Consolidated Financial Statements

December 31, 2013 and 2012

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the American Institute for Economic Research and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Board of Trustees American Institute for Economic Research and Subsidiary Page 2

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, 2013, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Prior Year Financial Statements

The consolidated financial statements of the American Institute for Economic Research and Subsidiary, as of and for the year ended December 31, 2012, were audited by Bollam, Sheedy, Torani & Co. LLP which merged with Sax Macy Fromm & Co., PC to form SaxBST LLP as of January 1, 2014. Bollam, Sheedy, Torani & Co., LLP's report dated March 19, 2013, expressed an unmodified opinion on those statements.

SaxBST LLP

Albany, New York March 18, 2014



Consolidated Statements of Financial Position

		Temporarily	_	
	Unrestricted	Restricted	Total	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,521,497	\$ -	\$ 2,521,497	
Investments	19,907,079	-	19,907,079	
Accounts receivable	540,002	-	540,002	
Accrued income tax	16,066	-	16,066	
Deferred income tax	11,412	-	11,412	
Inventory	-	-	-	
Prepaid expenses	59,433		59,433	
Total current assets	23,055,489	-	23,055,489	
PROPERTY AND EQUIPMENT, net	2,966,811	-	2,966,811	
INVESTMENTS HELD UNDER SPLIT-INTEREST				
AGREEMENTS	-	144,853,899	144,853,899	
TOTAL ASSETS	\$ 26,022,300	\$144,853,899	\$170,876,199	
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 136,129	\$ -	\$ 136,129	
Investment advisory fee payable	-	98,390	98,390	
Distribution payable	_	1,252,455	1,252,455	
Accrued salaries and paid leave	337,744	-	337,744	
Accrued income tax	-	_	-	
Unearned subscription income	62,781	_	62,781	
Total current liabilities	536,654	1,350,845	1,887,499	
LONG-TERM LIABILITIES				
Liabilities under split-interest agreements	7,216	85,075,154	85,082,370	
Unearned subscription income	12,218	-	12,218	
·	19,434	85,075,154	85,094,588	
COMMITMENTS AND CONTINGENCIES	<u> </u>			
NET ASSETS				
Unrestricted				
Undesignated	18,071,653		18,071,653	
Designated				
Board designated	4,436,122	-	4,436,122	
Investment in property and equipment	2,958,437		2,958,437	
Total designated	7,394,559		7,394,559	
Temporarily restricted				
Assets held under split-interest agreements		58,427,900	58,427,900	
	25,466,212	58,427,900	83,894,112	
TOTAL LIABILITIES AND NET ASSETS	\$ 26,022,300	\$144,853,899	\$170,876,199	

	December 31, 2012			
		Temporarily		
	Unrestricted	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	
Accrued income tax	-	-	-	
Deferred income tax	-	-	-	
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	301,763	-	301,763	
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	
COMMITMENTS AND CONTINGENCIES	22,877	82,441,946	82,464,823	
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	<u> </u>	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	

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended December 31, 2013			
		Temporarily		
	Unrestricted	Restricted	Total	
REVENUE, GAINS, AND OTHER SUPPORT				
Operating revenue				
Subscription revenues	\$ 110,716	\$ -	\$ 110,716	
Contributions and member dues	302,037	1,170,686	1,472,723	
Sales of publications	42,846	-	42,846	
Investment management fees	2,010,216	-	2,010,216	
Other revenues	50,556		50,556	
Total operating revenue	2,516,371	1,170,686	3,687,057	
Bequests	60,165	-	60,165	
Interest and dividends	478,411	-	478,411	
Realized gains on investment transactions, net	257,449	-	257,449	
Unrealized gain on investments, net	2,322,628	-	2,322,628	
Change in value of split-interest agreements	-	3,794,867	3,794,867	
Net assets released from restrictions to Center for the				
Study of Economics	-	-	-	
Net assets released from restrictions	1,163,257	(1,163,257)	-	
Total revenue, gains, and other support	6,798,281	3,802,296	10,600,577	
EXPENSES AND LOSSES				
Research and publications	2,246,675	-	2,246,675	
Academic programs	515,115	-	515,115	
Investment management	1,639,018	-	1,639,018	
Subsidiary tax expense	112,004	-	112,004	
Fundraising	369,081	-	369,081	
Management and general	729,345	-	729,345	
Total expenses and losses	5,611,237		5,611,237	
CHANGE IN NET ASSETS	1,187,044	3,802,296	4,989,340	
NET ASSETS, beginning of year	24,279,168	54,625,604	78,904,772	
NET ASSETS, end of year	\$ 25,466,212	\$ 58,427,900	\$ 83,894,112	

