AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT

December 31, 2011 and 2010

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C O N T E N T S

BOLLAM, SHEEDY, TORANI & CO. LLP
Certified Public Accountants
Albany, New York

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
American Institute for Economic
Research and Subsidiary
Great Barrington, Massachusetts

We have audited the accompanying consolidated statements of financial position of the American Institute for Economic Research and Subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of American Institute for Economic Research's and Subsidiary's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the American Institute for Economic Research and Subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bollam Sheedy Torani & Co LLP

Albany, New York
March 20, 2012

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Year Ended December 31, 2011		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 2,860,618	$ -	$ 2,860,618
Investments	6,468,273	-	6,468,273
Accounts receivable	454,917	-	454,917
Inventory	65,661	-	65,661
Prepaid expenses	55,773	-	55,773
Total current assets	9,905,242	-	9,905,242
PROPERTY AND EQUIPMENT, net	3,066,499	-	3,066,499
INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS	-	144,198,248	144,198,248
TOTAL ASSETS	**$ 12,971,741**	**$ 144,198,248**	**$ 157,169,989**
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 84,008	$ -	$ 84,008
Investment advisory fee payable	-	99,365	99,365
Distributions payable	-	1,515,056	1,515,056
Accrued salaries and paid leave	256,275	-	256,275
Accrued and withheld payroll taxes	1,460	-	1,460
Accrued income tax	54,445	-	54,445
Unearned subscription income	221,554	-	221,554
Total current liabilities	617,742	1,614,421	2,232,163
LONG-TERM LIABILITIES			
Liabilities under split-interest agreements	-	82,310,996	82,310,996
Unearned subscription income	50,559	-	50,559
	50,559	82,310,996	82,361,555
COMMITMENTS AND CONTINGENCIES			
NET ASSETS			
Unrestricted			
Undesignated	5,825,560	-	5,825,560
Designated			
Board designated	3,428,600	-	3,428,600
Investment in property and equipment	3,049,280	-	3,049,280
Total designated	6,477,880	-	6,477,880
Temporarily restricted			
Assets held under split-interest agreements	-	60,272,831	60,272,831
	12,303,440	60,272,831	72,576,271
TOTAL LIABILITIES AND NET ASSETS	**$ 12,971,741**	**$ 144,198,248**	**$ 157,169,989**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

	Year Ended December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 1,747,658	$ -	$ 1,747,658
Investments	8,540,926	-	8,540,926
Accounts receivable	381,055	-	381,055
Inventory	104,969	-	104,969
Prepaid expenses	50,500	-	50,500
Total current assets	10,825,108	-	10,825,108
PROPERTY AND EQUIPMENT, net	3,182,415	-	3,182,415
INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS	-	141,363,571	141,363,571
TOTAL ASSETS	**$ 14,007,523**	**$ 141,363,571**	**$ 155,371,094**
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 131,586	$ -	$ 131,586
Investment advisory fee payable	-	96,320	96,320
Distributions payable	-	1,123,183	1,123,183
Accrued salaries and paid leave	261,706	-	261,706
Accrued and withheld payroll taxes	-	-	-
Accrued income tax	49,642	-	49,642
Unearned subscription income	242,483	-	242,483
Total current liabilities	685,417	1,219,503	1,904,920
LONG-TERM LIABILITIES			
Liabilities under split-interest agreements	-	82,104,945	82,104,945
Unearned subscription income	145,685	-	145,685
	145,685	82,104,945	82,250,630
COMMITMENTS AND CONTINGENCIES			
NET ASSETS			
Unrestricted			
Undesignated	7,065,664	-	7,065,664
Designated			
Board designated	2,929,810	-	2,929,810
Investment in property and equipment	3,180,947	-	3,180,947
Total designated	6,110,757	-	6,110,757
Temporarily restricted			
Assets held under split-interest agreements	-	58,039,123	58,039,123
	13,176,421	58,039,123	71,215,544
TOTAL LIABILITIES AND NET ASSETS	**$ 14,007,523**	**$ 141,363,571**	**$ 155,371,094**

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
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CONSOLIDATED STATEMENTS OF ACTIVITIES
AND CHANGE IN NET ASSETS

