63,620	1,724	—	—	689,705	752,798
<b>Net operating cash flows</b>	<b>9,271,837</b>	<b>555,904</b>	<b>(89,059)</b>	<b>316,841</b>	<b>—</b>	<b>10,055,523</b>	<b>7,258,114</b>

(continued on next page)

# Consolidating Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, 2013  
(With Summarized Comparative Consolidated Totals as of December 31, 2012)

<i>(continued from previous page)</i>	2013					2012	
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors - Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	IIA Quality Services, LLC	Eliminations	Consolidated Total	Consolidated Total
<b>INVESTING CASH FLOWS</b>							
Proceeds from sales of investments	–	158,400	–	–	–	158,400	26,972
Purchases of investments	(9,624,867)	(288,618)	–	–	–	(9,913,485)	(3,820,376)
Purchases of and improvements to property and equipment	(89,004)	(20,258)	–	–	–	(109,262)	(195,393)
Expenditures for deferred projects	(1,031,254)	(219,742)	–	–	–	(1,250,996)	(1,008,325)
<b>Net investing cash flows</b>	<b>(10,745,125)</b>	<b>(370,218)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(11,115,343)</b>	<b>(4,997,122)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,473,288)</b>	<b>185,686</b>	<b>(89,059)</b>	<b>316,841</b>	<b>–</b>	<b>(1,059,820)</b>	<b>2,260,992</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>10,000,767</b>	<b>526,208</b>	<b>438,572</b>	<b>–</b>	<b>–</b>	<b>10,965,547</b>	<b>8,704,555</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$8,527,479</b>	<b>\$711,894</b>	<b>\$349,513</b>	<b>\$316,841</b>	<b>–</b>	<b>\$9,905,727</b>	<b>\$10,965,547</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS</b>							
Change in net assets	\$8,666,958	\$377,384	\$(82,313)	\$23,535	–	\$8,985,564	\$6,280,793
Adjustments to reconcile change in net assets to net operating cash flows:							
Depreciation	618,923	3,376	–	–	–	622,299	572,018
Amortization of deferred project costs	170,629	190,706	–	–	–	361,335	452,963
Net gain on investments	(1,148,973)	(76,144)	–	–	–	(1,225,117)	(1,192,507)
Change in due from/to affiliates, net	(672,052)	136,142	(4,941)	540,851	–	–	–
Change in accounts receivable, net	1,152,291	(86,205)	(3,000)	(297,618)	–	765,468	(445,258)
Change in funds advanced for international conference	3,104,340	–	–	–	–	3,104,340	(3,104,340)
Change in inventories	(2,088)	(70,577)	–	–	–	(72,665)	(76,817)
Change in prepaid expenses and other assets	591,946	(12,150)	1,195	–	–	580,991	(393,798)
Change in accounts payable and accrued expenses	782,779	86,683	–	50,073	–	919,535	264,690
Change in due to international conference	(4,328,479)	–	–	–	–	(4,328,479)	4,328,479
Change in deferred revenue	335,563	6,689	–	–	–	342,252	571,891
<b>Total adjustments</b>	<b>604,879</b>	<b>178,520</b>	<b>(6,746)</b>	<b>293,306</b>	<b>–</b>	<b>1,069,959</b>	<b>977,321</b>
<b>Net operating cash flows</b>	<b>\$9,271,837</b>	<b>\$555,904</b>	<b>\$(89,059)</b>	<b>\$316,841</b>	<b>–</b>	<b>\$10,055,523</b>	<b>\$7,258,114</b>

# Notes to Consolidating Financial Statements

DECEMBER 31, 2013 (With Summarized Comparative Information for December 31, 2012)

## NOTE A – NATURE OF ACTIVITIES

The Institute of Internal Auditors, Inc. (“the Institute”) was formed in 1941 and is a not-for-profit corporation formed to cultivate, promote, and disseminate knowledge and information concerning internal auditing and related subjects. The Institute’s primary program activities include conducting seminars and conferences to educate and train internal auditors; publishing and selling periodicals and materials which inform internal auditors and members of the Institute of current professional issues, standards, and practices; offering examinations and certifications to internal auditors; and evaluating the performance of internal audit departments.

