

**American Indian Science and
Engineering Society and Subsidiary**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

Table of Contents

	<u>Page</u>
Independent Accountants' Report.....	1-2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements.....	6-20
Supplemental Schedules	
Consolidating Statements of Financial Position – Schedule 1.....	21
Consolidating Statements of Activities – Schedule 2.....	22
Consolidating Statements of Functional Expenses – Schedule 3	23

INDEPENDENT AUDITORS' REPORT

Board of Directors

American Indian Science and Engineering Society and Subsidiary

We have audited the accompanying consolidated financial statements of American Indian Science and Engineering Society and Subsidiary (collectively referred to as AISES, a nonprofit organization) which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements. The prior year summarized comparative information has been derived from AISES' 2011 consolidated financial statements and in our report dated April 19, 2012, we expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Consolidated 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 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 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 AISES' 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 AISES' 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 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 AISES as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1, 2, and 3 beginning on page 21 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

April 18, 2013


Pulakos CPAs, PC

American Indian Science and Engineering Society and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2012

(With Comparative Totals for 2011)

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 477,857	\$ 603,778
Certificates of deposit	-	202,124
Investments	182,589	104,378
Receivables		
Conference, net	95,965	38,311
Contribution, trade, pledges and other	157,046	204,353
Prepaid expenses and deposits	34,356	19,087
Inventories	23,203	12,949
	971,016	1,184,980
Property and equipment, net	54,092	105,352
Pledges receivable	121,000	221,000
Investments - Sequoyah endowment	785,192	760,445
Investments - Other endowment	42,616	42,616
	\$ 1,973,916	\$ 2,314,393
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 3,331	\$ -
Accrued liabilities	61,785	87,057
Deferred revenue	183,793	258,776
	248,909	345,833
Net assets		
Unrestricted		
AISES	120,979	418,928
Noncontrolling interest in AISES Publishing, Inc.	28,233	24,873
Temporarily restricted	513,218	464,926
Permanently restricted	1,062,577	1,059,833
	1,725,007	1,968,560
	\$ 1,973,916	\$ 2,314,393

American Indian Science and Engineering Society and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, support and gains					
Conference registration fees	\$ 1,084,072	\$ -	\$ -	\$ 1,084,072	\$ 1,331,827
Advertising income	409,778	-	-	409,778	389,447
Grants - federal	425,036	-	-	425,036	307,556
Contributions	79,194	256,589	-	335,783	359,461
Grants - state and other	227,043	-	-	227,043	278,832
Membership fees	81,833	-	-	81,833	109,292
Science fair	91,215	-	-	91,215	153,775
Investment income (loss)	20,527	87,993	2,744	111,264	(21,834)
Subscription sales	6,792	-	-	6,792	9,081
Other, net	30,272	-	-	30,272	18,723
Gain on investment of subsidiary	3,359	-	-	3,359	4,242
Net assets released from restrictions	296,290	(296,290)	-	-	-
	2,755,411	48,292	2,744	2,806,447	2,940,402
Total revenues, support and gains					
Expenses					
Program services					
Conference	780,685	-	-	780,685	797,018
Training and development	497,220	-	-	497,220	566,753
Publishing	380,197	-	-	380,197	360,828
Internships	99,680	-	-	99,680	133,298
Scholarships	292,655	-	-	292,655	236,049
Education and outreach	31,136	-	-	31,136	150,738
Other	145,128	-	-	145,128	90,174
	2,226,701	-	-	2,226,701	2,334,858
Supporting services					
Management and general	619,511	-	-	619,511	473,713
Fund-raising	200,429	-	-	200,429	118,146
	819,940	-	-	819,940	591,859
Total expenses	3,046,641	-	-	3,046,641	2,926,717
Change in net assets	(291,230)	48,292	2,744	(240,194)	13,685
Less: Change in net assets attributable to noncontrolling interest in AISES Publishing, Inc.	(3,359)	-	-	(3,359)	(4,242)
Change in net assets attributable to AISES	(294,589)	48,292	2,744	(243,553)	9,443
Net assets, beginning of year	443,801	464,926	1,059,833	1,968,560	1,959,117
Net assets, end of year	\$ 149,212	\$ 513,218	\$ 1,062,577	\$ 1,725,007	\$ 1,968,560