	Year Ended December 31, 2011		
	Unrestricted	**Temporarily Restricted**	**Total**
REVENUE, GAINS, AND OTHER SUPPORT			
Operating revenue			
Subscription revenues	$ 475,663	-	$ 475,663
Sales of publications	67,164	-	67,164
Investment management fees	1,673,539	-	1,673,539
Other revenues	48,515	-	48,515
Total operating revenue	2,264,881	-	2,264,881
Bequests	164,815	-	164,815
Contributions	166,542	1,360,624	1,527,166
Interest and dividends	216,079	-	216,079
Realized gains on investment transactions, net	686,609	-	686,609
Unrealized losses on investments	(546,457)	-	(546,457)
Change in value of split-interest agreements	-	2,003,272	2,003,272
Net assets released from restrictions	1,130,188	(1,130,188)	-
Total revenue, gains, and other support	4,082,657	2,233,708	6,316,365
EXPENSES			
Research and publications	2,501,473	-	2,501,473
Fellowship program	333,091	-	333,091
Conferences	93,109	-	93,109
Investment management expenses	1,477,744	-	1,477,744
Fundraising	122,560	-	122,560
Management and general	427,661	-	427,661
Total expenses	4,955,638	-	4,955,638
CHANGE IN NET ASSETS	**(872,981)**	**2,233,708**	**1,360,727**
NET ASSETS, beginning of year	13,176,421	58,039,123	71,215,544
NET ASSETS, end of year	**$ 12,303,440**	**$ 60,272,831**	**$ 72,576,271**

	Year Ended December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT			
Operating revenue			
Subscription revenues	$ 593,757	$ -	$ 593,757
Sales of publications	308,857	-	308,857
Investment management fees	1,409,051	-	1,409,051
Other revenues	51,543	-	51,543
Total operating revenue	2,363,208	-	2,363,208
Bequests	351,620	-	351,620
Contributions	95,828	131,767	227,595
Interest and dividends	253,072	-	253,072
Realized gains on investment transactions, net	444,900	-	444,900
Unrealized gains on investments	505,456	-	505,456
Change in value of split-interest agreements	-	3,448,362	3,448,362
Net assets released from restrictions	2,187,833	(2,187,833)	-
Total revenue, gains, and other support	6,201,917	1,392,296	7,594,213
EXPENSES			
Research and publications	3,104,654	-	3,104,654
Fellowship program	316,479	-	316,479
Conferences	90,199	-	90,199
Investment management expenses	1,280,818	-	1,280,818
Fundraising	76,961	-	76,961
Management and general	419,393	-	419,393
Total expenses	5,288,504	-	5,288,504
CHANGE IN NET ASSETS	**913,413**	**1,392,296**	**2,305,709**
NET ASSETS, beginning of year	12,263,008	56,646,827	68,909,835
NET ASSETS, end of year	**$ 13,176,421**	**$ 58,039,123**	**$ 71,215,544**

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2011	2010
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	$ 1,360,727	$ 2,305,709
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	205,922	214,047
Reinvested earnings	(1,223)	(9,250)
Realized gains on investments transactions	(686,609)	(444,900)
Net unrealized (gains) losses on investments	546,457	(505,456)
Change in investments held under split-interest agreements	(2,399,677)	(13,426,657)
Change in liability under split-interest agreements	(228,949)	12,012,010
(Increase) decrease in		
Accounts receivable	(73,862)	(25,182)
Inventory	39,308	(1,580)
Prepaid expenses	(5,273)	10,127
Increase (decrease) in		
Accounts payable	(47,578)	(24,938)
Investment advisory fee payable	3,045	9,170
Distributions payable	391,873	13,181
Accrued salaries and paid leave	(5,431)	90,399
Accrued and withheld payroll and income tax	6,263	48,342
Unearned subscription income	(116,055)	(118,591)
	(1,011,062)	**146,431**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of investments	(1,393,993)	(6,060,331)
Proceeds from investment transactions	3,608,019	5,428,927
Purchases of property and equipment	(90,007)	(9,488)
	2,124,019	**(640,892)**
Net increase (decrease) in cash and cash equivalents	**1,112,957**	**(494,461)**
CASH AND CASH EQUIVALENTS, beginning of year	1,747,658	2,242,119
CASH AND CASH EQUIVALENTS, end of year	**$ 2,860,615**	**$ 1,747,658**

	2011	2010
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for		
Income taxes	$ 104,365	$ 50,836

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Business Organization

American Institute for Economic Research, Inc. (AIER) began operations during December 1933 and was incorporated on May 15, 1939, under the provisions of Chapter 180 of the General Laws of Massachusetts as an organization operated for charitable, scientific, and educational purposes.

