



American Institute of Chemical Engineers

Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2012 and 2011



AMERICAN INSTITUTE OF CHEMICAL ENGINEERS

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
American Institute of Chemical Engineers

We have audited the accompanying financial statements of the American Institute of Chemical Engineers ("AIChE"), which comprise the statements of financial position as of as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AIChE as of December 31, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marks Paneth & Shron LLP

New York, NY
May 15, 2013

AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	Restated (Note 15) 2011
ASSETS		
Cash and cash equivalents (Note 2D)	\$ 4,039,084	\$ 2,916,422
Investments, at fair value (Notes 2E, 3, 10C and 13)	16,379,689	14,241,334
Other investments (Notes 2E and 9A)	437,281	436,186
Accounts receivable, net (Note 2H)	1,639,833	1,695,518
Prepaid expense and other (Note 11)	448,000	304,919
Pledges receivable, net (Notes 2C and 4)	62,240	80,498
Property and equipment, net (Notes 2F and 5)	<u>335,254</u>	<u>237,930</u>
TOTAL ASSETS	<u>\$ 23,341,381</u>	<u>\$ 19,912,807</u>
LIABILITIES		
Accounts payable	\$ 1,439,460	\$ 871,088
Deferred revenue - dues, subscriptions, and other (Note 2G)	4,338,905	3,682,991
Accrued expenses:		
Leasehold assignment (Note 9A)	67,316	152,064
Employee vacation and other benefits	303,771	301,484
Pension and other postretirement benefit costs (Notes 6 and 7)	3,239,634	3,632,574
Other	<u>796,342</u>	<u>1,084,019</u>
TOTAL LIABILITIES	<u>10,185,428</u>	<u>9,724,220</u>
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS (Note 2B)		
Unrestricted (Notes 2B, 6, 7 and 14)	12,054,021	9,226,683
Temporarily restricted (Notes 8 and 14)	383,390	362,729
Permanently restricted (Notes 8 and 14)	<u>718,542</u>	<u>599,175</u>
TOTAL NET ASSETS	<u>13,155,953</u>	<u>10,188,587</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,341,381</u>	<u>\$ 19,912,807</u>

**AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	For the Year Ended December 31, 2012				For the Year Ended December 31, 2011 (Restated) (Note 15)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
OPERATING ACTIVITY:								
REVENUE AND SUPPORT:								
Dues and other membership revenue (Note 2G)	\$ 4,548,435	\$ -	\$ -	\$ 4,548,435	\$ 4,397,382	\$ -	\$ -	\$ 4,397,382
Publications sales and subscriptions	2,663,829	-	-	2,663,829	2,561,475	-	-	2,561,475
Industry technology alliances (Note 1)	4,804,872	31,875	-	4,836,747	5,187,212	62,050	-	5,249,262
Meetings and technical programming	5,007,456	-	-	5,007,456	4,642,706	-	-	4,642,706
Education services	809,734	-	-	809,734	398,077	-	-	398,077
Financial services	739,672	-	-	739,672	654,330	-	-	654,330
AIChE Foundation - contributions (Note 1)	653,361	-	119,367	772,728	485,055	-	-	485,055
Other revenue	444,484	-	-	444,484	366,812	-	-	366,812
Net assets released from restrictions (Note 8)	92,571	(92,571)	-	-	186,309	(186,309)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	19,764,414	(60,696)	119,367	19,823,085	18,879,358	(124,259)	-	18,755,099
EXPENSES:								
Program Related:								
Membership	2,493,769	-	-	2,493,769	2,699,468	-	-	2,699,468
Publications	2,290,483	-	-	2,290,483	2,208,610	-	-	2,208,610
Industry technology alliances	4,673,998	-	-	4,673,998	4,411,330	-	-	4,411,330
Meetings and technical programming	2,709,258	-	-	2,709,258	3,038,748	-	-	3,038,748
Education services	1,491,786	-	-	1,491,786	824,703	-	-	824,703
Financial services	189,351	-	-	189,351	186,293	-	-	186,293
Other program support (Note 10)	1,084,748	-	-	1,084,748	783,403	-	-	783,403
	<u>14,933,393</u>	<u>-</u>	<u>-</u>	<u>14,933,393</u>	<u>14,152,555</u>	<u>-</u>	<u>-</u>	<u>14,152,555</u>
Supporting Services:								
General and administration	3,336,130	-	-	3,336,130	3,059,051	-	-	3,059,051
Fundraising	785,488	-	-	785,488	582,273	-	-	582,273
	<u>4,121,618</u>	<u>-</u>	<u>-</u>	<u>4,121,618</u>	<u>3,641,324</u>	<u>-</u>	<u>-</u>	<u>3,641,324</u>
TOTAL OPERATING EXPENSES	19,055,011	-	-	19,055,011	17,793,879	-	-	17,793,879
Change In Net Assets From Operations	709,403	(60,696)	119,367	768,074	1,085,479	(124,259)	-	961,220
NON-OPERATING ACTIVITY:								
Investment return, net (Notes 3 and 14)	2,024,836	81,357	-	2,106,193	(414,189)	86	-	(414,103)
Pension related changes other than net periodic pension cost (Note 6)	6,429	-	-	6,429	(663,596)	-	-	(663,596)
Postretirement related changes other than net periodic postretirement cost (Note 7)	86,670	-	-	86,670	(30,959)	-	-	(30,959)
TOTAL NON-OPERATING ACTIVITY	2,117,935	81,357	-	2,199,292	(1,108,744)	86	-	(1,108,658)
CHANGE IN NET ASSETS	2,827,338	20,661	119,367	2,967,366	(23,265)	(124,173)	-	(147,438)
Net assets - beginning of year - as previously stated	9,226,683	362,729	599,175	10,188,587	3,223,375	6,513,475	599,175	10,336,025
Prior period adjustment (Note 15)	-	-	-	-	6,026,573	(6,026,573)	-	-
Net assets - beginning of year - as restated	<u>9,226,683</u>	<u>362,729</u>	<u>599,175</u>	<u>10,188,587</u>	<u>9,249,948</u>	<u>486,902</u>	<u>599,175</u>	<u>10,336,025</u>
NET ASSETS - END OF YEAR	\$ 12,054,021	\$ 383,390	\$ 718,542	\$ 13,155,953	\$ 9,226,683	\$ 362,729	\$ 599,175	\$ 10,188,587

The accompanying notes are an integral part of these financial statements.

**AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,967,366	\$ (147,438)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized (gain) loss on investments	(1,721,946)	756,042
Depreciation and amortization	104,258	152,547
Bad debt expense	<u>10,281</u>	<u>34,536</u>
Subtotal	1,359,959	795,687
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Accounts receivable	45,404	(35,789)
Prepaid expenses and other	(143,081)	(77,709)
Pledges receivable	18,258	(13,753)
Increase or (decrease) in liabilities:		
Accounts payable	568,372	(630,323)
Deferred revenue	655,914	(300,735)
Accrued expenses:		
Leasehold assignment	(84,748)	(84,749)
Employee vacation and other benefits	2,287	23,989
Pension and other postretirement benefit costs	(392,940)	308,051
Other	<u>(287,676)</u>	<u>(125,688)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,741,749</u>	<u>(141,019)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,179,453)	(648,096)
Proceeds from the sale of investments	761,949	276,470
Purchases of property and equipment	<u>(201,583)</u>	<u>(156,343)</u>
Net Cash Used in Investing Activities	<u>(619,087)</u>	<u>(527,969)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of royalty advance	<u>-</u>	<u>(62,500)</u>
Net Cash Used in Financing Activities	<u>-</u>	<u>(62,500)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,122,662	(731,488)
Cash and cash equivalents - beginning of the year	<u>2,916,422</u>	<u>3,647,910</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,039,084</u>	<u>\$ 2,916,422</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 937</u>

The accompanying notes are an integral part of these financial statements.

**AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The American Institute of Chemical Engineers (“AIChE”) is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. AIChE serves chemical engineers throughout the world. AIChE fosters and disseminates chemical engineering knowledge, supports professional and personal growth of its members, and applies the expertise of its members to address societal needs throughout the world. AIChE offers its members publications, meetings and technical programming. These products and services promote excellence in chemical engineering education and global practice, advance the development and exchange of relevant knowledge, and enhance the lifelong career development of chemical engineers. Through its Industry Technology Alliances (which provides AIChE with contributions), AIChE stimulates collaborative efforts among industry, universities, government and professional societies.

AIChE’s Foundation, which is not separately incorporated, seeks to solicit additional financial support for AIChE’s programs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. AIChE’s financial statements have been prepared on the accrual basis of accounting. AIChE adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).
- B. AIChE maintains its net assets under the following three classes:
- Unrestricted – represents resources available for support of AIChE’s operations over which the Board of Directors has discretionary control. Unrestricted net assets include Board designated net assets of \$1,121,883 and \$1,048,730, respectively, as of December 31, 2012 and 2011. The Board designated net assets consist of a “Facilities Reserve” fund established by AIChE’s Board of Directors. The Board designated funds, including investment income earned on those funds, are to be used as approved by the Board (see Note 14).
 - Temporarily restricted – represents assets that are subject to donor-imposed stipulations. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
 - Permanently restricted – represents assets that must remain intact in perpetuity.
- C. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.
- D. AIChE considers highly liquid debt instruments with a maturity of three months or less when acquired to be cash equivalents, with the exception of cash and those short-term investments managed by AIChE’s investment managers for long-term investment purposes.
- E. Investments are reported at fair value based upon quoted market value. Certificates of deposit held for investments that are not debt securities are included in other investments in the statements of financial position. Investments in certificates of deposit are carried at cost, which approximates fair value because of the short maturities of the certificates of deposit. Securities transactions are recorded on a trade-date basis. Realized gains and losses on sales of investments are determined on a specific identification basis and are included in investment activity in the statements of activities. Interest income is recognized when earned and dividends are recorded on the ex-dividend date.

AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- F. Property and equipment is stated at cost and depreciated using the straight-line basis over their estimated useful lives. Leasehold improvements are amortized over the lesser of their useful lives or the term of the lease. AIChE capitalizes all assets with a cost of \$5,000 or more and a useful life of more than one year.
- G. Dues and subscriptions are billed in the year prior to which they apply. Dues and subscriptions collected in the year of billing represents revenue for the following year and therefore are recorded as deferred revenue. Accounts receivable for dues and subscriptions are not recorded until the year in which they become due. Discounted dues payments collected in the year subsequent to billing are recognized as deferred revenue and applied to future dues billings.
- H. As of December 31, 2012 and 2011, AIChE determined that an allowance of approximately \$35,000 and \$43,000, respectively, should be provided for accounts receivable. Such an estimate is based on management's assessment of the aged basis of its funding sources, creditworthiness of its donors, funding sources and customers, current economic conditions and historical information.
- I. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.
- J. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 13.

NOTE 3 – INVESTMENTS

Investments consisted of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Money market mutual funds	\$ 394,980	\$ 309,749
Equity securities – domestic	18,600	-
Fixed-income mutual funds	5,685,892	5,101,097
Equity mutual funds	<u>10,280,217</u>	<u>8,830,488</u>
	<u>\$ 16,379,689</u>	<u>\$ 14,241,334</u>

Investments are subject to market volatility that could change their carrying value in the near term.

