American Institute for Economic Research and Subsidiary

Consolidated Financial Statements

December 31, 2017 and 2016

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December 31, 2017 and 2016

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Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the American Institute for Economic Research and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BST & CO. CPAs, LLP

Albany, New York
March 22, 2018

American Institute for Economic Research and Subsidiary

Consolidated Statements of Financial Position

	December 31, 2017		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 4,041,431	$ -	$ 4,041,431
Investments	24,629,431	-	24,629,431
Accounts receivable	768,611	-	768,611
Deferred income tax	7,581	-	7,581
Prepaid expenses	93,240	-	93,240
Total current assets	29,540,294	-	29,540,294
PROPERTY AND EQUIPMENT, net	2,678,477	-	2,678,477
INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS	-	168,378,604	168,378,604
TOTAL ASSETS	**$ 32,218,771**	**$ 168,378,604**	**$ 200,597,375**
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 186,720	$ -	$ 186,720
Investment advisory fee payable	-	103,853	103,853
Distributions payable	-	2,113,830	2,113,830
Accrued salaries and paid leave	506,492	-	506,492
Accrued income tax	4,889	-	4,889
Unearned subscription income	51,575	-	51,575
Total current liabilities	749,676	2,217,683	2,967,359
LONG-TERM LIABILITIES			
Liabilities under split-interest agreements	6,215	95,992,929	95,999,144
Unearned subscription income	11,761	-	11,761
Deferred income tax	1,079		1,079
	19,055	95,992,929	96,011,984
NET ASSETS			
Unrestricted			
Undesignated	25,081,347	-	25,081,347
Designated			
Board designated	3,693,937	-	3,693,937
Investment in property and equipment	2,674,756	-	2,674,756
Total designated	6,368,693	-	6,368,693
Temporarily restricted			
Assets held under split-interest agreements	-	70,167,992	70,167,992
	31,450,040	70,167,992	101,618,032
TOTAL LIABILITIES AND NET ASSETS	**$ 32,218,771**	**$ 168,378,604**	**$ 200,597,375**

See accompanying Notes to Consolidated Financial Statements.

	December 31, 2016		
	Unrestricted	Temporarily Restricted	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 3,919,836	$ -	$ 3,919,836
Investments	20,346,445	-	20,346,445
Accounts receivable	649,270	-	649,270
Bequests receivable	96,192	-	96,192
Deferred income tax	6,029	-	6,029
Prepaid expenses	110,164	-	110,164
Total current assets	25,127,936	-	25,127,936
PROPERTY AND EQUIPMENT, net	2,763,675	-	2,763,675
INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS	-	157,327,131	157,327,131
TOTAL ASSETS	**$ 27,891,611**	**$ 157,327,131**	**$ 185,218,742**
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 113,293	$ -	$ 113,293
Investment advisory fee payable	-	91,812	91,812
Distributions payable	-	1,585,893	1,585,893
Accrued salaries and paid leave	486,693	-	486,693
Accrued income tax	35,220	-	35,220
Unearned subscription income	49,666	-	49,666
Total current liabilities	684,872	1,677,705	2,362,577
LONG-TERM LIABILITIES			
Liabilities under split-interest agreements	6,628	90,289,707	90,296,335
Unearned subscription income	12,250	-	12,250
Deferred income tax	-	-	-
	18,878	90,289,707	90,308,585
NET ASSETS			
Unrestricted			
Undesignated	18,811,208	-	18,811,208
Designated			
Board designated	5,612,978	-	5,612,978
Investment in property and equipment	2,763,675	-	2,763,675
Total designated	8,376,653	-	8,376,653
Temporarily restricted			
Assets held under split-interest agreements	-	65,359,719	65,359,719
	27,187,861	65,359,719	92,547,580
TOTAL LIABILITIES AND NET ASSETS	**$ 27,891,611**	**$ 157,327,131**	**$ 185,218,742**

