



# ELEVATE

2012 Annual Report

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# INTRODUCTION



It is in this spirit of perpetual improvement that The Institute of Internal Auditors (IIA) proudly presents our Annual Report for 2012, a year that will be remembered as a pinnacle of progress and an updraft for future opportunity.

It was a landmark year for the internal audit profession, and The IIA continued to take a leadership role as previous year's investments took us to new heights. Our members told us what they wanted. We listened. And they responded in record numbers. By every measure — membership, retention, readership, attendance, certification, and revenue — we exceeded prior-year results. We finished the year larger and stronger, and are able to serve you better than ever before.

We are pleased to report total revenues in 2012 of US \$43.1 million, an increase of US \$3.7 million, or 9.5 percent, from 2011. Our net contribution of US \$6.3 million was up US \$1.4 million, or 32 percent. The IIA experienced revenue growth in all major operating areas, highlighted by increases of 31.7 percent in certification revenue, 10 percent in membership revenue, and 3 percent in educational program revenue.

As internal auditors know, it's not always about the numbers. It's about the people and the community that The IIA serves. This report is dedicated to the more than 180,000 men and women of The IIA, spread across more than 190 countries. On behalf of you, we work diligently to elevate the individual internal audit practitioner, The IIA, and the profession.

It was indeed a great year, in part because of what we accomplished, but to an even greater extent because of how that success will allow The IIA to elevate the profession to new heights. Onward and upward... higher.



## President and CEO's Message

Continuous improvement and the need to achieve are fundamental to our makeup. It is the essence of The IIA's motto, "Progress Through Sharing." As Abraham Maslow, the behaviorist, famously said about self-actualization: "A musician must make music, an artist must paint, a poet must write." To this I would add, internal auditors and The IIA must elevate. We must:

>> **Elevate the individual** — *the more than 180,000 members who look to us for global standards and guidance, certifications, professional development, advocacy, thought leadership, and research.*

>> **Elevate the organization** — *constantly enhancing what we do as a professional association and guiding body, improving our infrastructure and*

*operations, and expanding the quality and quantity of our service offerings.*

>> **Elevate the profession** — *advancing the profession and its value around the world.*

I am proud to say that we made significant progress in 2012. We provided innovative professional development and witnessed the proliferation of a new certification to make internal auditors even more indispensable within their organizations. The culmination of a three-year, bottom-up enhancement to our technology platform strengthened our organizational infrastructure and ability to do business. And our expanded advocacy at the national and global levels continued to take the profession to new heights of awareness and understanding.

Any one of these accomplishments would have made for a good year, but for them to have coalesced in a year that included a record net contribution and investments back into serving our members and the profession is a testament to the hard work and dedication of everyone involved.

This report is our annual accounting to you on The IIA's stewardship of your financial contributions. But it also is about you, the individual, who uses our programs and services to broaden your skill set and add value to your organization. We are grateful for the opportunity to serve, and I am excited to be able to report such positive results.

*Sincerely,*  
Richard F. Chambers,  
CIA, CGAP, CCSA, CRMA  
President & CEO  
The Institute of Internal Auditors  
Global Headquarters

## Chairman's Message



**I**t was a privilege to serve as chairman and chief spokesperson for the profession globally, particularly in a year that proved to be remarkable in every way. My theme for 2012 was “Say It Right,” the idea that it not only matters what you say, but how you say it. If success is measured by impact, 2012 was a resounding success.

In my inaugural address, I spoke of the importance of listening, identifying, and focusing on what is important to our stakeholders. I touched on the importance of keeping up with technology. And I encouraged everyone to help elevate the profession by communicating our crucial role in providing objective assurance and insight on the effectiveness and efficiency of risk management, internal control, and governance. I even described how we should measure the success

of our advocacy efforts. When asked who internal auditors are, stakeholders should respond by saying, “An internal auditor is the person who makes organizations great!”

After having the privilege of traveling the world this past year, including an extended tour of our institutes in Africa, I am happy to say that the word is getting out. I saw plenty of evidence — in our chapters and institutes, as well as at Global Headquarters — that we are saying it right, that we are communicating well, and that we are making an impact. Attesting to this, our most recent global Pulse of the Profession survey indicated the strongest outlook for internal audit resources in five years. Look up, because that’s where we are headed.

I have thoroughly enjoyed my year as your chairman. As you

read through this annual report, I hope you will take time to reflect on the significant impact we are having on the profession and the organizations we serve. I hope you will join me in taking the profession to new heights going forward. The sky is the limit.

*Sincerely,  
Phil Tarling,  
CIA, CMIIA, CRMA  
2012-2013 Global Chairman  
of the Board  
The Institute of Internal Auditors*

# ELEVATING *the individual*




An organization survives and thrives on the success of its members. Everything The IIA provides — from standards and education to research and advocacy — is developed with its members in mind. Every time a practitioner pursues a certification, accesses research, attends an IIA professional development event, responds to an IIA survey, or watches a video on AuditChannel.tv, we learn more about where we should invest our resources. We're listening and responding. And the more we help our members, the higher we climb — together.

## **CRMA SOARS**

With the rise of digitization, expansion of the global economy, and the spectacular risk-management failures of the past decade, internal auditors are being asked to provide advice and assurance to audit committees and executive management on key risk management and governance processes. In August 2011, we launched the Certification in Risk Management Assurance (CRMA™).

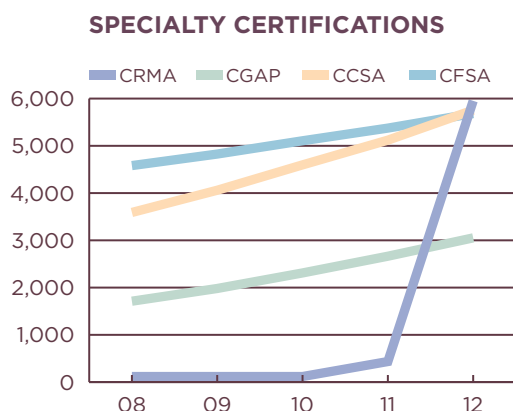
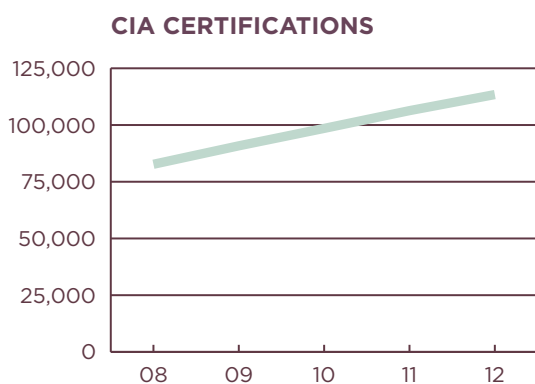




