

**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

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



INDEPENDENT AUDITORS' REPORT

To the Directors of:

The International Association for Research in Income and Wealth:

Opinion

We have audited the financial statements of The International Association for Research in Income and Wealth, which comprise the statement of financial position as at December 31, 2018, and the statement of operations, statement of changes in net assets and cash flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The International Association for Research in Income and Wealth as at December 31, 2018, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high-level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted audit standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a matter that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Frouin Group Professional Corporation
Ottawa, Ontario
June 26, 2019

**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

AUDITED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2018

(In U.S. Dollars)

	2018	2017 (Restated, Note 12)
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,688	\$ 8,917
Accounts receivable	667	149
HST recoverable	11,380	13,940
Due from Wiley Publishing Limited	26,532	23,612
Prepaid expenses	<u>1,486</u>	<u>1,411</u>
	41,753	48,029
INVESTMENTS (note 4)	<u>1,225,573</u>	<u>1,439,856</u>
TOTAL ASSETS	<u>\$ 1,267,326</u>	<u>\$ 1,487,885</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Investment margin account (note 5)	\$ 41,233	\$ 15,246
Accounts payable	39,495	39,396
Deferred revenue (note 6)	<u>13,424</u>	<u>11,842</u>
	94,152	66,484
NET ASSETS		
Unrestricted	<u>1,173,174</u>	<u>1,421,401</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,267,326</u>	<u>\$ 1,487,885</u>

APPROVED ON BEHALF OF THE BOARD:

Director _____

Director _____

(See accompanying Notes to Financial Statements)

**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

AUDITED STATEMENT OF REVENUE AND EXPENSES

**FOR THE YEAR ENDED DECEMBER 31, 2018
(In U.S. dollars)**

	2018	2017 (Restated, Note 12)
REVENUES		
Membership fees		
Institutional	\$ 82,087	\$ 85,730
Individuals	17,396	18,799
Conference revenue	4,410	0
Wiley Publishing Limited royalties (note 7)	111,517	108,597
Gain/(loss) on foreign exchange	<u>(14,929)</u>	<u>4,214</u>
	<u>200,481</u>	<u>217,340</u>
EXPENSES		
Secretariat management fees (note 8)	132,523	129,925
RIW editorial	68,637	62,644
Conference travel & accommodations		
Bursaries	13,133	0
Subsidies	54,379	23,415
Training session	9,737	0
General costs	34,774	12,974
Bank, PayPal and investment account charges	1,346	1,195
Postage and courier	358	205
Office supplies	3,035	2,379
Professional fees	3,400	4,590
Legal defence	0	20,081
Miscellaneous	<u>1,657</u>	<u>1,100</u>
	<u>322,979</u>	<u>258,508</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	<u>(122,498)</u>	<u>(41,168)</u>
Investment income (note 4)	58,152	73,231
Unrealized market gains / (losses) (note 4)	<u>(183,881)</u>	<u>112,753</u>
	<u>(125,729)</u>	<u>185,984</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FOR THE YEAR	<u>\$ (248,227)</u>	<u>\$ 144,816</u>

(See accompanying Notes to Financial Statements)

**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

AUDITED STATEMENT OF CHANGES IN NET ASSETS

**FOR THE YEAR ENDED DECEMBER 31, 2018
(In U.S. dollars)**

	2018	2017 (Restated, Note 12)
UNRESTRICTED NET ASSETS		
Balance, beginning of year	\$ 1,421,401	\$ 1,276,585
Excess (deficiency) of revenues over expenses, previously stated	(248,227)	151,815
Prior period adjustment (note 12)	<u>0</u>	<u>(6,999)</u>
Excess (deficiency) of revenues over expenses, restated	<u>(248,227)</u>	<u>144,816</u>
Balance, end of year	<u>\$ 1,173,174</u>	<u>\$ 1,421,401</u>

(See accompanying Notes to Financial Statements)

**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

AUDITED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

(In U.S. dollars)

	2018	2017 (Restated, Note 12)
CASH FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses for the year	\$ (248,227)	\$ 144,816
Unrealized market (gains) / losses	<u>183,881</u>	<u>(112,753)</u>
	(64,346)	32,063
Changes in non-cash working capital		
Accounts receivable	2,045	839
Due from Wiley Publishing Limited	(2,920)	(7,228)
Prepaid expenses	(75)	852
Accounts payable	96	2,661
Deferred membership revenue	<u>1,582</u>	<u>(1,997)</u>
	(63,618)	27,190
CASH FROM INVESTING ACTIVITIES		
Net investment activity	<u>30,402</u>	<u>(5,680)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS		
	(33,216)	21,510
CASH AND EQUIVALENTS, beginning of year	<u>(6,329)</u>	<u>(27,839)</u>
CASH AND EQUIVALENTS (OVERDRAFT), End of Year	<u>\$ (39,545)</u>	<u>\$ (6,329)</u>
REPRESENTED BY:		
Cash on account	\$ 1,688	\$ 8,917
Investment margin account overdraft	<u>(41,233)</u>	<u>(15,246)</u>
	<u>\$ (39,545)</u>	<u>\$ (6,329)</u>

(See accompanying Notes to Financial Statements)

**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

1. PURPOSE OF THE ORGANIZATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

a. Revenue recognition

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

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

b. Cash and equivalents

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

THE INTERNATIONAL ASSOCIATION FOR RESEARCH IN INCOME AND
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NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Investments

Investments are measured at fair value at each reporting date, with gains and losses recognized in the statement of revenue and expenses.

d. Estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

e. Translation of foreign currencies

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

f. Capital assets

The Association follows Section 4431.03 under the Canadian accounting standards for not-for-profit organizations which allows capital assets to be expensed in the period in which they are purchased as the average annual revenues recognized in the current and preceding period is less than \$500,000. No capital items were expensed in the year.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

**THE INTERNATIONAL ASSOCIATION FOR
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NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

4. INVESTMENTS

	2018		2017	
	Cost	Market Value	Cost	Market Value
Shares in international indexes	<u>\$ 1,404,251</u>	<u>\$ 1,225,573</u>	<u>\$ 1,455,989</u>	<u>\$ 1,439,856</u>

As of December 31, 2018, the investments show an unrealized loss in market value of approximately 14.25% (2017 showed an unrealized gain of 1.11%).