During October 1978, American Investment Services, Inc. (AIS) was incorporated under the General Laws of Delaware. AIER is the sole stockholder of AIS. AIS began operations as an investment advisor in February 1979, when the SEC approved AIS's registration.

AIER is trustee of two pooled income funds: RLI Stock Fund I and RLI Stock Fund II. The pooled income funds are subject to split-interest agreements with donors. The charitable remainders become available to AIER upon expiration of the income beneficiaries' interests. When assets are contributed to the pooled income funds, the beneficiaries are assigned units of participation in the funds. These units are used to determine each beneficiary's share of distributable net income and to value the remainder interests when the beneficiary's income interest is expired. Capital gains are retained within the trust. All investment income, less associated expenses, is distributed to the income beneficiaries of the funds on a quarterly basis.

AIER is trustee and charitable remainderman of numerous charitable remainder unitrusts, each subject to a fixed rate payout obligation. One trust instrument has been approved by the Internal Revenue Service and the others follow the approved form in all material aspects. Upon expiration of each trust term, the balance of the trust assets is distributed to AIER as the charitable remainderman.

AIER and AIS are referred to collectively herein as the Organization.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

b. Functional Areas

The statements of activities and change in net assets include the revenues and expenses allocable to the major areas of program activities conducted by the Organization.

AIER

AIER researches topics of current and long-term interest in the field of economics. The results of the research activity are disseminated to the public in the periodic economic reports and occasional booklets in the areas of fiscal and monetary economics, reflecting detailed analyses of particular subjects with some emphasis on personal economic problems.

AIER conducts fellowship programs in economics. Summer Fellowships are awarded to college and university seniors who plan to enter a doctoral program in economics or an affiliated program and second year graduate students. Summer Fellows attend seminars, conduct independent research, and study during the summer sessions at AIER. Visiting Research Fellows conduct research in fields such as money, banking, and credit; public and personal finance; economic and monetary policy; economic methodology, and the role of individual freedom, private property, and free enterprise in economic progress.

AIER hosts periodic conferences on topics of current interest in the areas of fiscal and monetary economics. Leading scholars are invited to participate, and the results are published and disseminated to the public.

Management and general expense includes the functions necessary to provide coordination and articulation of AIER's program strategy, to secure proper administrative functioning for AIER, the costs associated with maintaining AIER's Planned Giving programs, and to manage the financial responsibilities of AIER.

Fundraising expense includes the structure necessary to encourage and secure private financial support (both unrestricted gifts and long-term split-interest gifts) from all sources.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

b. *Functional Areas* - Continued

AIS

AIS provides asset investment management and investment advisory services to individuals, trusts, endowments, 401(k) plans, pension plans, foundations, and nonprofit institutions based on AIER's research and publishes a monthly newsletter.

c. *Consolidated Financial Statements*

The financial statements include the accounts of AIER and its subsidiary, AIS. All significant intercompany transactions and accounts are eliminated. The accompanying consolidated financial statements reflect the terms of rental and shared cost agreements with respect to the use of facilities and certain services provided by AIER to AIS. Rent expense is based on the rental value for comparable space. Charges for shared personnel costs have been apportioned based upon time and materials. The total of both the shared cost agreement and personnel costs were $155,200 and $151,200 for the years ended December 31, 2011 and 2010, respectively.

d. *Basis of Accounting and Financial Statement Presentation*

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for not-for-profit entities.

e. *Use of Estimates*

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues, gains, other support, and expenses during the reporting period. Actual results could differ from those estimates.

f. *Fair Value Measurements*

The Organization reports certain assets and liabilities at fair value. Fair value is defined as an exchange price that would be received for an asset or paid to transfer a liability (an "exit" price) in the principal or most advantageous market for the asset or liability between market participants on the measurement date. See Note 11 for additional information.

g. *Cash Equivalents*

The Organization considers all certificates of deposit and money market accounts readily converted to cash to be cash equivalents. Money market accounts are held separately and reported with investments held under split-interest agreements.

h. *Investments*

AIER's marketable securities are carried at fair value as determined by quoted market prices. The net realized and unrealized gains (losses) on investments are reflected in the statements of activities and change in net assets. AIS classifies its investments as available-for-sale securities. Available-for-sale securities are valued at fair value as determined by quoted market prices, with net unrealized gains and losses, net of tax, included in other comprehensive income. The impact of this recognition has been eliminated in the consolidation process.