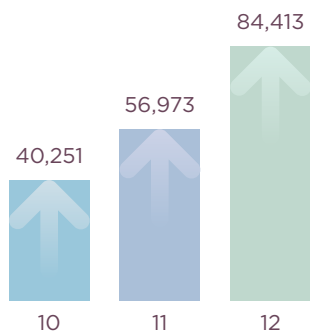
**“My professional aspirations** are to be a trusted advisor to stakeholders — strategically, operationally, and financially — and be a role model for future internal auditors.”

— OFELIA TAMAYO, CIA





**MEMBERS-ONLY WEBINAR PARTICIPATION**



Almost 10,000 members applied for the CRMA during our Professional Experience Recognition period. Our first new certification in more than a decade, the CRMA far exceeded our expectations and has already eclipsed all but our flagship Certified Internal Auditor (CIA) designation. By the end of 2012, professionals in 103 countries had obtained the CRMA.

**TECHNOLOGY CLICKS**

AuditChannel.tv, our online video-sharing site, launched in late 2011. More than 260 video uploads by the end of 2012 received more than 500,000 views. Hot topics in 2012 included auditing social media, governance, and risk management. Although much of the content comes from The IIA, AuditChannel.tv is a community forum where people from around the world have the ability to post and share their own unique thoughts and content. Currently, the site features videos in English, Spanish, and French.



**LEARNING LISTENS**

Given the increasingly diverse background of internal auditors, The IIA's Learning Solutions division has had its ear to the ground, gleaning topics of interest and relevance to our evolving membership base. In 2012, we saw record attendance at our conferences and members-only webinars, which, based on your feedback, featured a stronger emphasis on emerging issues, governance, risk management, and peer perspectives. Learning solutions, as an economic generator for

The IIA, reported attendance of 105,000 across all learning platforms in 2012, up from an already robust 76,000 in 2011. The North American General Audit Management Conference attracted 980 paid attendees, exceeding its historical attendance numbers.

### CHIEF CONCERNS

Membership in the Audit Executive Center, an important knowledge center and networking resource for chief audit executives (CAEs), grew by almost 25 percent in 2012, exceeding projections for a second successful year. Approximately 20 percent of Fortune 250 companies (or equivalent) are Center members. In addition to its must-read CAE Bulletin e-newsletter and a host of roundtables and thought leadership publications, it also has built an online resource library with more than 1,200 tools, templates, plans, and other resources. The Center brings audit leaders together to exchange information, learn from one another, and pave the way for the development of mature internal audit functions.



**More than 150 members of the Audit Executive Center shared common issues facing CAEs at the Center's annual networking event in Orlando, Fla., USA, on March 18, 2012.**



**“My career aspirations** are to build my skills and knowledge as well as professional experience to become an expert in the internal audit field.” – **VIVIEN AI, CIA**

**“The IIA has helped me grow** as a professional through the many opportunities offered for certification, networking, continued training, and leadership development.”

