AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT

December 31, 2012 and 2011

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT

December 31, 2012 and 2011

C O N T E N T S

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated statements of financial position of American Institute for Economic Research and Subsidiary as of December 31, 2012 and 2011, the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Institute for Economic Research and Subsidiary as of December 31, 2012 and 2011, and the changes in their net assets 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 19, 2013

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2012		
	Unrestricted	**Temporarily Restricted**	**Total**
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 3,098,910	$ -	$ 3,098,910
Investments	18,299,863	-	18,299,863
Accounts receivable	501,667	-	501,667
Inventory	4,230	-	4,230
Prepaid expenses	59,524	-	59,524
Total current assets	21,964,194	-	21,964,194
PROPERTY AND EQUIPMENT, net	2,897,480	-	2,897,480
INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS	-	138,926,872	138,926,872
TOTAL ASSETS	**$ 24,861,674**	**$ 138,926,872**	**$ 163,788,546**
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 128,083	$ -	$ 128,083
Investment advisory fee payable	-	93,680	93,680
Distribution payable	-	1,765,642	1,765,642
Accrued salaries and paid leave	300,283	-	300,283
Accrued and withheld payroll taxes	1,480	-	1,480
Accrued income tax	59,877	-	59,877
Unearned subscription income	69,906	-	69,906
Total current liabilities	559,629	1,859,322	2,418,951
LONG-TERM LIABILITIES			
Liabilities under split-interest agreements	9,877	82,441,946	82,451,823
Unearned subscription income	13,000	-	13,000
	22,877	82,441,946	82,464,823
COMMITMENTS AND CONTINGENCIES			
NET ASSETS			
Unrestricted			
Undesignated	17,235,294	-	17,235,294
Designated			
Board designated	4,159,190	-	4,159,190
Investment in property and equipment	2,884,684	-	2,884,684
Total designated	7,043,874	-	7,043,874
Temporarily restricted			
Assets held under split-interest agreements	-	54,625,604	54,625,604
	24,279,168	54,625,604	78,904,772
TOTAL LIABILITIES AND NET ASSETS	**$ 24,861,674**	**$ 138,926,872**	**$ 163,788,546**

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

	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
Distribution 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**

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
AND CHANGE IN NET ASSETS

	Year Ended December 31, 2012		
	Unrestricted	**Temporarily Restricted**	**Total**
REVENUE, GAINS, AND OTHER SUPPORT			
Operating revenue			
Subscription revenues	$ 307,915	-	$ 307,915
Sales of publications	49,073	-	49,073
Investment management fees	1,846,052	-	1,846,052
Other revenues	45,438	-	45,438
Total operating revenue	2,248,478	-	2,248,478
Bequests	18,054		18,054
Contributions	285,066	566,459	851,525
Interest and dividends	366,752	-	366,752
Realized gains on investment transactions, net	72,648	-	72,648
Unrealized gain on investments	715,771	-	715,771
Change in value of split-interest agreements	-	7,594,520	7,594,520
Net assets released from restrictions to Center for the Study of Economics	-	(119,516)	(119,516)
Net assets released from restrictions	13,688,690	(13,688,690)	-
Total revenue, gains, and other support	17,395,459	(5,647,227)	11,748,232
EXPENSES AND LOSSES			
Research and publications	2,489,401	-	2,489,401
Fellowship program	352,470	-	352,470
Conferences	89,658	-	89,658
Investment management	1,438,673	-	1,438,673
Subsidiary tax expense	140,518		140,518
Fundraising	299,941	-	299,941
Management and general	609,070	-	609,070
Total expenses and losses	5,419,731	-	5,419,731
CHANGE IN NET ASSETS	**11,975,728**	**(5,647,227)**	**6,328,501**
NET ASSETS, beginning of year	12,303,440	60,272,831	72,576,271
NET ASSETS, end of year	**$ 24,279,168**	**$ 54,625,604**	**$ 78,904,772**

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

	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 loss on investments	(546,457)	-	(546,457)
Change in value of split-interest agreements	-	2,003,272	2,003,272
Net assets released from restrictions to Center for the Study of Economics	-	-	-
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 AND LOSSES			
Research and publications	2,501,473	-	2,501,473
Fellowship program	333,091	-	333,091
Conferences	93,109	-	93,109
Investment management	1,371,852	-	1,371,852
Subsidiary tax expense	105,892		105,892
Fundraising	122,560	-	122,560
Management and general	427,661	-	427,661
Total expenses and losses	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**

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2012	Years Ended December 31, 2011
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	$ 6,328,501	$ 1,360,727
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	196,878	205,922
Inventory write-off	47,264	-
Donated securities	(31,102)	-
Reinvested earnings	-	(1,223)
Realized gains on investments transactions	(72,648)	(686,609)
Net unrealized gains (losses) on investments	(715,771)	546,457
Change in the net split-interest agreements	5,271,376	(2,399,677)
Change in liability under split-interest agreements	140,827	(228,949)
(Increase) decrease in		
Accounts receivable	(46,750)	(73,861)
Inventory	14,167	39,308
Prepaid expenses	(3,751)	(5,274)
Increase (decrease) in		
Accounts payable	44,075	(47,575)
Investment advisory fee payable	(5,685)	3,045
Distributions payable	250,586	391,873
Accrued salaries and paid leave	44,008	(5,431)
Accrued and withheld payroll and income tax	5,452	6,263
Unearned subscription income	(189,207)	(116,055)
	11,278,220	**(1,011,059)**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of investments	(11,422,033)	(1,393,993)
Proceeds from investment transactions	409,966	3,608,019
Purchases of property and equipment	(27,861)	(90,007)
	(11,039,928)	**2,124,019**
Net increase in cash and cash equivalents	**238,292**	**1,112,960**
CASH AND CASH EQUIVALENTS, beginning of year	2,860,618	1,747,658
CASH AND CASH EQUIVALENTS, end of year	**$ 3,098,910**	**$ 2,860,618**
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for		
Income taxes	$ 140,518	$ 104,365

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 early 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 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.