Investment return consisted of the following for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 425,105	\$ 379,257
Realized and unrealized gains (losses)	1,721,946	(756,042)
Investment fees	<u>(40,858)</u>	<u>(37,318)</u>
	<u>\$ 2,106,193</u>	<u>\$ (414,103)</u>

AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Amounts due in:		
Less than one year	\$ 19,250	\$ 19,250
One to five years	<u>45,250</u>	<u>64,500</u>
Gross pledges receivable	64,500	83,750
Less: discount to present value at 3%	<u>(2,260)</u>	<u>(3,252)</u>
	<u>\$ 62,240</u>	<u>\$ 80,498</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	Estimated Useful Lives
Furniture and fixtures	\$ 510,511	\$ 510,511	3-5 Years
Computer and office equipment	6,406,127	6,204,544	3-5 Years
Leasehold improvements	<u>669,879</u>	<u>669,879</u>	15 Years
Total cost	7,586,517	7,384,934	
Less: accumulated depreciation/amortization	<u>(7,251,263)</u>	<u>(7,147,004)</u>	
Net book value	<u>\$ 335,254</u>	<u>\$ 237,930</u>	

Depreciation and amortization expense amounted to \$104,258 and \$152,547 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 – PENSION PLANS

Through December 31, 2005, AIChE had a noncontributory, defined benefit pension plan covering all full-time employees, unless the employee was covered by another retirement plan, via a collective bargaining agreement. As of December 31, 2005, AIChE froze this plan. AIChE will continue to maintain this plan for all plan participants; however, further benefits will not accrue after December 31, 2005. The benefits are based on years of service through December 31, 2005 and the employee's average pay. Average pay is defined as the highest average of basic annual pay including any overall incentive program compensation during any 36 consecutive months within the 120-month period prior to December 31, 2005. AIChE's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the plan with assets sufficient to provide benefits to plan participants.

AIChE maintains a qualified contributory defined contribution retirement plan pursuant to Internal Revenue Code Section 403(b) for its employees. Employees are eligible to participate after 500 hours of service in a 6-month period and attaining the age of 21. Under the terms of the plan, employees are entitled to defer a portion of their annual compensation within limitations established by the Internal Revenue Code ("IRC"). AIChE matches each employee's contribution, up to a maximum of 3% of annual compensation. Contributions are deemed to be vested upon completion of two years of employment. AIChE's contributions under the plan amounted to \$136,375 and \$132,435 for the years ended December 31, 2012 and 2011, respectively.

As a substitute for the defined benefit plan, which was frozen on December 31, 2005, AIChE added, effective January 1, 2006, a noncontributory element to the defined contribution retirement plan, whereby AIChE contributes an amount based on the employee's total compensation. AIChE's discretionary contributions to the 403(b) plan amounted to \$494,956- and \$444,991 for the years ended December 31, 2012 and 2011, respectively.

AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 6 – PENSION PLANS (Continued)

AIChE also offers a deferred compensation arrangement under Section 457(b) of the IRC for key employees. AIChE does not make any contributions to the 457(b) plan as the 457(b) plan is entirely funded by employee contributions. AIChE had no liability relating to the 457(b) plan as of December 31, 2012 and 2011, respectively.

The funded status of the defined benefit plan as of December 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 9,639,076	\$ 9,480,624
Interest cost	482,741	454,856
Actuarial loss	774,825	128,982
Benefits paid	<u>(266,609)</u>	<u>(425,386)</u>
Benefit obligation at end of year	10,630,033	9,639,076
Fair value of plan assets	<u>8,368,487</u>	<u>7,129,754</u>
Funded status	<u>\$ (2,261,546)</u>	<u>\$ (2,509,322)</u>

Amounts recognized in unrestricted net assets for the pension plan consisted of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Net loss	<u>\$ (3,107,992)</u>	<u>\$ (3,114,421)</u>

The components of net periodic benefit cost for the pension plan for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Interest cost	\$ 482,741	\$ 454,856
Expected return on plan assets	(535,450)	(522,969)
Amortization of net loss	<u>230,253</u>	<u>152,201</u>
	<u>\$ 177,544</u>	<u>\$ 84,088</u>

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Net loss	\$ 223,824	\$ 815,797
Amortization of net loss	<u>(230,253)</u>	<u>(152,201)</u>
Total recognized in change in unrestricted net assets	<u>\$ (6,429)</u>	<u>\$ 663,596</u>
Total recognized in net periodic pension cost and change in unrestricted net assets	<u>\$ 171,115</u>	<u>\$ 747,684</u>

**AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 – PENSION PLANS (Continued)

The estimated net loss for the pension plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year is \$(215,466).