American Indian Science and Engineering Society and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012	2011
Operating activities		
Change in net assets	\$ (240,194)	\$ 13,685
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	45,978	57,310
Noncontrolling interest in AISES Publishing, Inc. earnings	(3,359)	(4,242)
Loss on disposal of fixed assets	44,517	-
(Gain) loss on investments	(74,889)	116,928
Net changes to operating assets and liabilities		
Accounts receivable	89,653	129,547
Prepaid expenses and deposits	(15,269)	(2,065)
Inventories	(10,254)	(8,039)
Accounts payable	3,331	(1,617)
Accrued liabilities	(25,272)	15,563
Deferred revenue	(74,983)	(67,520)
	<u>(260,741)</u>	<u>249,550</u>
Net cash (used) provided by operating activities		
Investing activities		
Purchase of property and equipment	(39,235)	(23,186)
Purchase of investments	(28,069)	(86,432)
Redemption (purchase) of certificate-of-deposit	202,124	(1,011)
	<u>134,820</u>	<u>(110,629)</u>
Net cash provided (used) by investing activities		
Change in cash and equivalents	(125,921)	138,921
Cash and equivalents, beginning of year	<u>603,778</u>	<u>464,857</u>
Cash and equivalents, end of year	<u>\$ 477,857</u>	<u>\$ 603,778</u>

American Indian Science and Engineering Society and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012
(With Comparative Totals for 2011)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

American Indian Science and Engineering Society (AISES) is a not-for-profit organization located in Albuquerque, New Mexico. AISES was formed in 1977 to promote educational opportunities for Native American Indian youth in the science and engineering fields. In 1985, AISES created a majority-owned subsidiary called AISES Publishing, Inc. (AISES Publishing), a for-profit company, to print and circulate literature pertaining to the American Indian's position in society.

AISES had been successful at maintaining the participant levels at its annual conference, while increasing the amount and number of paid sponsorships and exhibitors. During 2012 the participant levels were maintained, but the number and amount of paid sponsorships and exhibitors has decreased. While overall total membership increased by 12% (fueled by growth in student and lifetime memberships, professional membership (all categories) declined by 13% during 2012. AISES management is assessing the needs and benefits of the sponsors, exhibitors and members to insure they are receiving value for their investment in the organization. Management expects to improve its working capital by increasing sponsorships and exhibitors at its annual conference, increasing membership, diversifying its revenue sources and controlling expenses. Since AISES derives its member revenue from employees in science, technology, engineering and math (STEM) based companies, the manufacturing and design based economy directly affects AISES' ability to increase revenues.

AISES' program service descriptions follow:

Training and Development—Through a variety of educational programs, AISES offers financial, academic and cultural support to American Indians and Alaska Natives from middle school through graduate school. AISES provides professional development activities to enable teachers to work effectively with Native American Indian and Alaska Native students. AISES builds partnerships with tribes, schools, and other not-for-profit organizations, corporations, foundations and government agencies to realize its goals.

Conference—The national conference is AISES' major event hosted every year for its constituents, and the Career Fair offers companies a unique forum for recruiting Native American Indian students and professionals. Approximately 1,700 people attend the conference each year, with more than half of those being Native American Indian high school and college students.

Scholarships—AISES scholarships are awarded to undergraduate and graduate students, who are members of AISES, for leadership and academic achievement. AISES administers six types of scholarships: the A.T. Anderson Memorial Scholarship; the Burlington Northern Santa Fe Foundation Scholarship; the General Motors Scholarship; the IBM Scholarship; the Bureau of Reclamation Scholarship; and the Google Scholarships.

American Indian Science and Engineering Society and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012
(With Comparative Totals for 2011)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Organization – Continued

Publishing—AISES Publishing produces and distributes AISES' quarterly magazine, *Winds of Change*, and the Annual College Guide.