Institute of Internal Auditors – Research Foundation, Inc. (“the Foundation”) is a not-for-profit corporation formed to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally. The Institute’s Board of Directors appoints the Foundation’s Board of Trustees. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute’s financial statements include the accounts of the Foundation. All significant interorganization transactions and balances have been eliminated.

Internal Auditing Academic Advancement Fund, Inc. (“the Fund”) is a not-for-profit corporation formed to support the teaching of internal auditing, establish standards for internal auditing education at post-secondary educational institutions, and other related purposes. Certain of the Institute’s employees and board members serve as ex-officio directors and corporate officers of the Fund. Additionally, the Fund is a supporting organization of the Institute. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute’s financial statements include the accounts of the Fund. All significant interorganization transactions and balances have been eliminated.

IIA Quality Services, LLC (“Quality Services”) is a Florida limited liability company organized in 2013. Quality Services was formed for the purpose of conducting external quality assessments and related activities. The Institute is the sole member of Quality Services. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute’s financial statements include the accounts of Quality Services. All significant interorganization transactions and balances have been eliminated.

Canadian Institute of Internal Auditors (“the Canadian Institute”) is a not-for-profit Canadian corporation formed to cultivate, promote, and disseminate knowledge and information concerning internal auditing and related subjects in Canada. The Institute controls the Canadian Institute by virtue of provisions contained in the Canadian Institute’s governing documents. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute’s financial statements include the accounts of the Canadian Institute. Due to the immateriality of the amounts involved, the activities and balances of the Canadian Institute are included in the financial statements of the Institute.

IIA Properties, LLC (“IIA Properties”) is a Florida limited liability company organized on May 20, 2008. IIA Properties was formed for the purpose of owning real property and carrying on various real estate-related transactions. The Institute is the sole member of IIA Properties. Accordingly, in conformity with accounting principles generally accepted in the United States of America, the Institute’s financial statements include the accounts of IIA Properties. Due to the immateriality of the amounts involved, the activities and balances of IIA Properties are included in the financial statements of the Institute.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Restricted and unrestricted revenue and support** | Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that

is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidating statements of activities as “net assets released from use restrictions.”

**Revenue recognition and operating activities** | The Institute recognizes revenue and incurs expenses in its operation of the following activities:

**Relationship management** | Membership dues are recognized as income ratably throughout the year. Membership application fees are nonrefundable and are recognized as income when received. Expenses include the direct and indirect costs of delivering member benefits, as well as costs associated with recruiting new members and servicing and retaining existing members worldwide.

**Certification** | Certification fees are recognized as income in the period in which the exams are taken. Exam registration fees are nonrefundable and are recognized as income when received. Expenses include the direct and indirect costs of conducting exams.

**Seminars and conferences** | Seminar and conference fees are recognized as income in the period in which the event is completed. Expenses include the direct and indirect costs of conducting seminars and conferences.

**Publishing** | Subscriptions and print advertising revenue are recognized as income in the period in which the related publications are issued. Website advertising revenue is recognized as income ratably over the length of the advertising contract. Educational product sales are recognized as income when the related inventory is shipped. Expenses include the direct and indirect costs of producing and delivering publications, as well as website maintenance. Advertising costs are expensed as incurred.

**Quality assessment** | Quality assessment service fees are recognized as income in the period in which the engagement is completed. Expenses include the direct and indirect costs of conducting quality assessments.

**North American services** | Global Auditing Information Network (“GAIN”) subscription fees are recognized as income when the product is shipped. Expenses include fulfillment of GAIN subscriptions. GAIN is a knowledge exchange forum available to member organizations of the Institute.

Audit Executive Center (“AEC”) membership dues are recognized ratably throughout the year. Membership application fees are nonrefundable and are recognized as income when received. Expenses include the direct and indirect costs of delivering member benefits, as well as costs associated with recruiting new members and servicing and retaining existing members worldwide.