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of AIER to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. AIER determined that there were no other-than-temporary impairments as of December 31, 2011.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

i. Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Management determined that no allowance was necessary at both December 31, 2011 and 2010.

j. Inventory

Inventory consists of publications, paper, and envelopes unused in production and postage. Inventory is reported at lower of cost (first-in, first-out) or net realizable value.

k. Property and Equipment, Net

Property and equipment are reported at cost, net of accumulated depreciation. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. When property and equipment are retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation, and any resultant gain or loss is credited in the statements of activities and change in net assets.

Depreciation is provided for in amounts to relate the cost of depreciable assets to operations over their estimated useful lives on a straight-line basis. The estimated lives used in determining depreciation vary from five to thirty years.

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. There are no impairments of long-lived assets at December 31, 2011 and 2010.

l. Split-Interest Agreements

AIER records its interest in trusts at fair value of the related assets with a corresponding liability for the actuarially determined present value of payments to be made to designated beneficiaries. This liability is measured using discount rate and actuarial assumptions reflecting the terms of the agreement and the estimated time of receipt. The change in the value of split-interest agreements represents year-to-year changes in the actuarial life of beneficiaries, new gifts, remainders released from the trust funds, and changes in the value of assets held by the trust.

m. Accrued Paid Leave

Accrued paid leave is computed on the basis of each employee's earned but unused paid leave days, multiplied by the employee's current daily rate.

n. Unearned Subscription Income

Unearned income from subscriptions and fees is deferred and recognized over the subscription terms.

o. Revenue Recognition

The Organization recognizes revenue when amounts and timing are fixed or determinable, and collection is reasonably assured. Recognition criteria by revenue type is as follows:

- Revenue from unrestricted contributions is recognized when made;
- Revenue from donor-restricted contributions and related investment earnings are recognized when restrictions lapse;
- Revenue from the sales of books and publications is recognized when an order and corresponding payment is received, and
- Investment management fees relate to investment advisor fees to manage clients' funds and is recognized in the period in which it applies.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

p. Recognition of Donor Restrictions and Board Designated Net Assets

The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets are not subject to donor-imposed restrictions. Unrestricted net assets consist of undesignated funds, Board designated funds, investment in property and equipment, and equity interest in the subsidiary.

The Board of Trustees unanimously approved the following Board Designations on Unrestricted Net Assets:

- A $500,000 reserve as of December 31, 2011 and 2010, for legal defense beyond insured coverage, other unforeseen events, or affirmative legal actions. Drawing on this reserve requires Board approval.

- A reserve equal to the amount required to balance the Board-approved operating budget. This reserve was $2,928,600 and $2,429,810 as of December 31, 2011 and 2010, respectively.

- A reserve of $3,049,280 and $3,180,947 as of December 31, 2011 and 2010, respectively, for investment of property and equipment.

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met by the passage of time. They include the net assets under the two RLI Stock Funds (pooled income funds), the charitable remainder unitrusts, and bequests to be received in future years.

All donor-restricted support, and the related investment earnings, are reported as increases in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to undesignated funds.

q. Donated Assets and Services

Donated services and other noncash donations are recorded as contributions at their estimated fair values at the time of contribution.

r. Advertising

AIER conducts direct mail advertising. These expenses are recognized as incurred and were $44,789 and $458,996 for the years ended December 31, 2011 and 2010, respectively.

s. Tax Status

AIER is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes. AIER has been classified as a publicly-supported organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

AIER files a Form 990 annually with the Internal Revenue Service. When annual returns are filed, some tax positions taken are highly certain to be sustained upon examination by the taxing authorities, while other tax positions are subject to uncertainty about the technical merits of the position or amount of the position’s tax benefit that would ultimately be sustained. Management evaluated AIER’s tax positions, including interest and penalties attributable thereto, and concluded that AIER had no tax positions that required adjustment in its financial statements as of December 31, 2011 and 2010.