Internships—The AISES Internship Program is a summer program that provides qualified college students with internship opportunities to explore careers with non-governmental organizations and the federal service. AISES currently administers five internship programs to explore careers with non-governmental organizations and the federal service.

Financial Statement Presentation

The consolidated financial statements include the accounts of AISES and its 88.8% owned subsidiary. All material inter-organization transactions have been eliminated. The consolidated financial statements do not include the financial activities of AISES' various self-directed professional chapter organizations.

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, AISES considers all unrestricted highly liquid investments and certificates-of-deposit with an original maturity of three months or less to be cash equivalents.

Investments

Investments consist primarily of cash and cash equivalents, equities, and fixed income securities, and are stated at quoted fair market value (FMV). Investment income, and realized and unrealized gains or losses are considered unrestricted, temporarily restricted, and permanently restricted income per donor restrictions or management spending policy. Management fees related to investment activity were \$7,582 and \$7,519 in 2012 and 2011, respectively.

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contributions Receivable

Contributions receivable represent unconditional promises to give and are recognized as revenues or gains in the period the pledge is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions receivable are all substantially due within one year and are considered fully collectible at December 31, 2012 and 2011.

Conference Receivables

Conference receivables represent receivables for conference registration, sponsorship, and exhibitor fees. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding conference receivables. The allowance for doubtful accounts was \$4,350 and zero as of December 31, 2012 and 2011, respectively.

Inventories

Inventories consist mainly of blankets and apparel held for resale. Purchased inventory is valued at the lower of cost or market (first in, first out). Contributed inventory is recorded at fair market value at the date of donation.

Property and Equipment

AISES capitalizes all property and equipment expenditures in excess of \$1,000. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at the approximate fair market value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the property and equipment, which range from 3 to 7 years.

Net assets

Unrestricted net assets represent unrestricted contributions received from donors. They also arise from the expirations of existing temporary restrictions, or from revenues received in the course of on-going operations.

Temporarily restricted net assets are resources received from donor contributions and reinvested earnings on the related investments, which are designated to be expended for a specific purpose or within a specified time. Distributions are made pursuant to donor's requests.

Permanently restricted net assets are designated for endowment purposes pursuant to the Board of Director's resolution and monies that have been appropriated for expenditures but are retained in the investment portfolio to earn better returns.

American Indian Science and Engineering Society and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012
(With Comparative Totals for 2011)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Treasury Stock

Treasury stock is shown at cost, and as of December 31, 2012 and 2011, consists of 101 shares of common stock.

Financial Instruments

The carrying amounts of cash, receivables, payables, accrued expenses and other liabilities approximate fair value due to the short maturity periods of these instruments.

Grant Revenue and Receivables

Grant revenue is recognized when earned. The earnings process is considered complete when the authorized expenditure has been made. Earned amounts in excess of collections are classified as grant receivables.

Deferred Revenue

Deferred revenue consists primarily of amounts for scholarships, national conference, science fair and leadership summit sponsorships received in advance of the awarding of the scholarship or date of the event.

Donated Services and Materials

Donated services are recognized as contributions in accordance with accounting principles generally accepted in the United States of America under Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by AISES. Donated materials are reflected as contributions at their estimated values at the date of receipt.

Advertising

Advertising costs are expensed as incurred, and were \$1,600 and \$5,237 in 2012 and 2011, respectively.

Functional Allocation of Expenses

The costs of providing AISES' various programs and supporting services have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported changes in net assets. Actual results could differ from those estimates.

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events

AISES has evaluated all events occurring subsequent to December 31, 2012 and through April 18, 2013, which is the date that the consolidated financial statements were issued, and does not believe that any events occurring during this period require either recognition or disclosure in the accompanying consolidated financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

	2012	2011
Computer	\$ 174,608	\$ 357,240
Furniture	17,934	14,197
Leasehold improvements	15,681	13,879
Office	14,410	12,814
Art collection	6,500	6,500
	229,133	404,630
Less accumulated depreciation	175,041	299,278
Total property and equipment	\$ 54,092	\$ 105,352