**Technology based learning** | Webinar revenue is recognized as income in the period in which the webinar is completed, or ratably throughout the year for annual subscriptions to certain online offerings. Expenses include the direct and indirect costs of creating and conducting the webinars.

**Professional practices** | Expenses include the direct and indirect costs of creating and maintaining authoritative guidance organized in the International Professional Practices Framework.

**Other activities** | During 2013 and 2012, the Foundation reimbursed the Institute for certain personnel-related costs and certain shared costs. Such reimbursements are reflected as expenses of the Foundation based on the nature of the specific expenses. Additionally, the Institute absorbs certain overhead costs of the Foundation and reimbursement is not required. Overhead costs of the Fund are paid by the Institute, reimbursement is not required, and are not material to the accompanying consolidating financial statements. Overhead costs and certain personnel-related costs of Quality Services are paid by the Institute and reimbursement is not required.

# Notes to Consolidating Financial Statements

DECEMBER 31, 2013 (With Summarized Comparative Information for December 31, 2012)

Revenue received in advance of the recognition period is included in “deferred revenue” in the accompanying statements of financial position.

**Cash and cash equivalents** | Investment instruments purchased with original maturities of three months or less are considered to be cash equivalents.

**Investments** | Investments are carried at estimated fair value.

**Allowance for doubtful accounts** | Accounts receivable are stated net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on an analysis of specific accounts, taking into consideration the age of the past due account and an assessment of the member’s or customer’s ability to pay. Accounts are considered past due when payments are not made in accordance with specified terms. Accounts are written off when management determines the amounts are uncollectible.

**Inventories** | Inventories consist of publications and are carried at the lower of cost or market value using the first-in, first-out (FIFO) cost flow method.

**Property and equipment** | Property and equipment are stated at cost, and are depreciated using the straight-line method.

**Deferred project costs** | Costs related to seminars, website development and design, technology improvements, trademark registration, and educational product development or revision are deferred until the related projects are completed. Seminar costs are amortized over three or four years using the straight-line method, website costs over three years using the straight-line method, and educational product development or revision costs over three years at 60% the first year, 30% the second year, and 10% the third year.

**Restricted investments** | Restricted investments consist of an endowment fund held by the Foundation, the distributions from which are to be used for scholarships for internal auditing students.

**Restrictions on net assets** | Temporarily restricted net assets consist primarily of amounts held by the Institute restricted for technological developments, amounts held by the Foundation restricted for the William G. Bishop Memorial Fund to be used for the common body of knowledge program, and amounts held by the Fund restricted for educational activities. Permanently restricted net assets consist of an endowment fund held by the Foundation, the distributions from which are to be used for scholarships for internal auditing students.

**Income taxes** | The Institute is exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(6) and from state income tax pursuant to state law. The Foundation and the Fund are exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3) and from state income tax pursuant to state law. Quality Services and IIA Properties are treated as disregarded entities for federal tax purposes. The Institute and Foundation engage in certain activities which are “unrelated business activities” as defined by the Internal Revenue Code, and which are subject to taxation. Income taxes on unrelated business income are recognized as expenses as incurred. The Fund, Quality Services, and IIA Properties have not incurred unrelated business income taxes.

None of the organizations included in the consolidating financial statements have taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America. Federal and state tax authorities may generally examine the organizations’ income tax positions or (if applicable) returns for periods of approximately three to six years.

**Use of estimates** | Management uses estimates and assumptions in preparing consolidating financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets

and liabilities, and reported revenues and expenses. Significant estimates used in preparing the accompanying consolidating financial statements include those used in estimating the fair value of investments, assessing the collectibility of accounts receivable, and determining the useful lives of property and equipment and deferred project costs. Actual results could differ from the estimates.

## NOTE C – CONCENTRATION OF CREDIT RISK

Each organization maintains its cash and cash equivalents in deposit accounts and money market funds which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The organizations have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk related to cash and cash equivalents.