Forms 990 filed by AIER are subject to examination by the Internal Revenue Service. AIER is no longer subject to examination for the years ended 2007 and prior.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

s. *Tax Status* - Continued

AIS is a taxable corporation.

AIS records income taxes using the asset and liability method whereby deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities.

When income tax returns are filed, some tax positions taken are highly certain to be sustained upon examination by the taxing authorities, while other tax positions are subject to uncertainty about the technical merits of the position or the amount of the position's tax benefit that would be ultimately sustained. The portion of the benefits associated with tax positions taken that exceeds the amount measured as previously described is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets and includes, where applicable, accrued interest and/or penalties attributable to the unrecognized tax benefits.

AIS presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that AIS has taken no tax positions that require adjustment in its consolidated financial statements as of December 31, 2011 and 2010.

AIS's tax returns are subject to examination by taxing authorities. AIS is no longer subject to tax examination for the years ended December 31, 2008, and prior.

t. *Allocation of Expenses*

Direct expenses are charged directly to the related research or education program. Direct expenses that relate to more than one program are allocated between and charged to the appropriate programs using specific allocation methods. Expenses that are not directly identifiable with a specific program, but provide for the overall support and direction of the Organization, are charged to management and general expenses.

u. *Subsequent Events*

The Organization has evaluated subsequent events that provide additional evidence about conditions that existed at the financial statement date through March 20, 2012, the date the consolidated financial statements were available to be issued.

NOTE 2 - INVESTMENTS

The Organization reports investments in marketable equity and fixed income securities at market value. Both realized and unrealized gains and losses are included in the statements of activities and change in net assets.

A summary of the Organization's investments is as follows:

	December 31, 2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 4,294,634	$ 657,179	$ 76,557	$ 4,875,256
Fixed income securities	1,551,928	41,089	-	1,593,017
	$ 5,846,562	$ 698,268	$ 76,557	$ 6,468,273

NOTE 2 - INVESTMENTS - Continued

	December 31, 2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 5,338,204	$ 1,127,505	$ 94	$ 6,465,615
Fixed income securities	2,034,554	41,162	405	2,075,311
	$ 7,372,758	$ 1,168,667	$ 499	$ 8,540,926

For the years ended December 31, 2011 and 2010, the investments earned interest and dividends of $216,079 and $253,072, respectively.

NOTE 3 - PROPERTY AND EQUIPMENT, NET

A summary of property and equipment, net, is as follows:

	December 31,	
	2011	2010
Land	$ 13,946	$ 13,946
Buildings and improvements	4,381,415	4,316,364
Driveway and sewer	247,799	247,799
Equipment	729,865	722,025
Vehicles	44,454	44,689
	5,417,479	5,344,823
Less accumulated depreciation	2,350,980	2,162,408
Property and equipment, net	$ 3,066,499	$ 3,182,415

NOTE 4 - SPLIT-INTEREST AGREEMENTS

Investments Held Under Split-Interest Agreements

A summary of investments held under split-interest agreements is as follows:

	December 31, 2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 3,190,114	$ -	$ -	$ 3,190,114
Equity securities	86,610,903	21,108,065	2,025,343	105,693,625
Fixed income securities	34,307,161	941,007	121,606	35,126,562
Accrued interest	187,947	-	-	187,947
	$ 124,296,125	$ 22,049,072	$ 2,146,949	$ 144,198,248

NOTE 4 - SPLIT-INTEREST AGREEMENTS

Investments Held Under Split-Interest Agreements - Continued

	December 31, 2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 2,124,138	$ -	$ -	$ 2,124,138
Equity securities	83,390,191	23,728,073	1,754,014	105,364,250
Fixed income securities	32,726,903	1,026,330	70,114	33,683,119
Accrued interest	192,064	-	-	192,064
	$ 118,433,296	$ 24,754,403	$ 1,824,128	$ 141,363,571

Liabilities Under Split-Interest Agreements

The obligations as trustee for each pooled income fund and charitable remainder trust are reported herein as liabilities under split-interest agreements. The obligations are estimated at the time of the agreements (pooled income or unitrust) based on the average life expectancies of the beneficiaries and the expected rate of return on invested assets. Any excess amount of the gift over the estimated liability is recorded as a temporarily restricted net asset. The obligations are subject to adjustments and reflect amortization of any discount, reevaluation of the present value of estimated future payments, and any change in actuarial assumptions. Such adjustments, if any, are recorded in the statement of activities as a change in value of split-interest agreements. The assumptions used in computing the liabilities under split-interest agreements include discount rates and life expectancies based on published single and multiple life expectancy tables.