NOTE 3 – INVESTMENTS

	2012		2011	
	Cost	FMV	Cost	FMV
Cash equivalents	\$ 57,453	\$ 57,453	\$ 66,031	\$ 66,031
Stocks				
Pooled equity funds	531,932	599,880	526,438	538,308
Common stocks	37,103	52,376	37,103	45,120
Fixed income securities				
Pooled fixed income funds	238,950	246,231	212,097	211,076
Alternative investments	30,867	54,457	26,547	46,904
	\$ 896,305	\$ 1,010,397	\$ 868,216	\$ 907,439

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 4 - INCOME TAXES

AISES is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. AISES has adopted accounting principles generally accepted in the United States of America as they relate to uncertain tax positions. Management believes that all activities of AISES are within their tax-exempt purpose, and that there are no uncertain tax positions.

AISES Publishing, Inc. (API) is a for-profit corporation and is subject to state and federal income taxes. Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due. There are no material deferred tax assets or liabilities. Income tax expenses related to API are included in miscellaneous expense in the accompanying consolidated financial statements.

Currently, 2009, 2010 and 2011 tax years are open and subject to examination by the Internal Revenue Service and New Mexico Taxation and Revenue Department. However, AISES is not currently under audit, nor has AISES or API been contacted by any of these jurisdictions. Based on the evaluation of the AISES' tax positions, Management believes all positions taken would be upheld under an examination. Therefore, AISES and API have recorded no provision for the effects of uncertain tax positions for the year ended December 31, 2012.

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable are discounted and recorded at the net present value of estimated future cash flows, unless this discount is determined by management to be immaterial. Substantially all pledges receivable are from one donor at December 31, 2012. AISES believes that all pledges receivable will be fully collectible when due and, therefore, has not recorded an allowance on pledges receivable. Pledges receivable were \$220,000 at December 31, 2012 and \$321,000 at December 31, 2011.

The amount of pledges receivable expected to be collected in the next three years is as follows:

2013	\$ 120,000
2014	100,000

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Contributions have been temporarily restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 206,185	\$ 232,910
Other	<u>307,033</u>	<u>232,016</u>
	<u>\$ 513,218</u>	<u>\$ 464,926</u>

Net assets were released from restriction by incurring expenditures satisfying donor intent, or by the expiration of time restrictions, of the following restricted funds:

	<u>2012</u>	<u>2011</u>
A.T. Anderson Memorial Scholarship	\$ 162,231	\$ 179,081
IBM Scholarship	-	26,890
Goggle donation	124,309	62,542
General Motors Scholarship	<u>9,750</u>	<u>9,500</u>
	<u>\$ 296,290</u>	<u>\$ 278,013</u>

NOTE 7 - ENDOWMENTS

AISES' endowment funds include donor-restricted assets. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Net Assets Composition by Type of Fund as of December 31, 2012

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 247,032	\$ 882,577	\$ 1,129,609
Portion in pledges receivable	<u>-</u>	<u>180,000</u>	<u>180,000</u>
Total funds	<u>\$ 247,032</u>	<u>\$ 1,062,577</u>	<u>\$ 1,309,609</u>

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 7 – ENDOWMENTS – CONTINUED

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2012

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 159,040	\$ 1,059,833	\$ 1,218,873
Investment return			
Interest and dividends, net of management fees	-	14,289	14,289
Net realized and unrealized gains	-	76,447	76,447
Total investment return	-	90,736	90,736
Reclassification of temporarily restricted investment return	87,992	(87,992)	-
Endowment net assets, end of year	<u>\$ 247,032</u>	<u>\$ 1,062,577</u>	<u>\$ 1,309,609</u>

Endowment Net Assets Composition by Type of Fund as of December 31, 2011

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 159,040	\$ 789,833	\$ 948,873
Portion in pledges receivable	-	270,000	270,000
Total funds	<u>\$ 159,040</u>	<u>\$ 1,059,833</u>	<u>\$ 1,218,873</u>