## NOTE D – INVESTMENTS

Investments consist of mutual funds. The Institute and the Foundation consider all dividends and interest from investments as operating revenues for purposes of the accompanying consolidating statements of activities. Gains and losses related to investments are considered to be non-operating activities for purposes of the accompanying consolidating statements of activities

Net gain on investments (included in “Non-Operating Activities” in the accompanying consolidating statements of activities) consisted of the following:

	FOR THE YEARS ENDED DECEMBER 31			
	2013			2012
	The Institute	The Foundation	Consolidated Total	Consolidated Total
Net unrestricted gain on investments	\$1,148,973	\$76,144	\$1,225,117	\$1,192,507

Accounting principles generally accepted in the United States (“GAAP”) define fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of “inputs” an organization may use in determining or estimating fair value. The inputs are categorized into “levels” that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of each of the three levels of input within the fair value hierarchy:

- Level 1 – unadjusted quoted market prices in active markets for identical items
- Level 2 – other significant observable inputs (such as quoted prices for similar items)
- Level 3 – significant unobservable inputs

# Notes to Consolidating Financial Statements

DECEMBER 31, 2013 (With Summarized Comparative Information for December 31, 2012)

Estimated fair value of investments measured on a recurring basis at December 31, 2013, are as follows:

	Total	Level 1	Level 2	Level 3
Mutual funds –				
The Institute	\$26,938,310	\$26,938,310	–	–
The Foundation	2,304,797	2,304,797	–	–
Total	<u>\$29,243,107</u>	<u>\$29,243,107</u>	–	–

Estimated fair value of investments measured on a recurring basis at December 31, 2012, are as follows:

	Total	Level 1	Level 2	Level 3
Mutual funds –				
The Institute	\$16,164,470	\$16,164,470	–	–
The Foundation	2,098,435	2,098,435	–	–
Total	<u>\$18,262,905</u>	<u>\$18,262,905</u>	–	–

## NOTE E – FUNDS ADVANCED FOR INTERNATIONAL CONFERENCE

The 2012 International Conference (“the Conference”) was hosted by the Greater Boston Chapter of the Institute of Internal Auditors (“the Boston Chapter,” a separate nonprofit organization). The Host Conference Committee of the International Conference 2012 (“the Host Committee,” comprised of members of the Boston Chapter), together with volunteers from the Boston Chapter, was responsible for maintaining administrative control over the Conference, including negotiating with certain service providers, approving vendor invoices for payment, overseeing the financial reporting of the Conference, deciding key strategies, and ensuring the Conference was carried out according to its plans.

In connection with the Conference, the Institute also performed certain functions on behalf of the Host Committee, including (but not limited to) maintaining physical custody of cash collected for the Conference, negotiating with certain service providers, and processing vendor invoices for payment. In addition, at the request of the Boston Chapter, the Institute agreed to assume the economic risk of loss of the Conference if the Conference failed to generate a surplus. In consideration for the Institute assuming the risk of loss, the Host Committee agreed that 85% of any Conference net surplus would be distributed to the Institute. The Host Committee also required that the Institute maintain custody of substantially all cash collected on its behalf until such time that an independent audit of the Conference was completed and accepted by the Host Committee and others. Therefore, the Institute expended funds from its daily operating cash to cover the costs of the Conference on behalf of the Host Committee. During 2013, the Institute was reimbursed for such advances.

As of December 31, 2012, the Institute was holding \$4,328,479 of cash on behalf of the Host Committee. Such amounts are reflected in “cash and cash equivalents” and “due to international conference” in the accompanying consolidated 2012 statement of financial position. In addition, “funds advanced for international conference” as of December 31, 2012, in the amount of \$3,104,340 represents Conference expenditures paid by the Institute and owed to it by the Host Committee as of December 31, 2012. “Accounts receivable, net” includes approximately \$1,016,000 owed to the Institute for its share of the Conference’s net surplus as of December 31, 2012. During 2013, the independent audit of the Conference was completed and accepted, and all amounts noted herein were settled accordingly. The Conference generated total revenue of approximately \$4,500,000 and incurred total expenses of

approximately \$3,300,000, resulting in a net surplus of approximately \$1,200,000.