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

b. Functional Areas - Continued

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.

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 totals of both the shared cost agreement and personnel costs were $175,200 and $155,200 for the years ended December 31, 2012 and 2011, 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 (U.S. 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.

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

h. Investments - Continued

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, 2012 and 2011.

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, 2012 and 2011.

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. AIER wrote-off $47,264 of inventory at December 31, 2012.

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, 2012 and 2011.

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.

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

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 is received, and
- Investment management fees and investment advisor fees to manage clients' funds, are recognized in the period in which they apply.

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, 2012 and 2011, 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 $3,659,190 and $2,928,600 as of December 31, 2012 and 2011, respectively.

- A reserve of $2,884,684 and $3,049,280 as of December 31, 2012 and 2011, 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 unrestricted net assets.

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 records advertising costs as expenses when they are incurred. Advertising expense was $17,931 and $44,789 for the years ended December 31, 2012 and 2011, 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.

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

s. Tax Status - Continued

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, 2012 and 2011.

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 2009 and prior.

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.

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 statements of financial position 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, 2012 and 2011.

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, 2009, 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 19, 2013 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, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 13,745,272	$ 1,301,973	$ 649	$ 15,046,596
Fixed income securities	3,217,108	42,654	6,495	3,253,267
	$ 16,962,380	$ 1,344,627	$ 7,144	$ 18,299,863

	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

For the years ended December 31, 2012 and 2011, the investments earned interest and dividends of $366,752 and $216,079, respectively.

NOTE 3 - PROPERTY AND EQUIPMENT, NET

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

	December 31,	
	2012	2011
Land	$ 13,946	$ 13,946
Buildings and improvements	4,409,275	4,381,415
Driveway and sewer	247,798	247,799
Equipment	717,340	729,865
Vehicles	44,454	44,454
	5,432,813	5,417,479
Less accumulated depreciation	2,535,333	2,350,980
Property and equipment, net	$ 2,897,480	$ 3,066,499

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, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 2,527,926	$ -	$ -	$ 2,527,926
Equity securities	84,174,373	19,045,373	672,395	102,547,351
Fixed income securities	32,731,695	937,895	5,612	33,663,978
Accrued interest	187,617	-	-	187,617
	$ 119,621,611	$ 19,983,268	$ 678,007	$ 138,926,872

	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

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. Borrowings 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, 2012 and 2011). No amounts were outstanding under the line-of-credit at December 31, 2012 and 2011. 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, 2012			
	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	-	345,136	(345,136)	-
Accumulated comprehensive income	-	5,108	(5,108)	-
Net assets, unrestricted	23,573,770	-	705,398	24,279,168
Net assets, temporarily restricted	54,625,604	-	-	54,625,604
	$ 78,199,374	$ 705,398	$ -	$ 78,904,772

	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	11,656,829	-	646,611	12,303,440
Net assets, temporarily restricted	60,272,831	-	-	60,272,831
	$ 71,929,660	$ 646,611	$ -	$ 72,576,271

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,	
	2012	2011
Investment income	$ 4,984,268	$ 4,641,494
Realized gains on investment transactions	8,380,730	5,105,324
Unrealized losses on investments	(596,863)	(3,028,153)
Change in liabilities under split-interest agreements	(130,950)	228,949
Distributions to beneficiaries	(4,583,944)	(4,524,493)
Investment advisory fee	(393,038)	(390,269)
Other	(65,683)	(29,580)
	$ 7,594,520	$ 2,003,272

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, 2012 and 2011, the Organization's contributions were $95,924 and $85,393, respectively.

NOTE 9 - INCOME TAXES

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

	Years Ended December 31, 2012	Years Ended December 31, 2011
Current		
Federal	$ 105,647	$ 77,510
State	34,871	26,855
	$ 140,518	$ 104,365

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.

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. 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.

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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.

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, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Fixed income securities				
U.S. government bonds	$ 3,253,267	$ -	$ -	$ 3,253,267
Equity securities				
Real estate investment trusts	639,030	-	-	639,030
U.S. companies	11,105,740	-	-	11,105,740
Non-U.S. companies	2,070,614	-	-	2,070,614
Gold related stocks	1,231,212	-	-	1,231,212
Investments held under split-interest agreements				
Cash	2,527,926	-	-	2,527,926
Fixed income securities				.
Corporate bonds	-	9,685,702	-	9,685,702
U.S. government bonds	22,019,105	-	-	22,019,105
Foreign government bonds	280,989	-	-	280,989
Global funds	1,678,182	-	-	1,678,182
Equity securities				
Real estate investment trusts	14,334,114	-	-	14,334,114
U.S. companies	60,378,854	-	-	60,378,854
Non-U.S. companies	7,702,975	-	-	7,702,975
Gold related stocks	11,566,908	-	-	11,566,908
Global funds	8,525,301	-	-	8,525,301
Limited Partnership	-	-	39,199	39,199
Other	187,617	-	-	187,617
	$ 147,501,834	$ 9,685,702	$ 39,199	$ 157,226,735
Liabilities				
Liabilities under split-interest agreements	$ -	$ 82,441,946	$ -	$ 82,441,946

NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

	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

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

	December	
	2012	2011
Beginning Balance	$ 41,338	$ -
Purchases, Sales, Contributions	-	41,338
Unrealized losses	(609)	-
Transfers out	(1,530)	-
Ending Balance	$ 39,199	$ 41,338