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 7 – ENDOWMENTS - CONTINUED

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2011

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 184,950	\$ 1,063,447	\$ 1,248,397
Investment return			
Interest and dividends, net of management fees	-	81,843	81,843
Net realized and unrealized gains	-	(108,697)	(108,697)
Total investment return	-	(26,854)	(26,854)
Distributions	-	(2,670)	(2,670)
Reclassification of temporarily restricted investment return	(25,910)	25,910	-
Endowment net assets, end of year	<u>\$ 159,040</u>	<u>\$ 1,059,833</u>	<u>\$ 1,218,873</u>

Return Objectives and Risk Parameters

AISES has adopted investment and spending policies for endowment assets that attempt to provide moderate growth over time with the consistency of total portfolio returns of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which provide for a long-term rate of return on assets that is at least 9%, which is greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for AISES has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in AISES' Investment Policy Statement. AISES recognizes the need to accept the inherent risks of various investments, including the diminution of principal during periodic market fluctuations. The Finance Committee will assess the portfolio as a whole in measuring risk, not discipline by discipline. Risk shall be measured and assessed in standard deviation – means of diversification and non-correlation between asset classes.

American Indian Science and Engineering Society and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012
(With Comparative Totals for 2011)

NOTE 7 – ENDOWMENTS - CONTINUED

Strategies Employed for Achieving Objectives

The Board believes that AISES' risk and liquidity posture is, in large part, a function of asset class mix. The Board has reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. In order to achieve the desired investment performance and meet the target return of AISES, it is important that AISES' assets are invested across all available asset classes to create a well-diversified portfolio. The Board believes that including alternative assets such as real estate, private equity and hedge funds is important to the long-term performance of the endowment funds, provided these asset classes are managed prudently.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In 2012, AISES adopted a policy of appropriating bi-annual distributions, as approved by the Board of Directors, 5% of the prior three years' average end-of-fiscal-year balance. In 2011, AISES' policy was appropriating for distribution each year, as approved by the Board of Directors, all earnings of an account. In establishing this policy, AISES considered the long-term expected return on its endowment. This is consistent with AISES' objective to maintain the purchasing power of the endowment assets held in perpetuity.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or accounting standard requires AISES to retain as a fund in perpetuity. In accordance with accounting policies generally accepted in the United States of America, the deficiencies are reported as unrestricted net assets. There were no such deficiencies as of December 31, 2012 and 2011.

NOTE 8 - FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AISES has the ability to access.

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 8 - FAIR VALUE MEASUREMENTS - CONTINUED

Level 2: Inputs to the valuation methodology include: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the 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. There have been no changes in the methodologies used at December 31, 2012.

Cash and cash equivalents: Valued at net realizable value.

Equities and fixed income securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Alternative investments: Valued using financial statements and good faith estimates as provided by fund managers at the end of the year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 8 - FAIR VALUE MEASUREMENTS – CONTINUED

The following table sets forth by level, within the fair value hierarchy, AISES' assets at fair value as of December 31, 2012:

Assets at Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 57,453	\$ -	\$ -	\$ 57,453
Fixed income				
Corporate obligations	246,231	-	-	246,231
Equity Securities				
Mutual funds and common stocks				
Financial services sector	96,351	-	-	96,351
Technology sector	73,136	-	-	73,136
Consumer cyclical sector	72,271	-	-	72,271
Industrials sector	97,175	-	-	97,175
Consumer defensive sector	66,586	-	-	66,586
Healthcare sector	63,614	-	-	63,614
Basic materials sector	35,034	-	-	35,034
Energy sector	57,756	-	-	57,756
Communication services sector	49,988	-	-	49,988
Real estate sector	13,837	-	-	13,837
Utilities sector	26,508	-	-	26,508
Alternative investments				
Consumer cyclical sector	-	283	-	283
Basic materials sector	-	3,246	-	3,246
Real estate sector	-	50,928	-	50,928
	\$ 955,940	\$ 54,457	\$ -	\$ 1,010,397

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 8 - FAIR VALUE MEASUREMENTS - CONTINUED

The following table sets forth by level, within the fair value hierarchy, AISES' assets at fair value as of December 31, 2011:

Assets at Fair Value as of December 31, 2011				
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 66,031	\$ -	\$ -	\$ 66,031
Fixed income				
Corporate obligations	211,076	-	-	211,076
Equity Securities				
Mutual funds and common stocks				
Financial services sector	86,615	-	-	86,615
Technology sector	63,600	-	-	63,600
Consumer cyclical sector	63,086	-	-	63,086
Industrials sector	85,507	-	-	85,507
Consumer defensive sector	59,839	-	-	59,839
Healthcare sector	57,758	-	-	57,758
Basic materials sector	30,708	-	-	30,708
Energy sector	52,821	-	-	52,821
Communication services sector	46,577	-	-	46,577
Real estate sector	11,984	-	-	11,984
Utilities sector	24,933	-	-	24,933
Alternative investments				
Consumer cyclical sector	-	244	-	244
Basic materials sector	-	2,795	-	2,795
Real estate sector	-	43,865	-	43,865
	\$ 860,535	\$ 46,904	\$ -	\$ 907,439

American Indian Science and Engineering Society and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012
(With Comparative Totals for 2011)

NOTE 9 – LINE-OF-CREDIT

In April 2012, AISES entered into an unsecured line-of-credit with a financial institution that allows for up to \$500,000 to be drawn upon as needed. The line-of-credit bears variable interest at prime (3.25% at initiation of agreement) plus 1.00%, with a floor of 5.00%, and required monthly payments of interest only. There was no balance on the line at December 31, 2012. The line-of-credit matures May 2013.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating Leases

AISES leases equipment under operating leases expiring in various years through 2016. Additionally, AISES leases its office facility under a non-cancelable operating lease which will expire in 2017.

Minimum future lease payments follow:

2013	\$	221,240
2014		98,209
2015		90,504
2016		86,655
2017		<u>58,310</u>
	\$	<u>554,918</u>

Along with the operating leases as mentioned above, AISES enters into other month-to-month operating lease agreements. Total rental expense for all leases was \$98,675 and \$97,574 in 2012 and 2011, respectively.

Legal Matters

AISES, in the normal course of business, is subject to claims and litigation. Management believes that there are no outstanding claims or assessments which would be subject to a material unfavorable outcome and not covered by insurance.

Concentration of Credit Risk

AISES maintains its cash in bank deposit accounts, which, at times, may exceed the federally insured limits. In addition, AISES has a repurchase agreement that is collateralized by securities whose market value may be less than the principal of the repurchase agreement. AISES has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**American Indian Science and
Engineering Society and Subsidiary**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2012
(With Comparative Totals for 2011)**

NOTE 11 - SERVICE AGREEMENT

During 2011, API entered into a contract with an editorial company to provide editorial and managerial services for AISES' magazine, *Winds of Change* and AISES' Annual College Guide. The contract stipulates payments will be based on net revenues for the publication where the editorial company is to receive 40% of net revenues.

Administrative and commissions expenses totaled \$49,173 and \$47,353 for the years ended December 31, 2012 and 2011, respectively.

NOTE 12 - RETIREMENT PLAN

AISES has established a simple IRA retirement plan (the Plan) covering all full-time employees. The Plan allows eligible employees to contribute up to \$10,000 of their annual salary. In addition, AISES will match 100% of each employee's contribution, up to a limit of 3% of each employee's compensation. All such matching contributions are immediately fully vested. AISES contributed \$14,751 and \$18,867 to the Plan during 2012 and 2011, respectively.

SUPPLEMENTAL SCHEDULES

American Indian Science and Engineering Society and Subsidiary

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION

December 31, 2012
(With Comparative Totals for 2011)