The weighted-average assumptions used to determine the benefit obligation and net periodic benefit cost for the pension plan as of and for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Discount rate used for net periodic benefit cost	5.25%	5.25%
Discount rate used for pension obligation	4.75%	5.25%
Expected return on plan assets	7.50%	7.75%

The defined benefit plan's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

AIChE expects to contribute approximately \$437,400 to its pension plan in 2013.

The following schedule of benefit payments for the pension plan, which reflects expected future services, as appropriate, are expected to be paid in each of the next five years and in the aggregate for the five years thereafter:

2013	\$ 696,631
2014	610,997
2015	334,524
2016	339,881
2017	483,223
5 years thereafter	3,972,100

The assets (expressed in percentages) for the pension plan consisted of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Equity securities	59%	60%
Debt securities	37%	38%
Cash equivalents	<u>4%</u>	<u>2%</u>
	<u>100%</u>	<u>100%</u>

The fair value hierarchy defines three levels, as further described in Note 13. Pension assets carried at fair value at December 31, 2012 and 2011 are classified in the table as Level 1 as follows:

	<u>2012</u>	<u>2011</u>
Investments:		
Mutual Funds		
U.S. Large Cap/Mid Cap	\$ 2,553,225	\$ 2,222,568
U.S. Small Cap	734,985	641,479
Diversified Foreign Equity	1,687,705	1,411,775
U.S. Core Bonds	2,003,816	1,792,921
Global Bonds	1,078,623	928,633
Money Market Mutual Funds	<u>310,133</u>	<u>132,378</u>
Total assets at fair value	<u>\$ 8,368,487</u>	<u>\$ 7,129,754</u>

**AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 – PENSION PLANS (Continued)

The composition of AIChE's plan assets is a target asset mix allocated 60%/40% between equity and fixed-income securities. Since the primary purpose of the plan is to provide benefits at normal retirement age, the primary goal of the investment of funds in the plan is to provide a long-term annualized investment return equivalent or superior to the plan's current discount rate, and consistently above the median performance of an appropriate peer manager universe.

In pursuing these objectives, the risk tolerance of the plan should be viewed as moderate. Volatility of annual returns, including losses in value, may be tolerated provided they are consistent with current benchmark volatility and there are reasonable expectations the plan can achieve its long-term objectives. Volatility will be reduced by assuring that the plan assets are at all times diversified by asset class, economic sector, and industry and/or market capitalization. The target asset mix is developed and periodically reviewed based on rolling three and five-year strategic investment horizons. In order to effectively maintain the benefits of diversification, actual allocation percentages are rebalanced back to the current asset target mix on a quarterly basis.

NOTE 7 – POSTRETIREMENT OTHER THAN PENSIONS

AIChE has a contributory postretirement medical and life insurance plan for all eligible employees. As of February 1, 2007, each participant will be eligible to receive benefits at age 55 with the completion of five years of service, or attainment of age 62 or age 60 in the case of a position elimination. Prior to February 1, 2007, each participant was eligible to receive benefits at age 55 and 10 years of service, or age 62 or age 60 if the position is eliminated. Employees hired after February 1, 2007 will be eligible to purchase coverage under the postretirement medical plan but will not be eligible for any subsidy from AIChE. In addition, employees hired after February 1, 2007 will not be eligible to receive postretirement life insurance benefits. Coverage for both the retiree and the spouse continues for their lifetimes, so long as required contributions are made. AIChE contributes an amount equal to the difference between the medical plan cost and the retiree's contributions for medical coverage, up to a limit of two times AIChE's contribution paid in 1995 for such coverage.