American Institute for Economic Research and Subsidiary

Consolidated Statements of Activities

	Year Ended December 31, 2017		
	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT			
Operating revenue			
Subscriptions	$ 76,505	$ -	$ 76,505
Contributions and memberships	302,755	641,250	944,005
Contributions in-kind	400,544	-	400,544
Publication sales	29,898	-	29,898
Investment management fees	2,776,562	-	2,776,562
Other	1,982	-	1,982
Total operating revenue	3,588,246	641,250	4,229,496
Bequests	988,980	-	988,980
Rental	17,475	-	17,475
Interest and dividends	662,612	-	662,612
Realized gain on investment transactions, net	2,199,241	-	2,199,241
Unrealized gain on investments, net	634,191	-	634,191
Change in value of split-interest agreements	-	7,232,669	7,232,669
Change in value of charitable gift annuities	(2,249)	-	(2,249)
Net assets released from restrictions	3,065,646	(3,065,646)	-
Total revenue, gains, and other support	11,154,142	4,808,273	15,962,415
EXPENSES AND LOSSES			
Research and publications	1,711,542	-	1,711,542
Academic programs	1,305,241	-	1,305,241
Investment management	2,118,872	-	2,118,872
Subsidiary tax expense	219,453	-	219,453
Fundraising	918,399	-	918,399
Management and general	618,456	-	618,456
Total expenses and losses	6,891,963	-	6,891,963
CHANGE IN NET ASSETS	**4,262,179**	**4,808,273**	**9,070,452**
NET ASSETS, ***beginning of year***	27,187,861	65,359,719	92,547,580
NET ASSETS, ***end of year***	**$ 31,450,040**	**$ 70,167,992**	**$ 101,618,032**

See accompanying Notes to Consolidated Financial Statements.

	Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS, AND OTHER SUPPORT			
Operating revenue			
Subscriptions	$ 81,683	$ -	$ 81,683
Contributions and memberships	239,075	209,128	448,203
Contributions in-kind	317,633	-	317,633
Publication sales	50,230	-	50,230
Investment management fees	2,450,501	-	2,450,501
Other	7,720	-	7,720
Total operating revenue	3,146,842	209,128	3,355,970
Bequests	194,189	-	194,189
Rental	34,881	-	34,881
Interest and dividends	491,952	-	491,952
Realized gain on investment transactions, net	1,858,445	-	1,858,445
Unrealized loss on investments, net	(234,913)	-	(234,913)
Change in value of split-interest agreements	-	7,871,690	7,871,690
Change in value of charitable gift annuities	(7,396)	-	(7,396)
Net assets released from restrictions	5,200,055	(5,200,055)	-
Total revenue, gains, and other support	10,684,055	2,880,763	13,564,818
EXPENSES AND LOSSES			
Research and publications	2,880,268	-	2,880,268
Academic programs	1,283,203	-	1,283,203
Investment management	1,789,445	-	1,789,445
Subsidiary tax expense	214,773	-	214,773
Fundraising	538,863	-	538,863
Management and general	450,051	-	450,051
Total expenses and losses	7,156,603	-	7,156,603
CHANGE IN NET ASSETS	**3,527,452**	**2,880,763**	**6,408,215**
NET ASSETS, *beginning of year*	23,660,409	62,478,956	86,139,365
NET ASSETS, *end of year*	**$ 27,187,861**	**$ 65,359,719**	**$ 92,547,580**

American Institute for Economic Research and Subsidiary

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2017	**2016**
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	$ 9,070,452	$ 6,408,215
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	183,565	216,299
Deferred income tax	(473)	(2,785)
Donated securities	(1,395)	(2,513)
Realized gain on investments transactions, net	(2,199,241)	(1,858,445)
Unrealized (gain) loss on investments, net	(634,191)	234,913
Change in investments held under split-interest agreements	(11,051,473)	(8,056,451)
Change in liabilities under split-interest agreements	5,702,809	4,909,833
(Increase) decrease in		
Accounts receivable	(119,341)	(67,649)
Bequests receivable	96,192	(96,192)
Prepaid expenses	16,924	5,032
Increase (decrease) in		
Accounts payable	73,427	21,707
Investment advisory fee payable	12,041	(9,998)
Distributions payable	527,937	280,588
Accrued salaries and paid leave	19,799	68,360
Accrued income tax	(30,331)	(11,449)
Unearned subscription income	1,420	(10,940)
	1,668,121	**2,028,525**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of investments	(17,040,761)	(9,542,444)
Proceeds from investment transactions	15,592,603	7,613,265
Purchases of property and equipment	(98,368)	(130,195)
	(1,546,526)	**(2,059,374)**
Net increase (decrease) in cash and cash equivalents	**121,595**	**(30,849)**
CASH AND CASH EQUIVALENTS, *beginning of year*	3,919,836	3,950,685
CASH AND CASH EQUIVALENTS, *end of year*	**$ 4,041,431**	**$ 3,919,836**
SUPPLEMENTAL CASH FLOWS INFORMATION		
Cash paid during the year for		
Income taxes	$ 250,257	$ 226,222

See accompanying Notes to Consolidated Financial Statements.