## NOTE F – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	DECEMBER 31,			
	2013		2012	
	The Institute	The Foundation	Consolidated Total	Consolidated Total
Land	\$1,364,103	–	\$1,364,103	\$1,364,103
Buildings and building improvements	3,935,445	–	3,935,445	3,911,517
Furniture and equipment	<u>5,195,250</u>	<u>49,614</u>	<u>5,244,864</u>	<u>5,438,385</u>
Total property and equipment	10,494,798	49,614	10,544,412	10,714,005
Less: Accumulated depreciation	<u>(5,286,133)</u>	<u>(32,732)</u>	<u>(5,318,865)</u>	<u>(5,480,825)</u>
Net property and equipment	<u>\$5,208,665</u>	<u>\$16,882</u>	<u>\$5,225,547</u>	<u>\$5,233,180</u>

Depreciation expense for 2013 for the Institute and the Foundation amounted to \$618,923 and \$3,376, respectively. Depreciation expense for 2012 amounted to \$572,018. As of December 31, 2013, “Land” includes property with a book value of \$1,250,000 which was previously held for possible future development and is now held for sale. Subsequent to December 31, 2013, the Institute entered into an agreement with a certain entity to sell its land held for sale for \$1,200,000, subject to certain conditions.

## NOTE G – LINE OF CREDIT

The Institute has available a revolving line of credit with a financial institution in an amount up to \$2,000,000 for such purposes as approved by the financial institution. The line of credit bears interest at the financial institution’s prime rate (3.25% per annum as of December 31, 2013 and 2012) and is due on demand. The line of credit is secured by a certain securities account held by a third party. The line of credit contains various financial and other covenants. As of December 31, 2013 and 2012, no balance was outstanding under the line of credit.

## NOTE H – OPERATING LEASES

The Institute leases office space and office equipment under operating leases expiring through 2016. Approximate future lease payments related to such leases are as follows:

Year Ending December 31,	
2014	\$320,000
2015	133,000
2016	<u>9,000</u>
Total	<u>\$462,000</u>



# Notes to Consolidating Financial Statements

DECEMBER 31, 2013 (With Summarized Comparative Information for December 31, 2012)

Total rent expense related to the above leases and additional amounts for short-term rentals and related charges amounted to approximately \$1,437,000 and \$907,000 for 2013 and 2012, respectively.

## NOTE I – RETIREMENT PLANS

The Institute maintains a Section 401(k) retirement plan. The Institute contributes a certain percentage of the total salary of eligible employees to the plan. During 2013 and 2012, the Institute contributed approximately \$1,063,000 and \$1,048,000, respectively, to this retirement plan.

The Institute maintains Section 457 deferred compensation plans for the benefit of certain employees. One plan permits employee salary deferral contributions, while another plan permits discretionary employer contributions. Employer contributions were \$215,000 and \$175,000 during 2013 and 2012, respectively. The Institute held \$1,569,500 and \$1,218,400 in the plans as of December 31, 2013 and 2012, respectively, which is reflected in the consolidating statements of financial position as “employee savings plans” and “deferred employee compensation.”

## NOTE J – COMMITMENTS

The Foundation has entered into contracts and agreements with various parties for research projects. Unpaid commitments related to these contracts and agreements totaled approximately \$248,000 as of December 31, 2013.

The Institute delivers certain of its examinations in a computer-based testing environment (referred to by the Institute as the “CBT” initiative). In connection with CBT, the Institute entered into an agreement with a third-party (“the hosting service”) which licenses application software for the management, operation, and administration of testing, certification, and licensure programs and maintains database functions related to such programs, all of which are offered as a hosted service. In connection with the agreement, the Institute agrees to pay the hosting service an annual license fee of \$103,000 plus certain incremental fees based on actual volume as described in the agreement. In connection with CBT, the Institute has also entered into a test delivery services agreement with another third-party (“the test provider”). Pursuant to the terms of the agreement, the test provider is responsible for various tasks related to administering tests to participants. The test

provider will be paid per test fees and various other fees pursuant to the terms of the agreement. The agreement expires during 2018, unless terminated earlier by one of the parties subject to the terms of the agreement.