NOTE 5 - LINE-OF-CREDIT

AIS has available a $250,000 working line-of-credit. Borrowing under the line-of-credit are payable on demand and are secured by all assets of AIS. Borrowings under the line-of-credit bear interest at the prime rate (3.25% at both December 31, 2011 and 2010). No amounts were outstanding under the line-of-credit at December 31, 2011 and 2010. The line-of-credit is subject to an annual renewal by the bank.

NOTE 6 - NET ASSETS AND STOCKHOLDER'S EQUITY

A summary of the net assets and stockholder's equity for AIER and AIS is as follows:

	December 31, 2011			
	AIER	AIS	Eliminating Entries	Consolidated Total
Common stock, no par value, 1,000 shares authorized, 400 shares issued and outstanding	$ -	$ 355,154	$ (355,154)	$ -
Retained earnings	-	286,945	(286,945)	-
Accumulated comprehensive income	-	4,512	(4,512)	-
Net assets, unrestricted	11,656,826	-	646,611	12,303,437
Net assets, temporarily restricted	60,272,831	-	-	60,272,831
	$ 71,929,657	$ 646,611	$ -	$ 72,576,268

NOTE 6 - NET ASSETS AND STOCKHOLDER'S EQUITY

	December 31, 2010			
	AIER	AIS	Eliminating Entries	Consolidated Total
Common stock, no par value, 1,000 shares authorized, 400 shares issued and outstanding	$ -	$ 355,154	$ (355,154)	$ -
Retained earnings	-	222,762	(222,762)	-
Accumulated comprehensive income	-	5,108	(5,108)	-
Net assets, unrestricted	12,593,397	-	583,024	13,176,421
Net assets, temporarily restricted	58,039,123	-	-	58,039,123
	$ 70,632,520	$ 583,024	$ -	$ 71,215,544

NOTE 7 - CHANGE IN VALUE OF SPLIT-INTEREST AGREEMENTS

A summary of the components of the change in value of split-interest agreements is as follows:

	Years Ended December 31,	
	2011	2010
Investment income	$ 4,641,494	$ 4,114,332
Realized gain on investment transactions	5,105,324	1,181,850
Unrealized gain (loss) on investments	(3,028,153)	14,502,839
Change in liabilities under split-interest agreements	228,949	(12,012,010)
Distributions to beneficiaries	(4,524,493)	(3,949,666)
Investment advisory fee	(390,269)	(361,902)
Other	(29,580)	(27,081)
	$ 2,003,272	$ 3,448,362

NOTE 8 - DEFINED CONTRIBUTION PLAN

The Organization offers a defined contribution plan that includes a discretionary contribution equal to a percentage of each eligible employee's compensation. For the years ended December 31, 2011 and 2010, the Organization's contributions were $85,393 and $91,531, respectively.

NOTE 9 - INCOME TAXES

Components of income tax expense included herein as an expense of AIS, consist of the following:

	Years Ended December 31,	
	2011	2010
Current		
Federal	$ 77,510	$ 41,392
State	26,855	9,444
	$ 104,365	$ 50,836

NOTE 10 - COMMITMENTS AND CONTINGENCIES

a. Concentrations of Credit Risk - Cash

The Organization maintains cash balances at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, the Organization has bank deposits in excess of amounts insured by the FDIC.

b. Risks and Uncertainties

AIER has investments in a combination of mutual funds, corporate stocks, government and corporate bonds, and other fixed income securities. Marketable securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain marketable securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the net assets of AIER.

c. Sponsorship Agreement

During November 2008, AIER signed a non-binding Memorandum of Understanding whereby AIER agreed to sponsor the Econ Journal Watch. AIER paid $25,000 during both 2011 and 2010. AIER terminated its sponsorship of Econ Journal Watch during 2011.

d. Employment Contracts

AIER has entered into a long-term employment contract with an employee. The future payments required by the agreement are $85,600 for the year ending December 31, 2012.

e. Remainderman Dispute

AIER settled a dispute in 2011 resulting in AIER being designated trustee and remainderman on two additional charitable remainder unitrusts. AIER has recognized an asset of $435,002 and the related liability of $417,982 related to these trusts.