American Institute for Economic Research and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2017 and 2016

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 a SEC registered investment advisor in February 1979.

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.

b. Consolidated Financial Statements

The consolidated financial statements include the accounts of AIER and its subsidiary, AIS. All significant intercompany transactions and accounts are eliminated.

c. 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 through 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 issues.

AIER conducts education and fellowship programs in economics. Fellowships are awarded to graduate and college seniors majoring in economics, finance, business or related fields. 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.

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

c. Functional Areas - Continued

AIER - Continued

AIER hosts periodic conferences on topics of current interest in the areas of economics, finance, and business. 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 financial support (both unrestricted gifts and long-term split-interest gifts).

AIS

AIS provides investment advisory services to individuals, trusts, endowments, 401(k) plans, pension plans, foundations, and nonprofit institutions and publishes a monthly newsletter.

d. Basis of Accounting and Consolidated 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. Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 and losses 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 the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. See Note 12 for additional information.

g. Cash Equivalents

Management 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.

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

h. Investments

Marketable securities are carried at fair value. The net realized and unrealized gains (losses) on investments are reflected in the statements of activities and changes in net assets.

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, 2017 and 2016.

j. 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 consolidated 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. Depreciation expense was $183,565 and $216,299 for the years ended December 31, 2017 and 2016, respectively.

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 its fair value. There are no impairments of long-lived assets at December 31, 2017 and 2016.

k. Split-Interest Agreements

AIER records its interest in trusts at the 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 rates 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.

l. 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:

- Income from subscriptions is initially deferred and is recognized over the subscription terms;
- Revenue from unconditional contributions and memberships is recognized when made;

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

l. Revenue Recognition - Continued

- Revenue from conditional 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 the services are provided.

m. Recognition of Donor Restrictions and Board Designated Net Assets

All revenues are considered to be available for unrestricted use unless specifically restricted. 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. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

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 and investment in property and equipment.

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

- A $500,000 reserve as of December 31, 2017 and 2016, 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 $3,193,937 and $5,112,978 as of December 31, 2017 and 2016, respectively.
- A reserve of $2,674,756 and $2,763,675 as of December 31, 2017 and 2016, respectively, for investment in 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.

Permanently restricted net assets represent gifts, bequests received, and third-party trusts with the donor stipulation that the contribution must be maintained in perpetuity. There are no permanently restricted net assets.

n. Donated Assets and Services

Donated services and other noncash donations (in-kind) are recorded as contributions at their fair values at the time of contribution.

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

o. Advertising

AIER records advertising costs as expenses when they are incurred. Advertising expense was $444,198 and $332,491 for the years ended December 31, 2017 and 2016, respectively.

p. 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 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 tax positions taken and has determined that AIER has not taken any material uncertain tax positions at December 31, 2017 or 2016.

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 consolidated 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 evaluated tax positions taken and has determined that AIS has not taken any material uncertain tax positions at December 31, 2017 or 2016.

q. 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.

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

r. Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and are currently evaluating the effect that the standard will have on the financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of ASU 2015-17 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities (ASU 2016-14)*. ASU 2016-14 contains amendments that make improvements to the information provided in the financial statements and accompanying notes for not-for-profit entities. The amendments include improvements to net asset classification requirements and the information presented above a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of ASU 2016-14 on its consolidated financial statements.

s. Subsequent Events

The Organization has evaluated subsequent events for potential recognition or disclosure through March 22, 2018, the date the consolidated financial statements were available to be issued.