The funded status of the plan as of December 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 1,123,252	\$ 1,136,821
Service cost	5,453	6,167
Interest cost	52,263	56,473
Plan participants' contributions	37,867	52,096
Actuarial gain	(162,529)	(35,054)
Benefits paid	<u>(78,218)</u>	<u>(93,251)</u>
Benefit obligation at end of year	<u>978,088</u>	<u>1,123,252</u>
Funded status	<u>\$ (978,088)</u>	<u>\$ (1,123,252)</u>

Amounts recognized in unrestricted net assets for the plan consisted of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Transition obligation	\$ (47,500)	\$ (71,249)
Prior service credit	199,552	257,776
Gain	<u>575,194</u>	<u>454,049</u>
	<u>\$ 727,246</u>	<u>\$ 640,576</u>

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NOTE 7 – POSTRETIREMENT OTHER THAN PENSIONS (Continued)

The components of net periodic benefit cost for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 5,453	\$ 6,167
Interest cost	52,263	56,473
Amortization of transition obligation	23,749	23,749
Amortization of prior service credit	(58,224)	(58,224)
Amortization of net gain	<u>(41,384)</u>	<u>(31,538)</u>
Net benefit cost	<u>\$ (18,143)</u>	<u>\$ (3,373)</u>

Other changes in plan assets and benefit obligations recognized in the change in unrestricted net assets for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Actuarial gain	\$ (162,529)	\$ (35,054)
Amortization of transition obligation	(23,749)	(23,749)
Amortization of prior service credit	58,224	58,224
Amortization of net gain	<u>41,384</u>	<u>31,538</u>
Total recognized in change in unrestricted net assets	<u>\$ (86,670)</u>	<u>\$ 30,959</u>
Total recognized in net periodic pension cost and change in unrestricted net assets	<u>\$ (104,813)</u>	<u>\$ 27,586</u>

The estimated net gain, transition obligation and prior service credit for the plan that will be amortized from the unrestricted net asset balance into net periodic benefit cost over the next fiscal year is \$30,000, \$(24,000) and \$58,000, respectively.

The weighted-average assumptions to determine the benefit obligation and net periodic benefit cost as of and for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Discount rate used for net periodic benefit cost	5.25%	5.25%
Discount rate used for benefit obligations	4.75%	5.25%

The following schedule of benefit payments (net of expected participant contributions), which reflects expected future services, as appropriate, are expected to be paid in each of the next five years and in the aggregate for the five years thereafter:

2013	\$ 60,362
2014	58,459
2015	68,569
2016	72,012
2017	83,235
5 years thereafter	539,972

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NOTE 7 – POSTRETIREMENT OTHER THAN PENSIONS (Continued)

The following table presents the health care cost trend rate assumed for next year, the ultimate trend rate, and the year in which the rate reaches the ultimate rate:

Health care cost trend rate assumed for next year	7.3%
Ultimate trend rate to which the cost trend rate is	
Expected to decline	4.6%
Year that the rate reaches the ultimate trend rate	2082+

The health care cost trend rate assumption has an effect on the amounts reported for the plan. To illustrate, increasing the assumed health care cost trend rates by 1% would decrease the accumulated postretirement benefit obligations by \$210,192 as of December 31, 2012, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$16,756. Decreasing the assumed health care cost trend rates by 1% would increase the accumulated postretirement benefit obligations by \$132,539 as of December 31, 2012, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$10,746.