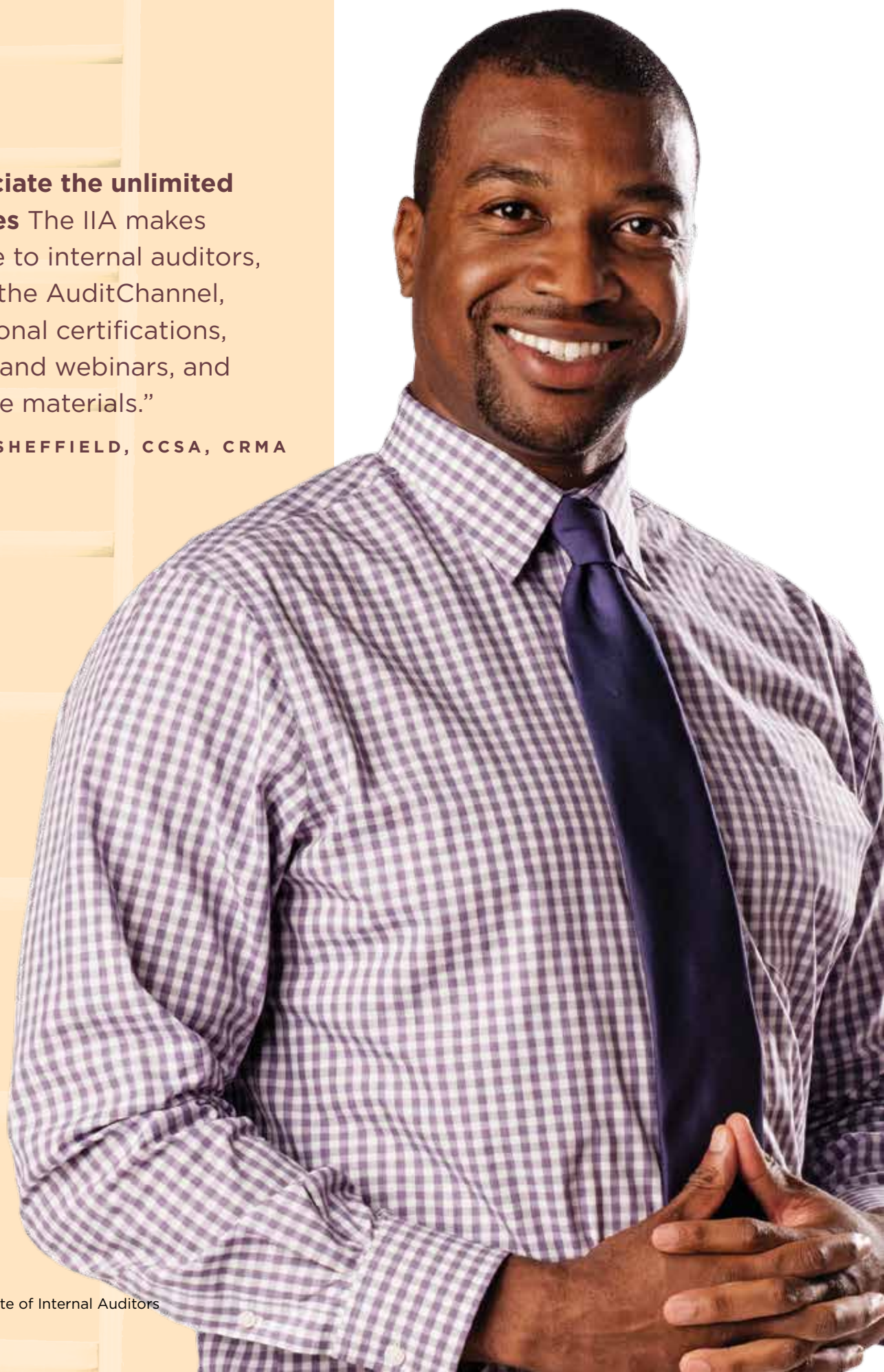
– **CHIP CLARK, CIA**





**“I appreciate the unlimited resources** The IIA makes available to internal auditors, such as the AuditChannel, professional certifications, training and webinars, and reference materials.”

— LEON SHEFFIELD, CCSA, CRMA



# ELEVATING *the organization*

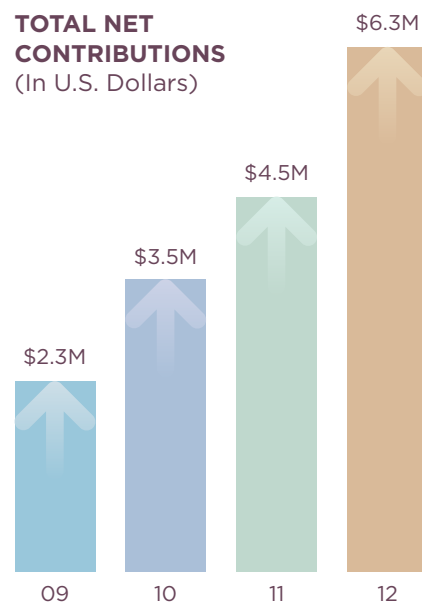
R

Record-breaking financial success...

Industry-high member retention... New and enhanced websites... Increased advocacy and an expanding global presence... The IIA is larger and stronger than ever. The IIA's headquarters is a vibrant, dynamic, and diverse support team dedicated to serving our organization and the community. The investments in systems, curriculum, communications, and outreach are yielding tremendous dividends, which are reinvested in the organization and the profession.

Although 2012 will most likely be remembered as the year The IIA launched the CRMA, it is worth noting that our net contribution for the year was almost US \$4 million over and above the US \$2 million contributed by non-recurring CRMA revenue. Both new membership and retention were up, and North American and Global operations exceeded their revenue and net contribution targets by US \$1.7 million and US \$2.3 million, respectively.

**TOTAL NET CONTRIBUTIONS**  
(In U.S. Dollars)





## CREATIVITY INSPIRED

A redesign of *Internal Auditor* magazine debuted in January 2012 and was rewarded in August with a record nine awards from the Florida Magazine Association, including Best Overall Magazine, Best Overall Writing, and Best Overall Design. The magazine also received top honors in multiple writing and design categories. Its new mobile app had been downloaded more than 15,500 times by the end of the year, allowing readers to access timely content right from their smartphones or tablets.

## TECHNOLOGICALLY ADVANCED

In 2012, The IIA neared completion of a three-year, multimillion-dollar systems upgrade to replace its legacy technology platform with Microsoft SharePoint. In 2012 alone, in addition to core upgrades of our accounting system and membership database, The IIA:

- >> *Added a new global website and converted the North America website.*
- >> *Offered Web-hosting capabilities for chapters and institutes.*
- >> *Upgraded to new business intelligence and analytics for NetForum, the Certification Candidate Management System (CCMS), and The IIA Bookstore.*
- >> *Launched the Internal Auditor mobile application.*
- >> *Implemented disaster recovery safeguards.*
- >> *Prepared to launch e-books.*

The IIA's global website, [www.globaliia.org](http://www.globaliia.org), logged 223,000 visitors and almost one million page views since its launch in 2011. The IIA's website



**“I appreciate the wealth of knowledge that is accessible to IIA members and the boundless opportunities to tap into the association’s extensive library of resources.”**

**— CHINENYE CLAYTOR**



for members in North America logged 2.2 million visitors and 16.3 million page views in 2012.

### COMMUNITY MINDED

Since 2010, staff at The IIA's Global Headquarters has been raising money for the global fight against breast cancer. In 2012, we fielded a 50-member team that raised more than US \$18,000 for the Susan G. Komen for the Cure campaign, making us the highest corporate contributor in Central Florida for two consecutive years. To date, we have raised more than US \$41,000 for the cause.

### FAMILY FRIENDLY



IIA Global Headquarters was recognized by the *Orlando Sentinel* as one of Central Florida's "Top 100 Companies for Working Families" in 2012 — an honor we have received every year since 2004. The Top 100 celebrates employers with family-friendly policies and benefits. The IIA's flex-time scheduling, tuition reimbursement, and health and retirement plans places it among the top 25 of the 100 companies listed.



**Top: J. Michael Peppers, 2012-2013 Chairman of the Board for The IIA in North America, makes opening remarks at the 2012 General Audit Management Conference.**



**Bottom: During Breast Cancer Awareness Month, IIA staff participated in "pink Friday." IIA Global Headquarters raises funds for the Central Florida chapter of the Susan G. Komen for the Cure.**

**"The IIA provides the necessary tools and resources to help me reach new heights in my profession."**

**— JENNIFER MARTIN**





# ELEVATING *the profession*



A profession being an aggregation of individual practitioners, The IIA elevates the profession every time we serve one of our members. But that's only part of the picture. It is our privilege to serve also as the voice of the internal audit community by developing authoritative standards and guidance, promoting sound corporate governance and ethical practices, and increasing awareness about the critical role of internal auditing as an indispensable asset to management, the board, and the organization as a whole.