Note 2 - Investments

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

	December 31, 2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 17,800,590	$ 3,142,029	$ 16,297	$ 20,926,322
Fixed income securities	3,704,777	8,269	9,937	3,703,109
	$ 21,505,367	$ 3,150,298	$ 26,234	$ 24,629,431

Note 2 - Investments - Continued

	December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 15,254,392	$ 2,674,291	$ 176,223	$ 17,752,460
Fixed income securities	2,602,180	7,375	15,570	2,593,985
	$ 17,856,572	$ 2,681,666	$ 191,793	$ 20,346,445

Note 3 - Property and Equipment, Net

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

	December 31,	
	2017	2016
Buildings and improvements	$ 4,679,380	$ 4,666,580
Driveway and sewer	439,136	400,556
Equipment	833,226	803,933
Vehicles	34,847	29,850
	5,986,589	5,900,919
Less accumulated depreciation	3,322,058	3,151,190
	2,664,531	2,749,729
Land	13,946	13,946
Property and equipment, net	$ 2,678,477	$ 2,763,675

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, 2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 5,925,095	$ -	$ -	$ 5,925,095
Equity securities	96,263,096	26,648,402	1,749,696	121,161,802
Fixed income securities	41,273,863	90,602	256,330	41,108,135
Accrued interest	183,572	-	-	183,572
	$ 143,645,626	$ 26,739,004	$ 2,006,026	$ 168,378,604

Note 4 - Split-Interest Agreements - Continued

Investments Held Under Split-Interest Agreements - Continued

	December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 5,831,595	$ -	$ -	$ 5,831,595
Equity securities	93,757,294	23,614,732	2,431,458	114,940,568
Fixed income securities	36,399,135	164,070	182,854	36,380,351
Accrued interest	174,617	-	-	174,617
	$ 136,162,641	$ 23,778,802	$ 2,614,312	$ 157,327,131

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. The discount rate used for the years ended December 31, 2017 and 2016, was 7.66% and 7.42% respectively.

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 Wall Street Journal* prime rate (4.5% and 3.75% as of December 31, 2017 and 2016, respectively). No amounts were outstanding under the line-of-credit at December 31, 2017 and 2016. The line-of-credit is renewable on an annual basis.

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, 2017			
	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	-	614,803	(614,803)	-
Accumulated other comprehensive income	-	3,618	(3,618)	-
Net assets, unrestricted	30,476,465	-	973,575	31,450,040
Net assets, temporarily restricted	70,167,992	-	-	70,167,992
	$ 100,644,457	$ 973,575	$ -	$ 101,618,032

	December 31, 2016			
	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	-	551,341	(551,341)	-
Accumulated other comprehensive income	-	4,214	(4,214)	-
Net assets, unrestricted	26,277,152	-	910,709	27,187,861
Net assets, temporarily restricted	65,359,719	-	-	65,359,719
	$ 91,636,871	$ 910,709	$ -	$ 92,547,580

Note 7 - Change in Value of Split-Interest Agreements

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

	Years Ended December 31,	
	2017	2016
Investment income	$ 5,806,105	$ 4,733,999
Realized gain on investment transactions, net	8,939,648	3,371,088
Unrealized gain on investments, net	3,568,488	9,609,391
Change in liabilities under split-interest agreements	(5,703,222)	(4,905,098)
Distributions to beneficiaries	(4,928,567)	(4,490,492)
Investment advisory fee	(418,719)	(415,488)
Other	(31,064)	(31,710)
	$ 7,232,669	$ 7,871,690

Note 8 - Retirement Plans

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, 2017 and 2016, the Organization's contributions were $120,147 and $143,570, respectively.

AIER has entered into agreements with two former officers whereby AIER has agreed to provide lifetime retirement benefits. Retirement benefits under these agreements are accounted for as amounts are paid. For the years ended December 31, 2017 and 2016, retirement payments were $80,081 and $78,975, respectively.

Note 9 - Income Taxes

Components of income tax expense of AIS, consist of the following:

	Years Ended December 31,	
	2017	2016
Federal	$ 180,778	$ 167,785
State	38,675	46,988
	$ 219,453	$ 214,773

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of AIS from continuing operations as a result of state taxes, accrued paid leave, and depreciation differences.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant change in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The legislation reduced the U.S. corporate tax rate from the current rate of 35% to 21%. As a result of the enacted law, the Organization was required to revalue deferred tax assets and liabilities during the year ended December 31, 2017 at the enacted rate.

