

**American Institute for Economic Research  
and Subsidiary**

Consolidated Financial Statements

December 31, 2015 and 2014

# **American Institute for Economic Research and Subsidiary**

## **Consolidated Financial Statements**

December 31, 2015 and 2014

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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 statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements activities and change 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. 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 the American Institute for Economic Research and Subsidiary as of December 31, 2015 and 2014, 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.

*SaxBST LLP*

Albany, New York  
March 23, 2016

# American Institute for Economic Research and Subsidiary

## Consolidated Statements of Financial Position

ASSETS	December 31, 2015		
	Unrestricted	Temporarily Restricted	Total
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 3,950,685	\$ -	\$ 3,950,685
Investments	16,791,221	-	16,791,221
Accounts receivable	581,622	-	581,622
Deferred income tax	3,244	-	3,244
Prepaid expenses	115,196	-	115,196
Total current assets	21,441,968	-	21,441,968
<b>PROPERTY AND EQUIPMENT, net</b>	2,849,778	-	2,849,778
<b>INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS</b>	-	149,270,680	149,270,680
<b>TOTAL ASSETS</b>	<b>\$ 24,291,746</b>	<b>\$ 149,270,680</b>	<b>\$ 173,562,426</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 91,586	\$ -	\$ 91,586
Investment advisory fees payable	-	101,810	101,810
Distributions payable	-	1,305,305	1,305,305
Accrued salaries and paid leave	418,333	-	418,333
Accrued income tax	46,669	-	46,669
Unearned subscription income	57,322	-	57,322
Total current liabilities	613,910	1,407,115	2,021,025
<b>LONG-TERM LIABILITIES</b>			
Liabilities under split-interest agreements	1,893	85,384,609	85,386,502
Unearned subscription income	15,534	-	15,534
	17,427	85,384,609	85,402,036
<b>NET ASSETS</b>			
Unrestricted			
Undesignated	15,408,897	-	15,408,897
Designated			
Board designated	5,402,143	-	5,402,143
Investment in property and equipment	2,849,369	-	2,849,369
Total designated	8,251,512	-	8,251,512
Temporarily restricted			
Assets held under split-interest agreements	-	62,478,956	62,478,956
	23,660,409	62,478,956	86,139,365
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 24,291,746</b>	<b>\$ 149,270,680</b>	<b>\$ 173,562,426</b>

See accompanying Notes to Consolidated Financial Statements.

	December 31, 2014		
	Unrestricted	Temporarily Restricted	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 2,849,601	\$ -	\$ 2,849,601
Investments	18,690,304	-	18,690,304
Accounts receivable	570,654	-	570,654
Deferred income tax	14,063	-	14,063
Prepaid expenses	118,522	-	118,522
Total current assets	<u>22,243,144</u>	<u>-</u>	<u>\$ 22,243,144</u>
<b>PROPERTY AND EQUIPMENT, net</b>	2,962,424	-	2,962,424
<b>INVESTMENTS HELD UNDER SPLIT-INTEREST AGREEMENTS</b>	<u>-</u>	<u>156,086,944</u>	<u>156,086,944</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 25,205,568</u></b>	<b><u>\$ 156,086,944</u></b>	<b><u>\$ 181,292,512</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 79,344	\$ -	\$ 79,344
Investment advisory fees payable	-	106,316	106,316
Distributions payable	-	1,474,532	1,474,532
Accrued salaries and paid leave	385,168	-	385,168
Accrued income tax	43,128	-	43,128
Unearned subscription income	60,323	-	60,323
Total current liabilities	<u>567,963</u>	<u>1,580,848</u>	<u>2,148,811</u>
<b>LONG-TERM LIABILITIES</b>			
Liabilities under split-interest agreements	4,555	92,812,884	92,817,439
Unearned subscription income	12,055	-	12,055
	<u>16,610</u>	<u>92,812,884</u>	<u>92,829,494</u>
<b>NET ASSETS</b>			
Unrestricted			
Undesignated	16,315,967	-	16,315,967
Designated			
Board designated	5,346,849	-	5,346,849
Investment in property and equipment	2,958,179	-	2,958,179
Total designated	<u>8,305,028</u>	<u>-</u>	<u>8,305,028</u>
Temporarily restricted			
Assets held under split-interest agreements	-	61,693,212	61,693,212
	<u>24,620,995</u>	<u>61,693,212</u>	<u>86,314,207</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 25,205,568</u></b>	<b><u>\$ 156,086,944</u></b>	<b><u>\$ 181,292,512</u></b>