In January 2013, the Institute entered into an agreement with Institute of Internal Auditors - Australia to provide a revolving line of credit up to \$300,000. The line of credit requires monthly interest only payments at the 3-month LIBOR plus 2% per annum until January 2016, at which time all unpaid interest and principal becomes due. The line of credit is secured by certain assets of Institute of Internal Auditors - Australia. No amounts have been drawn on the line of credit as of December 31, 2013.

## NOTE K – EXPENSE ALLOCATIONS

Total 2013 expenses for the Institute include approximately \$29,353,000 of program expenses, \$10,730,000 of administrative expenses, and \$8,000 of fund-raising expenses.

Total 2013 expenses for the Foundation include approximately \$2,573,000 of program expenses, \$483,000 of administrative expenses, and \$19,000 of fund-raising expenses.

Total 2013 expenses for the Fund include approximately \$226,000 of program expenses and \$15,000 of fund-raising expenses.

Total 2013 expenses for Quality Services include approximately \$632,000 of program expenses and \$269,000 of administrative expenses.

Total expenses for 2012 include approximately \$27,419,000 of program expenses, \$10,642,000 of administrative expenses, and \$40,000 of fund-raising expenses.

## NOTE L – SUBSEQUENT EVENTS

Subsequent to December 31, 2013, the Institute entered into an agreement to sell certain land held for sale. See Note F.

The organizations have evaluated for possible financial reporting and disclosure subsequent events through May 1, 2014, the date as of which the consolidating financial statements were available to be issued.

# Management's Annual Report on Internal Control Over Financial Reporting

MANAGEMENT IS RESPONSIBLE FOR the preparation, integrity, and fair presentation of the accompanying financial statements. The accompanying statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis and are not affected by material fraud or error. The financial statements include amounts that are based on management's best estimates and judgments.

Management also prepared the supplemental information in the annual report and is responsible for its accuracy and consistency with the financial statements. The financial statements have been audited by Batts, Morrison, Wales & Lee, P.A., independent certified public accountants, elected by the Board of Directors. Management has made available to Batts, Morrison, Wales & Lee, P.A. all financial records and related data as well as the minutes of the Board of Directors' meetings. Management believes that all representations made to Batts, Morrison, Wales & Lee, P.A. during its audit were valid and appropriate.

Management maintains a system of internal control, which is designed to provide reasonable assurance as to: the preparation and publication of reliable and accurate financial statements; safeguarding of assets against unauthorized acquisition, use or disposition; and compliance with applicable laws and regulations. The system includes a documented organizational structure and division of responsibility, established policies and procedures that are communicated throughout the organization, an internal audit function reporting to the audit committee of the board of directors, and the careful selection, training, and development of our people.

Management has voluntarily elected to evaluate its system of internal control in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the COSO framework and has documented and tested the key processes used to record activities and prepare the appropriate financial statements.


For the annual report as of, and for the year ending, December 31, 2013, we certify that to the best of our knowledge:

- > This annual report does not contain any untrue statements of a material nature or omit to state a material fact necessary to make the statements misleading with respect to the period covered by the annual statement;
- > The financial information included in this annual report fairly present in all material respects the financial condition, results of operations, and cash flows as of and for the periods presented in the annual report;
- > An adequate system for disclosing controls and procedures exists to ensure that material information is made known to us by others within the organization; Management has concluded that the system of internal control over financial reporting was effective as of 12/31/2013.
- > Disclosures of any change in the internal control over financial reporting that occurred during the most recent fiscal quarter and has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting are included in this report.

  
Richard F. Chambers, CIA, CGAP, CCSA, CRMA  
*President and Chief Executive Officer*

  
David Polansky  
*Executive Vice President and Chief Financial Officer*





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