Note 10 - Risks and Uncertainties

a. Concentrations of Credit Risk - Cash

The Organization maintains cash and cash equivalent balances at various financial institutions and brokerage firms. Accounts at each institution and brokerage firm are insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protections Corporation (SIPC) up to certain limits. At times, the Organization has balances in excess of amounts insured by the FDIC and SIPC.

Note 10 - Risks and Uncertainties - Continued

b. Fair Value of Marketable Securities

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 marketable securities will occur in the near term and that such changes could materially affect the net assets of AIER.

Note 11 - Related Party Transactions

AIS provides investment advisory services to the two pooled income funds and charitable remainder unitrusts. AIS received $418,419 and $415,488 in investment management fees, of which $103,852 and $91,811 was included in accounts receivable, from the two pooled income funds and charitable remainder unitrusts as of and for the years ended December 31, 2017 and 2016, respectively.

Note 12 - Fair Value of Financial Instruments

The framework for measuring fair value 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) and the lowest priority to unobservable inputs (Level 3).

The following three levels of inputs 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.

The 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 and liabilities 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 levels that reflect comparable credit and liquidity risks.

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

Note 12 - Fair Value of Financial Instruments - Continued

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, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Fixed income securities				
U.S. government bonds	$ 2,653,334	$ -	$ -	$ 2,653,334
Foreign bonds	1,049,776	-	-	1,049,776
Equity securities				
Real estate investment trusts	1,951,942	-	-	1,951,942
U.S. companies	13,695,861	-	-	13,695,861
Non-U.S. companies	3,684,974	-	-	3,684,974
Gold related stocks	1,553,067	-	-	1,553,067
Global funds	40,477	-	-	40,477
	24,629,431	-	-	24,629,431
Investments held under split-interest agreements				
Cash and cash equivalents	5,925,095	-	-	5,925,095
Fixed income securities				
Corporate bonds	-	20,055,812	-	20,055,812
U.S. government bonds	17,402,523	-	-	17,402,523
Global funds	3,649,800	-	-	3,649,800
Equity securities				
Real estate investment trusts	18,836,885	-	-	18,836,885
U.S. companies	71,459,749	-	-	71,459,749
Non-U.S. companies	9,173,112	-	-	9,173,112
Gold related stocks	12,120,563	-	-	12,120,563
Global funds	9,571,493			9,571,493
Other	183,572	-	-	183,572
	148,322,792	20,055,812	-	168,378,604
	$ 172,952,223	$ 20,055,812	$ -	$ 193,008,035
Liabilities				
Liabilities under split-interest agreements	$ -	$ 95,999,144	$ -	$ 95,999,144

Note 12 - Fair Value of Financial Instruments - Continued

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Fixed income securities				
U.S. government bonds	$ 2,593,985	$ -	$ -	$ 2,593,985
Equity securities				
Real estate investment trusts	866,565	-	-	866,565
U.S. companies	13,021,473	-	-	13,021,473
Non-U.S. companies	2,458,780	-	-	2,458,780
Gold related stocks	1,369,372	-	-	1,369,372
Global funds	36,270	-	-	36,270
	20,346,445	-	-	20,346,445
Investments held under split-interest agreements				
Cash and cash equivalents	5,831,595	-	-	5,831,595
Fixed income securities				
Corporate bonds	-	17,315,680	-	17,315,680
U.S. government bonds	15,777,983	-	-	15,777,983
Global funds	3,286,688	-	-	3,286,688
Equity securities				
Real estate investment trusts	18,203,010	-	-	18,203,010
U.S. companies	68,523,252	-	-	68,523,252
Non-U.S. companies	8,694,280	-	-	8,694,280
Gold related stocks	10,653,963	-	-	10,653,963
Global funds	8,855,851	-	-	8,855,851
Limited Partnership	-	-	10,212	10,212
Other	174,617	-	-	174,617
	140,001,239	17,315,680	10,212	157,327,131
	$ 160,347,684	$ 17,315,680	$ 10,212	$ 177,673,576
Liabilities				
Liabilities under split-interest agreements	$ -	$ 90,296,335	$ -	90,296,335

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

	December 31,	
	2017	2016
Beginning Balance	$ 10,212	$ 20,615
Purchases, sales, contributions	(22,011)	-
Unrealized gains (losses)	-	(10,403)
Realized gains (losses)	11,799	-
Ending Balance	$ -	$ 10,212