<u>Assets</u>	<u>AISES</u>	<u>AISES Publishing, Inc.</u>	<u>Consolidation</u>	<u>2012 Total</u>	<u>2011 Total</u>
Current assets					
Cash and cash equivalents	\$ 255,234	\$ 222,623	\$ -	\$ 477,857	\$ 603,778
Certificates of deposit	-	-	-	-	202,124
Investments	182,589	-	-	182,589	104,378
Receivables					
Conference, net	95,965	-	-	95,965	38,311
Contribution, trade, pledges and other	168,053	-	(11,007)	157,046	204,353
Grants	-	-	-	-	-
Prepaid expenses and deposits	31,396	2,960	-	34,356	19,087
Inventories	23,203	-	-	23,203	12,949
	<u>756,440</u>	<u>225,583</u>	<u>(11,007)</u>	<u>971,016</u>	<u>1,184,980</u>
Property and equipment, net	54,092	-	-	54,092	105,352
Investment in AISES Publishing, Inc.	224,633	-	(224,633)	-	-
Pledges receivable	121,000	-	-	121,000	221,000
Investments - Sequoyah endowment	785,192	-	-	785,192	760,445
Investments - Other endowments	42,616	-	-	42,616	42,616
	<u>\$ 1,983,973</u>	<u>\$ 225,583</u>	<u>\$ (235,640)</u>	<u>\$ 1,973,916</u>	<u>\$ 2,314,393</u>
 <u>Liabilities and Net Assets</u>					
Current liabilities					
Accounts payable	\$ -	\$ 14,338	\$ (11,007)	\$ 3,331	\$ -
Accrued liabilities	103,406	(41,621)	-	61,785	87,057
Deferred revenue	183,793	-	-	183,793	258,776
	<u>287,199</u>	<u>(27,283)</u>	<u>(11,007)</u>	<u>248,909</u>	<u>345,833</u>
Net assets					
Unrestricted					
AISES	120,979	-	-	120,979	418,928
Noncontrolling interest in AISES Publishing, Inc.	-	-	28,233	28,233	24,873
Temporarily restricted	513,218	-	-	513,218	464,926
Permanently restricted	1,062,577	-	-	1,062,577	1,059,833
Common stock	-	101	(101)	-	-
Less: Treasury stock, 101 common shares, at cost	-	(101)	101	-	-
Retained earnings	-	252,866	(252,866)	-	-
	<u>1,696,774</u>	<u>252,866</u>	<u>(224,633)</u>	<u>1,725,007</u>	<u>1,968,560</u>
	<u>\$ 1,983,973</u>	<u>\$ 225,583</u>	<u>\$ (235,640)</u>	<u>\$ 1,973,916</u>	<u>\$ 2,314,393</u>

American Indian Science and Engineering Society and Subsidiary

CONSOLIDATING STATEMENTS OF ACTIVITIES

Year ended December 31, 2012
(With Comparative Totals for 2011)

Revenues, Support and Gains	AISES			2012	2011
	AISES	Publishing, Inc.	Consolidation	Total	Total
Conference registration fees	\$ 1,084,072	\$ -	\$ -	\$ 1,084,072	\$ 1,331,827
Advertising income	-	409,778	-	409,778	389,447
Grants - federal	425,036	-	-	425,036	307,556
Contributions	335,783	-	-	335,783	359,461
Grants - state and other	227,043	-	-	227,043	278,832
Membership fees	81,833	-	-	81,833	109,292
Science fair	91,215	-	-	91,215	153,775
Investment (loss) income	111,264	-	-	111,264	(21,834)
Subscription sales	-	6,792	-	6,792	9,081
Other, net	36,653	-	(6,381)	30,272	18,723
Gain on investment in subsidiary	29,992	-	(26,633)	3,359	4,242
Total revenues, support and gains	2,422,891	416,570	(33,014)	2,806,447	2,940,402
Expenses					
Program services					
Conference	780,685	-	-	780,685	797,018
Training and development	497,220	-	-	497,220	566,753
Publishing	-	386,578	(6,381)	380,197	360,828
Internships	99,680	-	-	99,680	133,298
Scholarships	292,655	-	-	292,655	236,049
Education and outreach	31,136	-	-	31,136	150,738
Other	145,128	-	-	145,128	90,174
	1,846,504	386,578	(6,381)	2,226,701	2,334,858
Supporting services					
Management and general	619,511	-	-	619,511	473,713
Fund-raising	200,429	-	-	200,429	118,146
	819,940	-	-	819,940	591,859
Total expenses	2,666,444	386,578	(6,381)	3,046,641	2,926,717
Change in net assets	(243,553)	29,992	(26,633)	(240,194)	13,685
Less: Change in net assets attributable to noncontrolling interest in AISES Publishing, Inc.	(3,359)	-	-	(3,359)	(4,242)
Change in net assets attributable to AISES	(246,912)	29,992	(26,633)	(243,553)	9,443
Net assets, beginning of year	1,943,688	222,874	(198,002)	1,968,560	1,959,117
Net assets, end of year	\$ 1,696,776	\$ 252,866	\$ (224,635)	\$ 1,725,007	\$ 1,968,560