# American Institute for Economic Research and Subsidiary

## Consolidated Statements of Activities and Change in Net Assets

	Year Ended December 31, 2015		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>			
Operating revenue			
Subscriptions	\$ 89,271	\$ -	\$ 89,271
Contributions and memberships	281,063	453,758	734,821
Publication sales	45,275	-	45,275
Investment management fees	2,254,517	-	2,254,517
Other	14,995	-	14,995
Total operating revenue	2,685,121	453,758	3,138,879
Bequests	93,881	-	93,881
Rental income	44,640	-	44,640
Interest and dividends	426,359	-	426,359
Realized gain (loss) on investment transactions, net	625,541	-	625,541
Unrealized gain (loss) on investments, net	(1,396,265)	-	(1,396,265)
Change in value of split-interest agreements	-	3,539,168	3,539,168
Net assets released from restrictions	3,207,182	(3,207,182)	-
Total revenue, gains, and other support	5,686,459	785,744	6,472,203
<b>EXPENSES AND LOSSES</b>			
Research and publications	2,785,085	-	2,785,085
Academic programs	912,100	-	912,100
Investment management	1,654,629	-	1,654,629
Subsidiary tax expense	190,653	-	190,653
Fundraising	325,929	-	325,929
Management and general	778,649	-	778,649
Total expenses and losses	6,647,045	-	6,647,045
<b>CHANGE IN NET ASSETS</b>	<b>(960,586)</b>	<b>785,744</b>	<b>(174,842)</b>
<b>NET ASSETS, <i>beginning of year</i></b>	<b>24,620,995</b>	<b>61,693,212</b>	<b>86,314,207</b>
<b>NET ASSETS, <i>end of year</i></b>	<b>\$ 23,660,409</b>	<b>\$ 62,478,956</b>	<b>\$ 86,139,365</b>

See accompanying Notes to Consolidated Financial Statements.

**Year Ended December 31, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>			
Operating revenue			
Subscriptions	\$ 93,101	\$ -	\$ 93,101
Contributions and memberships	340,286	1,213,141	1,553,427
Publication sales	34,566	-	34,566
Investment management fees	2,199,439	-	2,199,439
Other	4,509	-	4,509
Total operating revenue	<u>2,671,901</u>	<u>1,213,141</u>	<u>3,885,042</u>
Bequests	63,585	-	63,585
Rental income	21,850	-	21,850
Interest and dividends	425,241	-	425,241
Realized gain (loss) on investment transactions, net	1,041,963	-	1,041,963
Unrealized gain (loss) on investments, net	460,941	-	460,941
Change in value of split-interest agreements	-	2,830,472	2,830,472
Net assets released from restrictions	778,301	(778,301)	-
Total revenue, gains, and other support	<u>5,463,782</u>	<u>3,265,312</u>	<u>8,729,094</u>
<b>EXPENSES AND LOSSES</b>			
Research and publications	2,539,802	-	2,539,802
Academic programs	900,735	-	900,735
Investment management	1,729,238	-	1,729,238
Subsidiary tax expense	130,503	-	130,503
Fundraising	283,031	-	283,031
Management and general	725,689	-	725,689
Total expenses and losses	<u>6,308,999</u>	<u>-</u>	<u>6,308,999</u>
<b>CHANGE IN NET ASSETS</b>	<b>(845,217)</b>	<b>3,265,312</b>	<b>2,420,095</b>
<b>NET ASSETS, <i>beginning of year</i></b>	<u>25,466,212</u>	<u>58,427,900</u>	<u>83,894,112</u>
<b>NET ASSETS, <i>end of year</i></b>	<u><b>\$ 24,620,995</b></u>	<u><b>\$ 61,693,212</b></u>	<u><b>\$ 86,314,207</b></u>