		Year	Ended	December 3	1, 201	2
			Ter	nporarily		
	Un	restricted	Re	estricted		Total
REVENUE, GAINS, AND OTHER SUPPORT						
Operating revenue						
Subscription revenues	\$	307,915	\$	-	\$	307,915
Contributions and member dues		285,066		566,459		851,525
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		2,533,544		566,459		3,100,003
Bequests		18,054		-		18,054
Interest and dividends		366,752		-		366,752
Realized gains on investment transactions, net		72,648		-		72,648
Unrealized gain on investments, net		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	1	3,688,690	(1	3,688,690)		-
Total revenue, gains, and other support	1	7,395,459	(5,647,227)		11,748,232
EXPENSES AND LOSSES						
Research and publications		2,489,401		-		2,489,401
Academic programs		442,128		-		442,128
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	1	1,975,728	(5,647,227)		6,328,501
NET ASSETS, beginning of year	1	2,303,440	6	0,272,831		72,576,271
NET ASSETS, end of year	\$ 2	24,279,168	\$ 5	4,625,604	\$	78,904,772

Consolidated Statements of Cash Flows

	Years Ended	December 31,
	2013	2012
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ 4,989,340	\$ 6,328,501
Adjustments to reconcile change in net assets to net cash		
provided (used) by operating activities		
Depreciation	158,406	196,878
Inventory write-off	-	47,264
Donated securities	(1,054)	(31,102)
Realized gain on investment transactions	(257,449)	(72,648)
Net unrealized loss on investments	(2,322,628)	(715,771)
Change in investments held under split-interest agreements	(5,927,026)	5,271,376
Change in liability under split-interest agreements	2,630,546	140,827
(Increase) decrease in		
Accounts receivable	(38,335)	(46,750)
Inventory	4,230	14,167
Prepaid expenses	91	(3,751)
Increase (decrease) in		
Accounts payable	8,046	44,075
Investment advisory fee payable	4,710	(5,685)
Distributions payable	(513, 187)	250,586
Accrued salaries and paid leave	37,461	44,008
Accrued and withheld payroll and income tax	(77,423)	5,452
Deferred income tax	(11,412)	-
Unearned subscription income	(7,907)	(189,207)
	(1,323,591)	11,278,220
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of investments	(541,433)	(11,422,033)
Proceeds from investment transactions	1,515,345	409,966
Purchases of property and equipment	(227,734)	(27,861)
	746,178	(11,039,928)
Net increase (decrease) in cash and cash equivalents	(577,413)	238,292
CASH AND CASH EQUIVALENTS, beginning of year	3,098,910	2,860,618
CASH AND CASH EQUIVALENTS, end of year	\$ 2,521,497	\$ 3,098,910
SUPPLEMENTARY CASH FLOWS INFORMATION		
Cash paid during the year for		
Income taxes	\$ 112,004	\$ 140,518

Notes to Consolidated Financial Statements December 31, 2013 and 2012

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.

b. 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 \$197,971 and \$175,200 for the years ended December 31, 2013 and 2012, respectively.

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 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.

Notes to Consolidated Financial Statements December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies

c. Functional Areas - Continued

AIER - Continued

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.

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.

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. 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 Company 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 11 for additional information.

g. Cash Equivalents

The Organization considers all certificates of deposits 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.

Notes to Consolidated Financial Statements December 31, 2013 and 2012

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

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. Management determined that there were no other-than-temporary impairments as of December 31, 2013 and 2012.

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, 2013 and 2012.

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, 2013 and 2012.

Notes to Consolidated Financial Statements December 31, 2013 and 2012

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

I. 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 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.

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 is received,
- 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, 2013 and 2012, 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 \$3,936,122 and \$3,659,190 as of December 31, 2013 and 2012, respectively.
- A reserve of \$2,958,437 and \$2,884,684 as of December 31, 2013 and 2012, respectively, for investment of property and equipment.

Notes to Consolidated Financial Statements December 31, 2013 and 2012

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

p. Recognition of Donor Restrictions and Board Designated Net Assets - Continued

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.

g. 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 \$10,261 and \$17,931 for the years ended December 31, 2013 and 2012, 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 taken no tax positions that required adjustment in its financial statements as of December 31, 2013 and 2012.

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.