## **ACROSS NORTH AMERICA**

In June 2012, The IIA in North America retained the services of Patton Boggs, a professional advocacy group that has helped us build relationships in Washington, D.C., USA. With Patton Boggs' assistance, The IIA has been able to present our most important messages to the U.S. Securities and Exchange Commission, the U.S. Public Company Accounting Oversight Board, and other





**“I greatly appreciate** being a part of a global professional organization whose primary purpose is to ensure that internal audit is forward-thinking, relevant, and current in today’s ever-changing global landscape.”

— JEFF McILRAVEY, CFSA



**“Advocacy increases recognition of the profession above and beyond its traditional assurance role and positions it as being strategically relevant to an organization.”**

**— AKHIL KALRA, CIA, CRMA**

regulatory bodies, members of the U.S. House Financial Services Committee, the U.S. Senate Banking Committee, and the CPA Caucus and their staffs. The IIA has made it a priority to educate influential government officials and standard-setting bodies about the valuable role internal auditors play in private and public-sector organizations. This sets the stage for providing input into future regulations and legislation.

### **ACROSS THE GLOBE**

The IIA launched the Global Advocacy Platform in 2012. This framework is a set of core principles and common messages for institutes around the world to use in their advocacy efforts. It unifies us not only externally but within the profession, allowing us to make a greater impact by focusing our message. Advocacy collaborations with

institutes around the world have led to budding relationships with key stakeholder groups at the national and international levels. And our outreach with global organizations such as the International Federation of Accountants, allows us to use a top-down approach in advocating for our global standards.

### **ACROSS AFRICA**

In July and August, IIA Global Chairman of the Board Phil Tarling spent 22 days in Africa visiting established and prospective IIA institutes and meeting with key internal audit stakeholders and government officials. Prompted by developments in the region that highlighted the need for strengthening internal auditing, Tarling’s trip included visits to Burundi, Ethiopia, Ghana, Malawi, Zimbabwe, Botswana, South Africa, and Mozambique. The most travelled IIA chairman in our organization’s history, Tarling visited six continents and 27 countries, spreading the word about the value of internal auditing and the importance of maintaining professional standards.

### **THE FUTURE OF THE PROFESSION**

The Global Model Internal Audit Curriculum was developed and unveiled by The IIA’s Academic Relations Committee, using The IIA’s common body of knowledge study, competency framework, CIA syllabus, and educator and practitioner input. While this curriculum is provided for those who want to develop and teach internal audit courses, it also assists in determining course expectations for those considering application to The IIA’s Internal Auditing Education Partnership program. One aim of the curriculum is to ensure that

internal audit education conforms to The IIA's International Professional Practices Framework (IPPF) and best practices for the profession.

### KEEPING CURRENT

The IIA Research Foundation reached deep into its knowledge base to create resources that are both authoritative and easy to digest. Anyone familiar with *Sawyer's Guide for Internal Auditors* will want to check out the Foundation's recently published 6th edition. Completely redesigned with colorful graphics and presented as a three-volume set, this latest edition — the first update since 2005 — consolidates the encyclopedic knowledge of the previous version into two smaller volumes and adds a third volume devoted to governance, risk, and compliance. This two-year endeavor was a massive undertaking. The new *Sawyer's* also is aligned with the latest IPPF, keeping it the comprehensive reference guide it was intended to be.

### MAKING A GLOBAL CONNECTION

The IIA's 2012 International Conference reported the second largest attendance in The IIA's history. Our new global website also dramatically increased connectivity. By the end of 2012, 67 institutes offered direct links from their websites, giving their members direct access to content and services offered at [www.globaliia.com](http://www.globaliia.com). Sustained communications with institute CEOs, including monthly live and recorded webinars and a revamped monthly *LeadersLink* newsletter, garnered 100 percent satisfaction ratings.



More than 2,000 delegates from more than 100 countries visited Boston, Mass., USA, for The IIA's 2012 International Conference

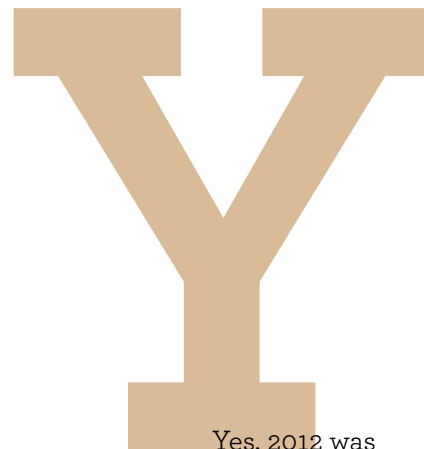


Representatives from IIA-Zimbabwe present IIA Global Chairman of the Board Phil Tarling a gift of appreciation for visiting during his eight-city advocacy tour of Africa in August 2012.





# O N W A R D



Yes, 2012 was

one for the record books. As internal audit focus evolves from the traditional areas of finance and governance to an increased emphasis on IT and strategic risk exposure, we are all reaching higher — individually and as a profession.

As an organization, The IIA is realizing its global potential. More than half of our 180,000 members hail from outside North America. Attendance at The IIA's International Conference is a testament to our

**FRANCINE NDAYISABA,  
CIA**

# *and upward*

diversity and commitment to professionalism. And the global internal audit community is embracing the power and the professional distinction of IIA certifications such as the CRMA, a milestone in the evolution of internal auditing.

Global Chairman Phil Tarling was right. Communication is crucial, and we at The IIA are honored by the overwhelmingly positive responses we have received regarding the investments we are making in the individual, the organization, and the profession. To paraphrase Sir Isaac Newton, if we have seen further it is because we are standing on the shoulders of giants. The power of The IIA lies in our ability to harness the collective minds and talents of our members, the giants and collective conscience of the internal audit profession.



>>180,000  
members

>>115,000  
Certified  
Internal  
Auditors

>>190  
countries

>>109  
Institutes  
(+ US, Canada,  
Caribbean)

>>601  
full- and part-  
time staff

>>US \$100.7  
million in global  
revenue

>>US \$63  
million in net  
assets

>>US \$63  
million in net  
assets

## **IIA BY THE NUMBERS\***



\* This is an estimate  
based on information gathered  
from IIA Institutes.

**GLEND A OSTRANDER,  
CIA, CGAP, CRMA**

# IIA Leadership



**IIA Global Board of Directors Executive Committee** (Pictured left to right) — **FRONT ROW:** Denny Beran, Carolyn Dittmeier, Philip Tarling, Paul Sobel, Sharon Grant. **BACK ROW:** Gary Anderson, Günther Meggeneder, Richard Chambers, Anton van Wyk, Douglas Anderson, Larry Harrington.