# American Institute for Economic Research and Subsidiary

## Consolidated Statements of Cash Flows

	<b>Years Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ (174,842)	\$ 2,420,095
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	205,066	188,311
Deferred income tax	10,819	(2,651)
Realized (gain) on investment transactions	(625,541)	(1,041,963)
Net unrealized (gain) loss on investments	1,396,265	(460,941)
Change in investments held under split-interest agreements	6,816,264	(11,233,045)
Change in liability under split-interest agreements	(7,430,937)	7,735,069
(Increase) decrease in		
Accounts receivable	(10,968)	(30,652)
Prepaid expenses	3,326	(59,089)
Increase (decrease) in		
Accounts payable	12,243	(56,785)
Investment advisory fees payable	(4,506)	7,926
Distributions payable	(169,227)	222,077
Accrued salaries and paid leave	33,165	47,424
Accrued and withheld payroll and income tax	3,541	59,194
Unearned subscription income	478	(2,621)
	<b>65,146</b>	<b>(2,207,651)</b>
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
Purchase of investments	(2,020,625)	(1,764,340)
Proceeds from investment transactions	3,148,985	4,484,020
Purchases of property and equipment	(92,422)	(183,925)
	<b>1,035,938</b>	<b>2,535,755</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,101,084</b>	<b>328,104</b>
<b>CASH AND CASH EQUIVALENTS, <i>beginning of year</i></b>	<b>2,849,601</b>	<b>2,521,497</b>
<b>CASH AND CASH EQUIVALENTS, <i>end of year</i></b>	<b>\$ 3,950,685</b>	<b>\$ 2,849,601</b>
<b>SUPPLEMENTARY CASH FLOWS INFORMATION</b>		
Cash paid during the year for		
Income taxes	\$ 190,653	\$ 130,503

See accompanying Notes to Consolidated Financial Statements.

# American Institute for Economic Research and Subsidiary

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

## **Note 1 - Organization and Summary of Significant Accounting Policies**

### *a. Business Organization*

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

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

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

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

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

### *b. Consolidated Financial Statements*

The financial statements include the accounts of AIER and its subsidiary, AIS. All significant inter-company 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.

# American Institute for Economic Research and Subsidiary

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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

### *c. Functional Areas - Continued*

#### *AIER - Continued*

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

# American Institute for Economic Research and Subsidiary

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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

### *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.

### *h. Investments*

AIER's marketable securities are carried at fair value. 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 with net unrealized gains and losses, net of tax, included in other comprehensive income. Upon consolidation, other comprehensive income of AIS is reported in the statement of activities and change in net assets.

The Organization 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 the Organization 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, 2015 and 2014.

Realized and unrealized gains and losses are included in the statements of activities and change 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, 2015 and 2014.

### *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 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 \$205,066 and \$188,311 for the years ended December 31, 2015 and 2014, respectively.

# American Institute for Economic Research and Subsidiary

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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

### *j. Property and Equipment, Net - Continued*

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, 2015 and 2014.

### *k. 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 payment. 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. 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.

### *m. Unearned Subscription Income*

Income from subscriptions is initially deferred and recognized over the subscription terms.

### *n. 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 unconditional contributions is recognized when made;
- 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 were provided.

### *o. 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, and investment in property and equipment.

# American Institute for Economic Research and Subsidiary

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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

### *o. Recognition of Donor Restrictions and Board Designated Net Assets - Continued*

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

- A \$500,000 reserve as of December 31, 2015 and 2014, 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 \$4,902,143 and \$4,846,849 as of December 31, 2015 and 2014, respectively.
- A reserve of \$2,849,369 and \$2,958,179 as of December 31, 2015 and 2014, 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.

### *p. Donated Assets and Services*

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

### *q. Advertising*

AIER records advertising costs as expenses when they are incurred. Advertising expense was \$23,956 and \$20,566 for the years ended December 31, 2015 and 2014, respectively.

### *r. 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 AIER's tax positions and concluded that AIER had no tax positions that required adjustment in its consolidated financial statements as of December 31, 2015 and 2014.

# American Institute for Economic Research and Subsidiary

Notes to Consolidated Financial Statements  
December 31, 2015 and 2014

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

### *r. Tax Status - Continued*

AIS is a taxable corporation.

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

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, 2015 and 2014.