Notes to Consolidated Financial Statements December 31, 2013 and 2012

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

s. Tax Status - Continued

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 had taken no tax positions that require adjustment in its consolidated financial statements as of December 31, 2013 and 2012.

AlS's tax returns are subject to examination by taxing authorities. AlS is no longer subject to tax examination for the years ended 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 for potential recognition or disclosure through March 18, 2014, the date the 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, 2013			
		Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Equity securities	\$13,171,809	\$ 4,036,303	\$ 333,216	\$16,874,896
Fixed income securities	3,075,161	14,655	57,633	3,032,183
	\$16,246,970	\$ 4,050,958	\$ 390,849	\$19,907,079
		Decembe	r 31, 2012	
		Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Equity securities Fixed income securities	\$13,745,272 3,217,108	\$ 1,301,973 42,654	\$ 649 6,495	\$ 15,046,596 3,253,267
	\$16,962,380	\$ 1,344,627	\$ 7,144	\$18,299,863

For the years ended December 31, 2013 and 2012, the investments earned interest and dividends of \$478,411 and \$366,752, respectively.

Notes to Consolidated Financial Statements December 31, 2013 and 2012

Note 3 - Property and Equipment, Net

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

	December 31,			
		2013		2012
Land	\$	13,946	\$	13,946
Buildings and improvements	4	,462,322		4,409,275
Driveway and sewer		279,534		247,798
Equipment		799,709		717,340
Vehicles		29,850		44,454
	5	5,585,361	-	5,432,813
Less accumulated depreciation	2	2,618,550		2,535,333
Property and equipment, net	\$ 2	2,966,811	\$	2,897,480

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, 2013							
				Unrealized	ι	Jnrealized		Fair
		Cost		Gains		Losses		Value
Cash and cash equivalents Equity securities Fixed income securities Accrued interest	\$	3,024,925 86,572,296 33,928,577 165,721	\$	- 22,543,287 457,240 -	\$	1,706,378 131,769	\$	3,024,925 107,409,205 34,254,048 165,721
	\$	123,691,519	\$	23,000,527	\$	1,838,147	\$	144,853,899
				Decembe	r 31, 2	2012		
				Unrealized	ι	Jnrealized		Fair
		Cost		Unrealized Gains		Jnrealized Losses		Fair Value
Cash and cash equivalents Equity securities Fixed income securities Accrued interest	\$	Cost 2,527,926 84,174,373 32,731,695 187,617	\$		\$		\$	

Notes to Consolidated Financial Statements
December 31, 2013 and 2012

Note 4 - Split-Interest Agreements - Continued

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 both years ended December 31, 2013 and 2012, was 7%.

Note 5 - Line-of-Credit

AlS 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 AlS. Borrowings under the line-of-credit bear interest at the prime rate (3.25% at both December 31, 2013 and 2012). No amounts were outstanding under the line-of-credit at December 31, 2013 and 2012. 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:

		Decembe	er 31, 2013	
			Eliminating	Consolidated
	AIER	AIS	Entries	Total
Common stock, no par value, 1,000 shares authorized, 400				
shares issued and outstanding	\$ -	\$ 355,154	\$ (355,154)	\$ -
Retained earnings	-	368,460	(368,460)	-
Accumulated comprehensive income	-	4,810	(4,810)	-
Net assets, unrestricted	24,737,788	-	728,424	25,466,212
Net assets, temporarily restricted	58,427,900			58,427,900
	\$ 83,165,688	\$ 728,424	\$ -	\$ 83,894,112
		Decembe	er 31, 2012	
			Eliminating	Consolidated
	AIER	AIS	Entries	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

Notes to Consolidated Financial Statements December 31, 2013 and 2012

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,			
		2013		2012
Investment income	\$	4,062,404	\$	4,984,268
Realized gain on investment transactions		4,801,191		8,380,730
Unrealized gain (losses) on investments		1,857,119		(596,863)
Change in liabilities under split-interest agreements		(2,633,207)		(130,950)
Distributions to beneficiaries		(3,866,907)		(4,583,944)
Investment advisory fee		(387,646)		(393,038)
Other		(38,087)		(65,683)
	\$	3,794,867	\$	7,594,520

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, 2013 and 2012, the Organization's contributions were \$105,064 and \$95,924, respectively.