NOTE 8 – NET ASSETS

Temporarily restricted net assets as of December 31, 2012 and 2011 were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Industry technology alliances	\$ 214,310	\$ 275,006
Other programs	65,289	65,289
Unappropriated earnings on endowment (time restricted)	<u>103,791</u>	<u>22,434</u>
	<u>\$ 383,390</u>	<u>\$ 362,729</u>

Permanently restricted net assets as of December 31, 2012 and 2011 were restricted to investments in perpetuity and consisted of the following:

	<u>2012</u>	<u>2011</u>
Award programs for scholastic achievement	\$ 456,367	\$ 350,000
Educational and professional development	211,515	211,515
Public and government outreach and other	<u>50,660</u>	<u>37,660</u>
	<u>\$ 718,542</u>	<u>\$ 599,175</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors during the years ended December 31, 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Industry technology alliances	<u>\$ 92,571</u>	<u>\$ 186,309</u>

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NOTE 9 – COMMITMENTS AND CONTINGENCIES

- A. On January 5, 2004, AIChE entered into an agreement (the "Sublease"), which assigned its remaining interest in its office space lease of 44,000 square feet in New York City and simultaneously subleased 11,500 square feet of the space from the assignee. However, under the terms of the Sublease, which expires in August 2013, AIChE remains secondarily liable for all obligations in the original lease, except for maintaining a security deposit with the original landlord.

During the year ended December 31, 2003, AIChE accrued the costs and loss associated with this transaction. The costs, which totaled \$3,643,000, were comprised of transaction costs, adjustments in the value of leasehold improvements and furniture, rent and construction allowances. During the years ended December 31, 2012 and 2011, AIChE paid approximately \$85,000 each year in total of these accrued expenses. As of December 31, 2012 and 2011, AIChE maintained a letter of credit from Citibank to secure its rental obligation, as well as other obligations, totaling approximately \$420,000 for each year, which is due under the terms of the Sublease. The letter of credit is secured by a certificate of deposit which is classified as other investments in the accompanying financial statements.

During 2009, AIChE entered into a lease agreement for the rental of office space in Connecticut. The lease is for a four-year term commencing in August 2009 and expiring in August 2013. The annual base rent and service charges are approximately \$31,000 over the lease term. Subsequent to December 31, 2012, this lease agreement was renewed for an additional four years with annual base rent charges of approximately \$32,000 over the lease term.

Future minimum lease payments under the Sublease and lease agreements subsequent to December 31, 2012 and through their expiration in August 31, 2013 are approximately \$394,000.

Rent expense for the years ended December 31, 2012 and 2011 amounted to approximately \$596,000 and \$588,000, respectively.

In conjunction with the expiration of the Sublease in 2013, AIChE entered into a lease agreement for the rental of office space in New York City in April 2013. The lease agreement is for a term of fifteen years commencing on the date the landlord delivers possession of the leased space to AIChE. There is a one-time renewal option to extend the term of the lease for an additional five years. The lease agreement also provides for a free rental period commencing on the commencement date. The minimum annual base rental payments are as follows: \$577,710 for years 1 through 5, \$635,481 for years 6 through 10 and \$699,029 for years 11 through 15. Tax abatements will reduce the base rents by approximately \$70,000 per year. In addition to the base monthly rent, AIChE will be required to pay additional rent for its share of operating expense escalations.

- B. In the ordinary course of business, AIChE has entered into contracts with hotels for meetings scheduled to occur between 2013 and 2017. In connection with the contracts, AIChE commits to a block of hotel rooms. AIChE is subject to cancellation penalties, which increase as the meeting dates approach. Cancellation penalties for meetings scheduled for 2013 are covered under AIChE's insurance policies. In the unlikely event AIChE had to cancel all the meetings, scheduled between 2014 and 2017 under contract as of December 31, 2012, it would incur approximately \$1,681,000 in cancellation charges. AIChE is subject to negotiable penalties in the event meeting attendees do not utilize the rooms.
- C. In September 2012, AIChE opened a line of credit with a financial institution. The line of credit expires on September 30, 2013 and had a maximum borrowing amount of \$1,500,000 as of December 31, 2012. Borrowings are secured by mutual funds and money market funds owned by AIChE and held at the financial institution. Interest is at the one-month London Interbank Offered Rate ("LIBOR") plus 2%. As of December 31, 2012 and May 15, 2013, there were no borrowings.
- D. AIChE had no uncertain tax positions as of December 31, 2012 and 2011 in accordance with Accounting Standards Codification ("ASC") Topic 740 "Income Taxes," which provides standards for establishing and classifying any tax provisions for uncertain tax positions. AIChE is no longer subject to federal or state and local income tax examinations by tax authorities for years ended before December 31, 2009.