## IIA Global Board of Directors Executive Committee

### CHAIRMAN OF THE BOARD

**Philip D. Tarling, CIA, CRMA, CMIIA**

*Vice President Internal Audit Centre of Excellence*  
Huawei Technology Co. Ltd.,  
Basingstoke, United Kingdom

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*Vice President, Internal Audit*  
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**Lawrence J. Harrington, CIA, CRMA**

*Vice President, Internal Audit*  
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*Managing Director*  
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**Carolyn A. Dittmeier, CIA, CRMA**

*Director of Internal Audit*  
Poste Italiane, Rome, Italy

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**Günther Meggeneder, CIA, CRMA**

*Head of Internal Audit*  
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**Dennis K. Beran, CIA, CCSA, CRMA**

*Senior Vice President/Director Audit (Retired)*  
J. C. Penney Co. Inc., Dallas, Texas, USA

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**Richard F. Chambers, CIA, CGAP, CCSA, CRMA**

*The Institute of Internal Auditors, Global Headquarters*  
Altamonte Springs, Florida, USA

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*Executive Director*

Columbus Advisory Sdn Bhd,  
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**Oswaldo Basile, CIA, CCSA, CRMA**

*Vice President, Internal Audit*

Walmart Brasil Ltd., Sao Paulo, Brazil

**Gerardo Carstens, CIA, CRMA**

*Internal Auditor*

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*Chief Audit Executive*

Svenska Kraftnät, Stockholm, Sweden

**Agust Hrafnkelsson, CIA**

*Chief Audit Executive*

Glitnir Banki Hf., Reykjavik, Iceland

**Lesedi Lesetedi, CIA**

*Director, Internal Audit*

Botswana International University of  
Science & Tech, Gaborone, Botswana

**Anna R. Nicodemus, CIA**

*Chairman, Audit Committee*

Vice President Internal Audit  
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*Manager, Internal Audit Unit*

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Queensland, Australia

**Xi Sheng, CIA**

*Chief Auditor*

China Eastern Airlines, Beijing, China

**Beatriz Sanz Redrado, CIA, CRMA**

*Director, Audit Group*

Galleries Lafayette, Paris, France

**Oliver Dieterle, CIA, CGAP, CRMA**

*Chief Audit Executive*

Bundesagentur fuer Arbeit,  
Nuremberg, Germany

**Gian Michele Mirabelli, CIA, CRMA**

*Chief Audit Executive*

Edison SPA, Milan, Italy

**Naohiro Mouri, CIA**

*Managing Director, Asia Pacific*

Auditor  
JP Morgan, Tokyo, Japan

**Thijs Smit, CIA**

*Corporate Internal Auditor*

SHV, Utrecht, The Netherlands

**Linda Yanta, CIA**

*Chief Audit Executive*

Eskom, Johannesburg, South Africa

**Ernesto Martinez Gomez, CIA, CRMA**

*Chief Audit Executive*

Banesto, Madrid, Spain

**Sarah K. Blackburn, CRMA, CMIIA**

*Internal Audit Development Consultant*

The Wayside Network Ltd,  
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*Auditor General*

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**Bavan M. Holloway, CIA, CRMA**

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Boeing Corporate Audit,  
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**Todd A. Horbasenko, CIA, CCSA**

*City Auditor*

City of Calgary, Alberta, Canada

**J. Michael Joyce, Jr. CIA, CRMA**

*Chief Auditor & Compliance Officer*

Blue Cross Blue Shield Association,  
Chicago, Illinois, USA

**John A. Lewis, CIA, CRMA**

*Senior Vice President*

Safeway Inc., Pleasanton, California, USA

**Patricia K. Miller, CIA, CRMA**

*Partner (Retired)*

Deloitte & Touche, Reno, Nevada, USA

**J. Michael Peppers, CIA, CRMA**

*Chief Audit Executive*

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Austin, Texas, USA

**C. Wayne Rose, CIA, CRMA**

*Partner Enterprise Risk Services*

Deloitte & Touche, Dallas, Texas, USA

**Carolyn D. Saint, CIA, CRMA**

*Vice President, Internal Audit*

7-Eleven, Dallas, Texas, USA

**John W. Wszelaki, CIA, CRMA**

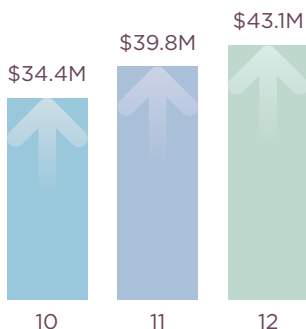
*Director of Audit*

VA Dept. of Alcoholic Beverage Control,  
Richmond, Virginia, USA



## 2012 Financial Discussion and Analysis

### TOTAL REVENUE

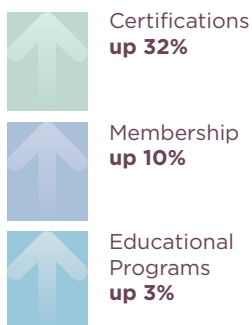


As The IIA reviews its 2012 fiscal position, it is pleased to outline the financial performance that supported the aforementioned achievements. The 12 months ending Dec. 31, 2012, resulted in total revenues of US \$43.1 million for The Institute of Internal Auditors, Inc., and related entities (The IIA) which represented an increase of 9.5 percent (US \$3.7 million). Net contribution for that same time period was US \$6.3 million or an increase of 31.7 percent (US \$1.4 million).

In 2012 The IIA experienced revenue growth in all major operating areas highlighted by a 32 percent increase in certification revenue, 10 percent increase in membership revenue, and a 3 percent increase in educational program revenue.

### INCREASED REVENUE

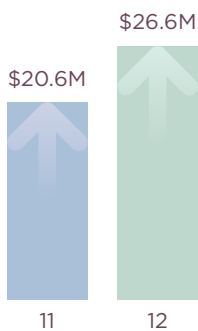
(percentage increase over 2011)



The positive growth in certification revenue is mainly due to the strong participation in the Certification in Risk Management Assurance™ (CRMA™) Professional Experience Recognition program launched in 2011. During 2012, the Professional Experience Recognition program, which closed on Dec. 31, 2012, for North American operations, and on March 31, 2013, for Global operations, generated US \$2 million in revenue, exceeding its revenue target by US \$1.7 million.