Investment income consists of the following:

	2018	2017
Investment income net of foreign tax	\$ 76,540	\$ 68,147
Realized capital gains / (losses)	(18,388)	5,084
Unrealized capital gains / (losses)	<u>(183,881)</u>	<u>112,753</u>
Total investment income	<u>\$ (125,729)</u>	<u>\$ 185,984</u>

5. INVESTMENT MARGIN ACCOUNT

IARIW overdrew on its investment cash account in fiscals 2018 and 2017 to cover operational cash flow needs, thereby avoiding transactional costs associated with investment redemptions. This liability to the broker is secured by investments.

6. DEFERRED MEMBERSHIP REVENUE

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

	2018	2017
Deferred membership revenue, beginning of year	\$ 11,842	\$ 13,839
Membership fees received in the year	18,978	16,802
Less: amount recognized as revenue in the year	<u>(17,396)</u>	<u>(18,799)</u>
Deferred membership revenue, end of year	<u>\$ 13,424</u>	<u>\$ 11,842</u>

**THE INTERNATIONAL ASSOCIATION FOR
RESEARCH IN INCOME AND WEALTH**

NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

7. WILEY PUBLISHING LIMITED ROYALTIES

Wiley Publishing Limited provides a royalty to IARIW representing 63% of the profit generated from the Review of Income and Wealth.

8. RELATED PARTIES

The Centre for the Study of Living Standards (CSLS) was contracted to provide secretariat services at a cost of \$127,500 plus HST services taxes in 2018 (December 31, 2018 - \$125,000 plus taxes). These transactions were carried out in the normal course of operations and represent fair value of the amounts exchanged. CSLS and IARIW are related parties since they have the same senior management, enabling CSLS to exercise significant influence over IARIW's operations. There are management contract commitments with CSLS for \$130,000 USD for 2019.

During the fiscal year, payments totaling \$18,000 EUR were paid to a member of the board for editorial reviews performed. These amounts were recorded in the financial statements at the exchange amount. Of this amount, \$7,500 EUR was recorded as an accrued liability as of year end.

9. INVESTMENT POLICY

IARIW has set an asset allocation for their investment portfolio as follows: 25-50% equities and 50-75% fixed income. This allocation is at the discretion of the investment manager based on market values. At December 31, 2018 the actual equity/fixed investment ratio was 31/69. The investment portfolio is re-balanced at the beginning of each year to the target ratio.

10. FINANCIAL RISK MANAGEMENT POLICY

IARIW is exposed to various risks through its financial instruments. The following analysis provides a measure of the risks at December 31, 2018:

a) Credit risk

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

**THE INTERNATIONAL ASSOCIATION FOR
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NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

10. FINANCIAL RISK MANAGEMENT POLICY (Continued)

b) Currency risk

The Association's functional currency is the US dollar. The Association enters into foreign currency transactions and holds bonds and money market mutual funds in Canadian currency. However, the impact of currency risk is mitigated by holding bank accounts in both Canadian and US currency; IARIW does not use foreign exchange forward contracts.

c) Liquidity risk

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

d) Interest rate risk

The Association is exposed to interest rate risk with regard to its cash and equivalents and investments. The Association also has an interest-bearing overdraft with the broker. Fluctuations in market rates of interest on cash do not have a significant impact on the Association's results of operations. The interest rate on the margin account with the broker is nominal and hence does not expose IARIW to significant interest rate risk.

11. COMMITMENTS

The Association entered into a contract with the Centre for the Study of Living Standards for secretariat services effective on January 1, 2015 through to December 31, 2019. An updated contract has been signed to extend this agreement to December 31, 2024.

The value of the contract for each calendar year is as follows:

2019	\$130,000 USD
2020	\$132,600 USD
2021	\$135,252 USD
2022	\$137,957 USD
2023	\$140,716 USD
2024	\$143,531 USD

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NOTES TO AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

11. COMMITMENTS (continued)

The Association has entered into two editorial contracts and have agreed to distribute the following allowances to each individual or institution:

Prasada Rao

August 1, 2018 - July 31, 2019	18,000 EUR
August 1, 2019 - July 31, 2024	20,000 EUR per year

Conchita D'Ambrosio

August 1, 2018 - July 31, 2019	18,000 EUR
August 1, 2019 - July 31, 2024	20,000 EUR per year

The Association has also entered into a contract with the University of Luxembourg for hosting the editorial office. Payments as a result of this contract are as follows:

August 1, 2018 - July 31, 2019	14,000 EUR
August 1, 2019 - July 31, 2024	15,500 EUR per year

12. PRIOR PERIOD ADJUSTMENT

It was noted that an accrual for the University of Luxembourg Editorial contract was not recorded for August 2017 to December 2017 in the prior fiscal year, so an adjustment was recorded to recognize this in the 2017 fiscal year. As a result of this adjustment, accounts payable and expenses in the prior year both increased by \$6,999 and net assets decreased by the same amount.