American Indian Science and Engineering Society and Subsidiary

CONSOLIDATING STATEMENTS OF FUNCTIONAL EXPENSES

Year ended December 31, 2012
(With Comparative Totals for 2011)

	Program Services					
	Conference	Training and Development	AISES Publishing, Inc.	Internships	Scholarships	Education and Outreach
	Salaries	\$ 44,210	\$ 151,440	\$ -	\$ 25,828	\$ 12,541
Convention costs	450,688	4,053	-	-	-	-
Professional fees	64,783	10,290	143,954	-	-	-
Awards/gifts and scholarships	55,444	52,191	-	-	244,900	166
Participant costs and stipends	35,983	145,210	-	45,360	32,619	-
Miscellaneous	21,725	34,595	75,578	-	103	-
Printing and copying	31,490	5,015	129,620	21	-	19
Fringe benefits	13,233	42,196	-	6,972	1,016	3,791
Travel	29,433	19,928	8,263	2,866	-	5,646
Occupancy	9,760	22,165	-	1,304	1,305	3,147
Depreciation	-	-	-	-	-	-
Postage and shipping	18,597	1,855	20,087	67	38	489
Computer service and equipment	636	-	-	-	-	-
Housing allowance	-	-	-	17,235	-	-
Materials and supplies	1,769	2,374	-	-	122	130
Dues and subscriptions	-	2,769	-	-	-	1,385
Telephone and communications	1,334	3,139	-	27	11	1,173
Bad debt expense	-	-	2,534	-	-	-
Advertising	1,600	-	-	-	-	-
Office expense	-	-	161	-	-	-
In-kind	-	-	-	-	-	-
	\$ 780,685	\$ 497,220	\$ 380,197	\$ 99,680	\$ 292,655	\$ 31,136

Schedule 3

Other	Total Program Services	Supporting Services			2012 Total	2011 Total
		Management and General	Fund- Raising	Total Supporting Services		
\$ 63,765	\$ 312,974	\$ 231,235	\$ 85,465	\$ 316,700	\$ 629,674	\$ 590,834
-	454,741	509	-	509	455,250	475,346
3,344	222,371	100,392	41,438	141,830	364,201	453,732
11	352,712	1,123	-	1,123	353,835	326,557
-	259,172	-	-	-	259,172	186,733
25,889	157,890	67,788	9,249	77,037	234,927	138,654
981	167,146	6,753	4,486	11,239	178,385	174,000
19,175	86,383	65,200	25,417	90,617	177,000	179,577
3,597	69,733	39,275	6,786	46,061	115,794	120,244
11,191	48,872	33,459	16,344	49,803	98,675	97,574
-	-	45,978	-	45,978	45,978	57,310
427	41,560	3,029	1,230	4,259	45,819	31,932
15,723	16,359	3,037	1,176	4,213	20,572	3,782
-	17,235	-	-	-	17,235	36,443
293	4,688	10,724	1,600	12,324	17,012	16,357
265	4,419	2,929	5,263	8,192	12,611	15,076
467	6,151	3,730	1,975	5,705	11,856	15,925
-	2,534	4,350	-	4,350	6,884	1,158
-	1,600	-	-	-	1,600	5,237
-	161	-	-	-	161	246
-	-	-	-	-	-	-
<u>\$ 145,128</u>	<u>\$ 2,226,701</u>	<u>\$ 619,511</u>	<u>\$ 200,429</u>	<u>\$ 819,940</u>	<u>\$ 3,046,641</u>	<u>\$ 2,926,717</u>