The positive growth in membership revenue is mainly due to new member acquisitions and increased renewal retention rates, which both exceeded their targets as Dec. 31, 2012.

### NET ASSETS



The IIA also tracks revenue and expenses by geographic segment between North American operations and Global operations. Both segments exceeded their revenue and net contribution targets by US \$1.7 million and US \$2.3 million, respectively. As a result, The IIA ended the year with approximately US \$11 million in cash and cash equivalents, which is an increase of US \$2.3 million (26 percent) and net of US \$3 million in excess daily operating cash moved into the long-term investments during the first quarter 2012. The IIA continues to have available a US \$2 million line of credit from CNL Bank to fund any cash-flow shortage; however, there are no funds currently drawn upon the line.

In 2012 the investment portfolio of The IIA increased from US \$8.1 million to US \$13.1 million, which represents a 38 percent increase (US \$5 million) as a result of investment interest income earned (US \$628,000), a \$1.2 million mark-to-market adjustment, and the previously mentioned funding of US \$3 million in excess daily operating cash. Overall, the investment portfolio has performed consistent with expectations given the more conservative nature of the investment policy implemented in 2011.

The 2012 total net assets for The IIA are US \$26.6 million, versus US \$20.6 million in 2011.



# Independent Auditor's Report

*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, 2012, 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.

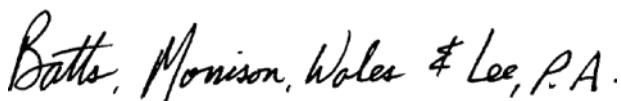
## OPINION

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, 2012, 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 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 18, 2012. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended December 31, 2011 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 8, 2013

# Consolidating Statement of Financial Position

## FOR THE YEARS ENDING DECEMBER 31

	2012					2011
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors-Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
<b>ASSETS</b>						
Cash and cash equivalents	\$10,000,767	\$526,208	\$438,572	\$—	\$10,965,547	\$8,704,555
Investments	16,164,470	1,963,435	—	—	18,127,905	13,141,994
Due from affiliates, net	—	32,609	647,160	(679,769)	—	—
Accounts receivable, net	3,749,791	159,557	—	—	3,909,348	3,464,090
Funds advanced for international conference	3,104,340	—	—	—	3,104,340	—
Inventories	5,025	323,614	—	—	328,639	251,822
Prepaid expenses and other assets	1,433,267	230	1,195	—	1,434,692	1,040,894
Property and equipment, net	5,233,180	—	—	—	5,233,180	4,737,301
Deferred project costs, net	1,169,526	211,019	—	—	1,380,545	1,697,687
Employee savings plans	1,218,400	—	—	—	1,218,400	1,008,615
Restricted investments	—	135,000	—	—	135,000	135,000
<b>TOTAL ASSETS</b>	<b>\$42,078,766</b>	<b>\$3,351,672</b>	<b>\$1,086,927</b>	<b>\$(679,769)</b>	<b>\$45,837,596</b>	<b>\$34,181,958</b>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$5,125,794	\$100,406	\$—	\$—	\$5,226,200	\$4,961,510
Due to international conference	4,328,479	—	—	—	4,328,479	—
Due to affiliates, net	679,769	—	—	(679,769)	—	—
Deferred revenue	8,128,679	48,395	—	—	8,177,074	7,605,183
Deferred employee compensation	1,218,400	—	—	—	1,218,400	1,008,615
<b>TOTAL LIABILITIES</b>	<b>19,481,121</b>	<b>148,801</b>	<b>—</b>	<b>(679,769)</b>	<b>18,950,153</b>	<b>13,575,308</b>
<b>NET ASSETS</b>						
Unrestricted	22,503,855	2,562,725	1,044,743	—	26,111,323	19,848,475
Temporarily restricted	93,790	505,146	42,184	—	641,120	623,175
Permanently restricted	—	135,000	—	—	135,000	135,000
<b>TOTAL NET ASSETS</b>	<b>22,597,645</b>	<b>3,202,871</b>	<b>1,086,927</b>	<b>—</b>	<b>26,887,443</b>	<b>20,606,650</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$42,078,766</b>	<b>\$3,351,672</b>	<b>\$1,086,927</b>	<b>\$(679,769)</b>	<b>\$45,837,596</b>	<b>\$34,181,958</b>

# Consolidating Statement of Activities

## FOR THE YEARS ENDING DECEMBER 31

	2012					2011
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors-Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
<b>CHANGE IN UNRESTRICTED NET ASSETS FROM OPERATIONS REVENUES</b>						
Relationship management	\$11,498,964	\$—	\$—	\$—	\$11,498,964	\$10,416,913
Certification	9,352,109	—	—	—	9,352,109	7,095,003
Seminars	8,363,089	—	—	—	8,363,089	8,948,808
Conferences	4,385,428	—	—	—	4,385,428	3,507,831
Publishing	1,588,144	2,263,070	—	(64,624)	3,786,590	4,212,620
Quality assessment	1,638,597	—	—	—	1,638,597	1,816,709
North American services	1,237,186	—	—	—	1,237,186	855,949
Other program revenue	1,031,433	—	200	—	1,031,633	1,143,088
Dividend and interest income	664,249	76,726	2,991	—	743,966	381,797
Technology based learning	704,585	—	—	—	704,585	659,906
Contributions	—	259,932	77,958	—	337,890	309,179
<b>TOTAL REVENUES</b>	<b>40,463,784</b>	<b>2,599,728</b>	<b>81,149</b>	<b>(64,624)</b>	<b>43,080,037</b>	<b>39,347,803</b>
<b>Net assets released from use restrictions</b>	<b>—</b>	<b>91,354</b>	<b>75,285</b>	<b>—</b>	<b>166,639</b>	<b>422,878</b>
<b>TOTAL REVENUES AND NET ASSETS RELEASED FROM USE RESTRICTIONS</b>	<b>40,463,784</b>	<b>2,691,082</b>	<b>156,434</b>	<b>(64,624)</b>	<b>43,246,676</b>	<b>39,770,681</b>
<b>EXPENSES</b>						
Seminars	8,503,748	—	—	—	8,503,748	8,563,262
Certification	6,385,920	—	—	—	6,385,920	5,687,417
Relationship management	5,942,328	—	—	—	5,942,328	5,535,593
Other	4,833,572	426,354	75,645	(75,000)	5,260,571	3,736,851
Conferences	2,787,319	—	—	—	2,787,319	2,618,352
Educational products	—	2,071,272	—	—	2,071,272	2,107,382
Professional practices	1,936,354	—	—	—	1,936,354	1,266,627
North American services	1,762,423	—	—	—	1,762,423	1,477,158
Quality assessment	1,479,707	—	—	—	1,479,707	1,534,329
Technology based learning	899,633	—	—	—	899,633	759,452
Publishing	849,649	—	—	(64,624)	785,025	812,662
Grants	—	—	158,843	—	158,843	203,271
Research projects	—	87,038	—	—	87,038	300,814
Academic programs	—	41,154	—	—	41,154	18,495
<b>TOTAL EXPENSES</b>	<b>35,380,653</b>	<b>2,625,818</b>	<b>234,488</b>	<b>(139,624)</b>	<b>38,101,335</b>	<b>34,621,665</b>