Note 9 - Income Taxes

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

	Years Ended	December 31,
	2013	2012
Current		
Federal	\$ 83,254	\$ 105,647
State	28,750	34,871
	<u>\$ 112,004</u>	\$ 140,518

Provisions for the current year 2013 tax was \$85,515 (Federal) and \$20,221 (State), and there were adjustments from previous years of \$2,261 (Federal) and \$(8,529) (State) which reduced the total tax provision for the year 2013 to \$112,004.

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 from continuing operations as a result of state taxes, accrued paid leave, and depreciation differences.

The current deferred tax asset consists of the following:

	Decem	December 31,			
	2013	2012			
Accrued leave Depreciation	\$ 11,461 (49)	\$	- -		
	\$ 11,412	\$	-		

Notes to Consolidated Financial Statements December 31, 2013 and 2012

Note 10 - Risks and Uncertainties

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 and the Securities Investor Protection Corporation (SIPC). At times, the Organization has bank deposits in excess of amounts insured by the FDIC and SIPC.

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 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

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 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 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.

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.

Notes to Consolidated Financial Statements December 31, 2013 and 2012

Note 11 - Fair Value of Financial Instruments - Continued

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

	December 31, 2013							
		Level 1		Level 2		Level 3	Total	_
Assets								
Investments								
Fixed income securities								
U.S. government bonds	\$	3,032,183	\$	_	\$	_	\$ 3,032,183	3
Equity securities	_	-,,	*		*		• •,••=,•••	
Real estate investment trusts		568,128		_		_	568,128	b
U.S. companies		12,926,705		_		-	12,926,705	;
Non-U.S. companies		2,385,578		-		-	2,385,578	j
Gold related stocks		960,021		-		-	960,021	
Global funds		34,465		-		-	34,465	j
Investments held under split-interest agreements	;							
Cash		3,024,924		-		-	3,024,924	ļ
Fixed income securities								
Corporate bonds		-		8,921,774		-	8,921,774	Ļ
U.S. government bonds		23,360,314		-		-	23,360,314	Ļ
Foreign government bonds		244,108		-		-	244,108	}
Global funds		1,727,852		-		-	1,727,852)
Equity securities								
Real estate investment trusts		13,012,055		-		-	13,012,055	;
U.S. companies		64,859,535		-		-	64,859,535	;
Non-U.S. companies		8,180,067		-		-	8,180,067	,
Gold related stocks		10,045,221		-		-	10,045,221	
Global funds		11,277,292					11,277,292	<u>.</u>
Limited partnership		-		-		35,035	35,035	í
Other	_	165,721					165,721	_
	\$	155,804,169	\$	8,921,774	\$	35,035	\$ 164,760,978	;
Liabilities								
Liabilities under split-interest agreements	\$		\$	85,075,154	\$	-	\$ 85,075,154	Ļ

Notes to Consolidated Financial Statements December 31, 2013 and 2012

Note 11 - Fair Value of Financial Instruments - Continued

	December 31, 2012							
	_	Level 1		Level 2		Level 3		Total
Assets								
Investments								
Fixed income securities								
U.S. government bonds	\$	3,253,267	\$	-	\$	-	\$	3,253,26
Equity securities								
Real estate investment trusts		639,030		-		-		639,03
U.S. companies		11,105,740		-		-		11,105,74
Non-U.S. companies		2,070,614		-		-		2,070,61
Gold related stocks		1,231,212		-		-		1,231,2
Global funds		-		-		-		
Investments held under split-interest agreements	3							
Cash		2,527,926		-		-		2,527,92
Fixed income securities								
Corporate bonds		-		9,685,702		-		9,685,70
U.S. government bonds		22,019,105		-		-		22,019,10
Foreign government bonds		280,989		-		-		280,98
Global funds		1,678,182		-		-		1,678,18
Equity securities								
Real estate investment trusts		14,334,114		-		-		14,334,1
U.S. companies		60,378,854		-		-		60,378,8
Non-U.S. companies		7,702,975		-		-		7,702,97
Gold related stocks		11,566,908		-		-		11,566,90
Global funds		8,525,301		-		-		8,525,30
Limited partnership		-		-		39,199		39,19
Other		187,617					_	187,6
	\$	147,501,834	\$	9,685,702	\$	39,199	\$	157,226,73
Liabilities								
Liabilities under split-interest agreements	\$	-	\$	82,441,946			\$	82,441,94

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

	Decem	December 31,		
	2013	2012		
Beginning balance	\$ 39,199	\$ 41,338		
Unrealized losses	(4,164)	(609)		
Transfers out	 _	(1,530)		
Ending balance	\$ 35,035	\$ 39,199		