### *s. 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.

### *t. Subsequent Events*

The Organization has evaluated subsequent events for potential recognition or disclosure through March 23, 2016, 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, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	\$ 12,239,046	\$ 3,243,672	\$ 525,392	\$ 14,957,326
Fixed income securities	1,827,390	12,033	5,528	1,833,895
	\$ 14,066,436	\$ 3,255,705	\$ 530,920	\$ 16,791,221

# American Institute for Economic Research and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 2 - Investments - Continued

	December 31, 2014			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Equity securities	\$ 11,374,760	\$ 4,464,071	\$ 347,157	\$ 15,491,674
Fixed income securities	3,194,493	24,200	20,063	3,198,630
	\$ 14,569,253	\$ 4,488,271	\$ 367,220	\$ 18,690,304

### Note 3 - Property and Equipment, Net

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

	December 31,	
	2015	2014
Buildings and improvements	\$ 4,595,046	\$ 4,551,942
Driveway and sewer	364,471	315,154
Equipment	805,960	805,960
Vehicles	29,850	29,850
	5,795,327	5,702,906
Less accumulated depreciation	2,959,495	2,754,428
	2,835,832	2,948,478
Land	13,946	13,946
	\$ 2,849,778	\$ 2,962,424

### 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, 2015			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Cash and cash equivalents	\$ 4,282,036	\$ -	\$ -	\$ 4,282,036
Equity securities	95,084,287	15,816,857	4,202,973	106,698,171
Fixed income securities	38,163,192	149,546	208,331	38,104,407
Accrued interest	186,066	-	-	186,066
	\$ 137,715,581	\$ 15,966,403	\$ 4,411,304	\$ 149,270,680



# American Institute for Economic Research and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 4 - Split-Interest Agreements - Continued

#### *Investments Held Under Split-Interest Agreements - Continued*

	December 31, 2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	\$ 4,180,407	\$ -	\$ -	\$ 4,180,407
Equity securities	92,897,354	22,871,623	1,429,036	114,339,941
Fixed income securities	37,219,412	253,918	100,324	37,373,006
Accrued interest	193,590	-	-	193,590
	<u>\$ 134,490,763</u>	<u>\$ 23,125,541</u>	<u>\$ 1,529,360</u>	<u>\$ 156,086,944</u>

#### *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, 2015 and 2014, was 7.12% and 7.60% 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 (3.50% and 3.25% as of December 31, 2015 and 2014, respectively). No amounts were outstanding under the line-of-credit at December 31, 2015 and 2014.

### 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, 2015			
	AIER	AIS	Eliminations	Consolidated
Common stock, no par value, 1,000 shares authorized, 400 shares issued and outstanding	\$ -	\$ 355,154	\$ (355,154)	\$ -
Retained earnings	-	470,499	(470,499)	-
Accumulated comprehensive income	-	3,916	(3,916)	-
Net assets, unrestricted	22,830,840	-	829,569	23,660,409
Net assets, temporarily restricted	62,478,956	-	-	62,478,956
	<u>\$ 85,309,796</u>	<u>\$ 829,569</u>	<u>\$ -</u>	<u>\$ 86,139,365</u>

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## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 6 - Net Assets and Stockholder's Equity - Continued

	December 31, 2014			
	AIER	AIS	Eliminations	Consolidated
Common stock, no par value, 1,000 shares authorized, 400 shares issued and outstanding	\$ -	\$ 355,154	\$ (355,154)	\$ -
Retained earnings	-	412,144	(412,144)	-
Accumulated comprehensive income	-	4,512	(4,512)	-
Net assets, unrestricted	23,849,185	-	771,810	24,620,995
Net assets, temporarily restricted	61,693,212	-	-	61,693,212
	\$ 85,542,397	\$ 771,810	\$ -	\$ 86,314,207

### 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,	
	2015	2014
Investment income	\$ 4,290,211	\$ 4,341,813
Realized gains on investment transactions	6,617,131	10,403,018
Unrealized gains (losses) on investments	(10,041,083)	433,801
Change in liabilities under split-interest agreements	7,428,275	(7,737,730)
Distributions to beneficiaries	(4,317,837)	(4,154,166)
Investment advisory fees	(410,191)	(416,999)
Other	(27,338)	(39,265)
	\$ 3,539,168	\$ 2,830,472

### 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, 2015 and 2014, the Organization's contributions were \$143,486 and \$132,963, 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, 2015 and 2014, retirement payments were \$78,817 and \$77,698, respectively.