(continued on next page)

# Consolidating Statement of Activities (continued)

	FOR THE YEARS ENDING DECEMBER 31					
(continued from previous page)	2012					2011
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors-Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
Change in unrestricted net assets from operations	5,083,131	65,264	(78,054)	75,000	5,145,341	5,149,016
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS FROM OPERATIONS						
Contributions	—	129,202	46,550	(75,000)	100,752	324,670
Dividend and interest income	—	8,832	—	—	8,832	5,458
Net assets released from use restrictions	—	(91,354)	(75,285)	—	(166,639)	(422,878)
Change in temporarily restricted net assets from operations	—	46,680	(28,735)	(75,000)	(57,055)	(92,750)
NON-OPERATING ACTIVITIES	\$1,039,491	\$153,016	\$—	\$—	\$1,192,507	\$ (538,228)
CHANGE IN NET ASSETS	6,122,622	264,960	(106,789)	—	6,280,793	4,518,038
NET ASSETS – BEGINNING OF YEAR	16,475,023	2,937,911	1,193,716	—	20,606,650	16,088,612
NET ASSETS – END OF YEAR	\$22,597,645	\$3,202,871	\$1,086,927	\$—	\$26,887,443	\$20,606,650

# Consolidating Statement of Cash Flows

FOR THE YEARS ENDING DECEMBER 31

	2012					2011
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors-Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
<b>OPERATING CASH FLOWS</b>						
Cash received from members and customers	\$44,089,863	\$2,812,208	\$129,488	\$—	\$47,031,559	\$39,432,672
Cash paid for operating activities and costs	(37,567,866)	(2,717,138)	(241,239)	—	(40,526,243)	(33,470,309)
Investment income received	664,249	85,558	2,991	—	752,798	387,255
<b>NET OPERATING CASH FLOWS</b>	<b>7,186,246</b>	<b>180,628</b>	<b>(108,760)</b>	<b>—</b>	<b>7,258,114</b>	<b>6,349,618</b>
<b>INVESTING CASH FLOWS</b>						
Proceeds from sales of investments	20,547	6,425	—	—	26,972	2,123,930
Purchases of investments	(3,715,832)	(104,544)	—	—	(3,820,376)	(2,600,201)
Purchases of and improvements to property and equipment	(195,393)	—	—	—	(195,393)	(144,049)
Expenditures for deferred projects	(836,583)	(171,742)	—	—	(1,008,325)	(1,195,498)
<b>NET INVESTING CASH FLOWS</b>	<b>(4,727,261)</b>	<b>(269,861)</b>	<b>—</b>	<b>—</b>	<b>(4,997,122)</b>	<b>(1,815,818)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>2,458,985</b>	<b>(89,233)</b>	<b>(108,760)</b>	<b>—</b>	<b>2,260,992</b>	<b>4,533,800</b>
<b>CASH AND CASH EQUIVALENTS – Beginning of year</b>	<b>7,541,782</b>	<b>615,441</b>	<b>547,332</b>	<b>—</b>	<b>8,704,555</b>	<b>4,170,755</b>
<b>CASH AND CASH EQUIVALENTS – End of year</b>	<b>\$10,000,767</b>	<b>\$526,208</b>	<b>\$438,572</b>	<b>\$—</b>	<b>\$10,965,547</b>	<b>\$8,704,555</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS</b>						
<b>CHANGE IN NET ASSETS</b>	<b>\$6,122,622</b>	<b>\$264,960</b>	<b>\$(106,789)</b>	<b>\$—</b>	<b>\$6,280,793</b>	<b>\$4,518,038</b>
Adjustments to reconcile change in net assets to net operating cash flows:						
Depreciation	570,441	1,577	—	—	572,018	353,740
Amortization of deferred project costs	319,737	133,226	—	—	452,963	574,615
Net (gain)/loss on investments	(1,039,491)	(153,016)	—	(1,192,507)	538,228	
Change in due to/from affiliates, net	76,102	(71,551)	(4,551)	—	—	—
Change in accounts receivable, net	(602,013)	151,975	4,780	—	(445,258)	(919,922)
Change in funds advanced for international conference	(3,104,340)	—	—	—	(3,104,340)	—

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# Consolidating Statement of Cash Flows (continued)

FOR THE YEARS ENDING DECEMBER 31						
(continued from previous page)	2012					2011
	The Institute of Internal Auditors, Inc.	Institute of Internal Auditors-Research Foundation, Inc.	Internal Auditing Academic Advancement Fund, Inc.	Eliminations	Consolidated Total	Consolidated Total
Change in inventories	(5,025)	(71,792)	—	—	(76,817)	(63,668)
Change in prepaid expenses and other assets	(399,446)	6,843	(1,195)	—	(393,798)	(150,676)
Change in accounts payable and accrued expenses	355,318	(89,623)	(1,005)	—	264,690	840,293
Change in due to international conference	4,328,479	—	—	—	4,328,479	—
Change in deferred revenue	563,862	8,029	—	—	571,891	658,970
TOTAL ADJUSTMENTS	1,063,624	(84,332)	(1,971)	—	977,321	1,831,580
NET OPERATING CASH FLOWS	\$7,186,246	\$180,628	\$(108,760)	\$—	\$7,258,114	\$6,349,618

# Notes to Financial Statements

## 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.

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.