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP provides a framework for measuring fair value. The framework includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The following three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted market prices and can include active markets and markets not considered to be active.

Level 3 Unobservable inputs that are supported by little or no market activity.

Fair value measurement level within fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Corporate Bonds: Valued at third-party evaluated appraised prices that maximize observable quantitative and qualitative inputs currently available on comparable securities with similar features (type of issuer, credit rating, coupon, maturity, etc.) and apply yield level that reflects comparable credit and liquidity risks.

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Equity Securities and U.S. Government Obligations: Valued at the closing price reported on the active market on which the individual security is traded.

Investment in Real Estate Limited Partnership: Fair value is the sum of the estimated fair value of each property in the portfolio plus the undistributed proceeds and cash reserves, if any.

Liabilities Under Split-Interest Agreements: Fair value is equivalent to the present value of the future payments to be made and any changes in actuarial assumptions.

A summary of assets and liabilities measured at fair value on a recurring basis is as follows:

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Fixed income securities				
U.S. government bonds	$ 1,825,747	$ -	$ -	$ 1,825,747
Equity securities				
Real estate investment trusts	707,600	-	-	707,600
U.S. companies	3,187,972	-	-	3,187,972
Non-U.S. companies	471,835	-	-	471,835
Gold related stocks	275,119	-	-	275,119
Investments held under split-interest agreements				
Cash	3,190,114	-	-	3,190,114
Fixed income securities				.
Corporate bonds	-	13,333,152	-	13,333,152
U.S. government bonds	21,506,048	-	-	21,506,048
Foreign government bonds	287,362	-	-	287,362
Equity securities				
Real estate investment trusts	15,371,854			15,371,854
U.S. companies	64,446,733			64,446,733
Non-U.S. companies	6,904,475	-	-	6,904,475
Gold related stocks	10,982,173	-	-	10,982,173
Global funds	7,947,052			7,947,052
Limited Partnership	-	-	41,338	41,338
Other	187,947	-	-	187,947
	$ 137,292,031	$ 13,333,152	$ 41,338	$ 150,666,521
Liabilities				
Liabilities under split-interest agreements	$ -	$ 82,310,996	$ -	$ 82,310,996

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Fixed income securities				
U.S. government bonds	$ 2,075,311	$ -	$ -	$ 2,075,311
Equity securities				
Real estate investment trusts	575,848	-	-	575,848
U.S. companies	4,866,525	-	-	4,866,525
Non-U.S. companies	210,012	-	-	210,012
Gold related stocks	716,051	-	-	716,051
Global funds	97,179	-	-	97,179
Investments held under split-interest agreements				
Cash	2,124,138	-	-	2,124,138
Fixed income securities				.
Corporate bonds	-	9,310,024	-	9,310,024
U.S. government bonds	24,373,095	-	-	24,373,095
Equity securities				
Real estate investment trusts	16,325,361	-	-	16,325,361
U.S. companies	59,980,159	-	-	59,980,159
Non-U.S. companies	7,760,265	-	-	7,760,265
Gold related stocks	12,298,227	-	-	12,298,227
Global funds	9,000,238	-	-	9,000,238
Other	192,064	-	-	192,064
	$ 140,594,473	$ 9,310,024	$ -	$ 149,904,497
Liabilities				
Liabilities under split-interest agreements	$ -	$ 82,104,945	$ -	$ 82,104,945

The following is a reconciliation of the fair value of all assets measured using unobservable (Level 3) inputs:

	December 31,	
	2011	2010
Beginning balance	$ -	$ -
Purchases, sales, contributions	41,338	-
Unrealized gain (loss)	-	-
Realized gains (losses)	-	-
Transfers in (out)	-	-
Ending balance	$ 41,338	$ -

NOTE 12 - ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

In June 2011, the Financial Accounting Standards Board (FASB) issues Accounting Standards Update (ASU) 2011-05, *Comprehensive Income - Presentation of Comprehensive Income.* ASU 2011-05 requires all non-owner changes in equity be presented in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for AIS for the year ending December 31, 2013. Management has not estimated the extent of potential impact of this Standard on the financial statements.