# American Institute for Economic Research and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 9 - Income Taxes

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

	Years Ended December 31,	
	2015	2014
Federal	\$ 149,036	\$ 108,090
State	41,617	22,413
	<u>\$ 190,653</u>	<u>\$ 130,503</u>

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.

### 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 Protection Corporation (SIPC) up to certain limits. At times, the Organization has balances 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.

# American Institute for Economic Research and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### 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 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.

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

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments				
Fixed income securities				
U.S. government bonds	\$ 1,833,896	\$ -	\$ -	\$ 1,833,896
Equity securities				
Real estate investment trusts	845,138	-	-	845,138
U.S. companies	11,252,534	-	-	11,252,534
Non-U.S. companies	1,871,051	-	-	1,871,051
Gold related stocks	954,806	-	-	954,806
Global funds	33,796	-	-	33,796
	<u>16,791,221</u>	<u>-</u>	<u>-</u>	<u>16,791,221</u>
Investments held under split-interest agreements				
Cash	4,282,037	-	-	4,282,037
Fixed income securities				
Corporate bonds	-	17,306,011	-	17,306,011
U.S. government bonds	16,858,584	-	-	16,858,584
Global funds	3,939,812	-	-	3,939,812
Equity securities				
Real estate investment trusts	18,859,487	-	-	18,859,487
U.S. companies	62,392,198	-	-	62,392,198
Non-U.S. companies	7,305,843	-	-	7,305,843
Gold related stocks	9,459,702	-	-	9,459,702
Global funds	8,660,325	-	-	8,660,325
Limited Partnership	-	-	20,615	20,615
Other	186,066	-	-	186,066
	<u>131,944,054</u>	<u>17,306,011</u>	<u>20,615</u>	<u>149,270,680</u>
	<u>\$ 148,735,275</u>	<u>\$ 17,306,011</u>	<u>\$ 20,615</u>	<u>\$ 166,061,901</u>
<b>Liabilities</b>				
Liabilities under split-interest agreements	<u>\$ -</u>	<u>\$ 85,384,609</u>	<u>\$ -</u>	<u>\$ 85,384,609</u>

# American Institute for Economic Research and Subsidiary

## Notes to Consolidated Financial Statements December 31, 2015 and 2014

### Note 11 - Fair Value of Financial Instruments - Continued

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments				
Fixed income securities				
U.S. government bonds	\$ 3,198,630	\$ -	\$ -	\$ 3,198,630
Equity securities				
Real estate investment trusts	923,400	-	-	923,400
U.S. companies	11,635,217	-	-	11,635,217
Non-U.S. companies	1,862,754	-	-	1,862,754
Gold related stocks	1,035,258	-	-	1,035,258
Global funds	35,045	-	-	35,045
	<u>18,690,304</u>	<u>-</u>	<u>-</u>	<u>18,690,304</u>
Investments held under split-interest agreements				
Cash	4,180,407	-	-	4,180,407
Fixed income securities				
Corporate bonds	-	16,906,994	-	16,906,994
U.S. government bonds	18,578,073	-	-	18,578,073
Global funds	1,887,939	-	-	1,887,939
Equity securities				
Real estate investment trusts	17,018,766	-	-	17,018,766
U.S. companies	66,905,450	-	-	66,905,450
Non-U.S. companies	7,810,373	-	-	7,810,373
Gold related stocks	11,428,915	-	-	11,428,915
Global funds	11,132,770	-	-	11,132,770
Limited partnership	-	-	43,667	43,667
Other	193,590	-	-	193,590
	<u>139,136,283</u>	<u>16,906,994</u>	<u>43,667</u>	<u>156,086,944</u>
	<u>\$ 157,826,587</u>	<u>\$ 16,906,994</u>	<u>\$ 43,667</u>	<u>\$ 174,777,248</u>
<b>Liabilities</b>				
Liabilities under split-interest agreements	\$ -	\$ 92,812,884	\$ -	\$ 92,812,884

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

	December	
	2015	2014
Beginning balance	\$ 43,667	\$ 35,035
Purchases, sales, and contributions	(21,015)	-
Unrealized gains	-	8,632
Realized losses	(2,037)	-
Ending balance	<u>\$ 20,615</u>	<u>\$ 43,667</u>