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.

## 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 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 as the related service is provided based on the percentage of the engagement 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 2012 and 2011, the Foundation reimbursed the Institute for certain personnel-related costs and certain shared costs. Such

# Notes to Financial Statements

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 for which reimbursement is not required. Overhead costs of the Fund are not material to the accompanying financial statements and are paid by the Institute. Reimbursement is not required.

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

## CASH AND CASH EQUIVALENTS

The Institute, the Foundation and the Fund consider all investment instruments purchased with original maturities of three months or less to be cash equivalents.

## INVESTMENTS

Investments are carried at estimated fair value as determined by quoted market prices.

## ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are stated net of an allowance for doubtful accounts. The Institute and the Foundation estimate the allowance for doubtful accounts 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. The Institute and the Foundation use the straight-line method of depreciating property and equipment over estimated useful lives.

## 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 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 Institute engages 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 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. The Foundation and the Fund have not incurred unrelated business income taxes.

The Institute, the Foundation and the Fund have not 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 Institute, the Foundation, and the Fund's 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 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 financial statements include those used in assessing the collectibility of accounts receivable, the estimated fair value of investments and determining the useful lives of property and equipment. Actual results could differ from the estimates.

## Note C – Concentrations

The Institute, the Foundation and the Fund maintain their 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 Institute, the Foundation and the Fund 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 statements of activities. Gains and losses related to investments are considered to be nonoperating activities for purposes of the accompanying statements of activities.

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

	For The Years Ended December 31,			
	2012		2011	
	The Institute	The Foundation	Consolidated Total	Consolidated Total
Unrestricted gain/(loss) on investments	\$1,039,491	\$153,016	\$1,192,507	\$(538,228)



# Notes to Financial Statements

In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), fair value is defined as the price that an entity would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. U.S. GAAP establishes a hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and establishes classification of fair value measurements for disclosure purposes. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

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

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	—	—
<b>TOTAL</b>	<b>\$18,262,905</b>	<b>\$18,262,905</b>	<b>\$—</b>	<b>\$—</b>

Estimated fair value of investments measured on a recurring basis at December 31, 2011 are as follows:

	Total	Level 1	Level 2	Level 3
Mutual funds —				
The Institute	\$11,429,694	\$11,429,694	\$—	\$—
The Foundation	1,847,300	1,847,300	—	—
<b>TOTAL</b>	<b>\$13,276,994</b>	<b>\$13,276,994</b>	<b>\$—</b>	<b>\$—</b>

## 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. Subsequent to December 31, 2012, 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 2012 statement of financial position of the Institute. 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. Subsequent to December 31, 2012, 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:

	For The Years Ended December 31,			2011 Consolidated Total
	2012 The Institute	The Foundation	Consolidated Total	
Land	\$1,364,103	\$—	\$1,364,103	\$1,514,103
Buildings and building improvements	3,911,517	—	3,911,517	3,911,517
Furniture and equipment	5,391,029	47,356	5,438,385	4,111,153
<b>Total property and equipment</b>	<b>10,666,649</b>	<b>47,356</b>	<b>10,714,005</b>	<b>9,536,773</b>
Less:				
Accumulated depreciation	(5,433,469)	(47,356)	(5,480,825)	(4,799,472)
<b>Net property and equipment</b>	<b>\$5,233,180</b>	<b>\$—</b>	<b>\$5,233,180</b>	<b>\$4,737,301</b>

Depreciation expense for 2012 for the Institute and the Foundation amounted to \$570,441 and \$1,577, respectively. Depreciation expense for 2011 amounted to \$353,740. As of December 31, 2012, "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.

# Notes to Financial Statements

## 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, 2012 and 2011) 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, 2012 and 2011, 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	
2013	\$220,000
2014	197,000
2015	112,000
2016	9,000
<b>Total</b>	<b>\$538,000</b>

Total rent expense related to the above leases and additional amounts for short-term rentals and related charges amounted to approximately \$907,000 and \$627,000 for 2012 and 2011, 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 2012 and 2011, the Institute contributed approximately \$1,048,000 and \$863,000, 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 \$175,000 and \$98,000 during 2012 and 2011, respectively. The Institute held \$1,218,400 and \$1,008,615 in the plans as of December 31, 2012 and 2011, respectively, which is reflected in the 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 \$404,000 as of December 31, 2012.

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 initial term of the agreement expires during 2013.

## Note K – Expense Allocations

Total 2012 expenses for the Institute include approximately \$25,139,000 of program expenses, \$10,234,000 of administrative expenses and \$8,000 of fund-raising expenses.

Total 2012 expenses for the Foundation include approximately \$2,200,000 of program expenses, \$408,000 of administrative expenses and \$18,000 of fund-raising expenses.

Total 2012 expenses for the Fund include approximately \$220,000 of program expenses and \$14,000 of fund-raising expenses.

Total expenses for 2011 include approximately \$25,566,000 of program expenses, \$9,036,000 of administrative expenses and \$20,000 of fund-raising expenses.

## Note L – Related Party Transactions

During 2012 and 2011, the Institute was a party to certain contracts for research and educational projects and other services with various third parties which included certain members of the Institute's Board. Payments to Institute Board members (including companies in which Board members have an ownership interest) during 2012 and 2011 totaled approximately \$24,300 and \$221,900, respectively.

## Note M – Subsequent Events

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 were drawn on the line of credit between the date of the financial statements and the date as of which the financial statements were available to be issued.

The Institute, the Foundation and the Fund have evaluated for possible financial reporting and disclosure subsequent events through May 8, 2013, the date as of which the 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.

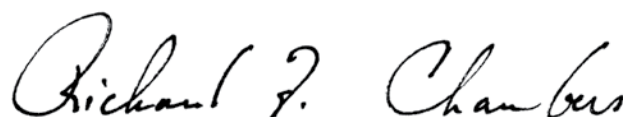
Management also prepared the supplemental information in the annual report and is responsible for its accuracy and consistency with the financial statements. The financial statements have been audited by Batts, Morrison, Wales & Lee, P.A., independent certified public accountants, elected by the Board 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, 2012, 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 12/31/2012.
- >> 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.



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