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NOTE 10 – OTHER PROGRAM SUPPORT

Other program support reflects the decision by the Board of Directors that certain operations should be supported from surpluses from self-supporting operations, other operating revenues, and a portion of investment return. Certain other amounts, as approved by the Board of Directors, are also available for operating purposes. The supported programs included the following for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Subsidized activities include the governance of AIChE, public and governmental outreach programs, and support for the chemical engineering profession	\$ <u>1,084,748</u>	\$ <u>783,403</u>

NOTE 11 – RECEIVABLE FROM CHARITABLE REMAINDER TRUST

In 2007, AIChE became the beneficiary of a remainder interest in a charitable trust. Upon the expiration of the trust term (defined as the death of the surviving beneficiary), AIChE shall receive the trust's assets, which consists of certain equity securities and real estate. As of December 31, 2012 and 2011, the value of the interest in the charitable remainder trust was determined by estimating the future value of the trust assets as of the expiration of the trust term and calculating the present value of that amount at a discount rate of 3%, respectively, per annum. As of December 31, 2012 and 2011, the present value of AIChE's share of the trust was \$92,465 and \$90,038, respectively, and is included in prepaid expenses and other assets in the accompanying financial statements. The fair value of the trust assets amounted to approximately \$200,000 as of December 31, 2012 and 2011.

NOTE 12 – PUBLISHING AGREEMENTS

A. In November 2003, AIChE entered into a five-year publishing agreement (the "Publishing Agreement") with a commercial publisher (the "Publisher") with respect to three of AIChE's journals (the "Journals") currently published by AIChE. Under the terms of the Publishing Agreement, beginning in January 2004, the Publisher has the exclusive right and sole responsibility for the marketing, sales and print and electronic distribution of the journals. AIChE remains solely responsible for providing and paying editors and, in consultation with the Publisher, establishing editorial policy. Under the terms of the contract, AIChE has been guaranteed a minimum annual royalty plus additional royalties if the Publisher's revenues exceed predetermined levels.

In June 2007, the Publishing Agreement was amended to remain in effect until completion of the publication of all 2017 issues of the Journals. In addition, the Publisher provided AIChE with a \$2 million unrestricted, non-recoupable royalty payment.

B. In February 2005, AIChE entered into a four-year book publishing agreement (the "Book Publishing Agreement") with the same commercial publisher to codevelop approximately 8-15 new works each year. The Book Publishing Agreement shall be automatically renewed for additional three-year terms unless either party gives notice of intent to terminate the agreement at least six months prior to the expiration of the then current term. Under the terms of the Publishing Agreement, beginning in February 2005, the Publisher has the exclusive right and sole responsibility for the marketing, sales and print and electronic distribution of the works. AIChE remains solely responsible for providing and paying editors and, in consultation with the Publisher, establishing editorial policy. Under the terms of the contract, AIChE received a nonrefundable non-recoupable advance. In addition, AIChE has been guaranteed a minimum annual royalty plus additional royalties if the publisher's revenues exceed predetermined levels. The minimum annual royalty is paid at the beginning of each additional year of the term provided that at least six works were published in the preceding year.

**AMERICAN INSTITUTE OF CHEMICAL ENGINEERS
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NOTE 13 – FAIR VALUE MEASUREMENTS

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 valuation are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, AIChE utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Financial assets carried at fair value at December 31, 2012 and 2011 were classified in the table below as Level 1 as follows (see Note 2J):

	<u>2012</u>	<u>2011</u>
Investments:		
Mutual Funds		
U.S. Large Cap/Mid Cap	\$ 5,341,575	\$ 4,647,204
U.S. Small Cap	1,245,226	1,086,807
Diversified Foreign Equity	3,693,416	3,096,477
U.S. Core Bonds	4,103,672	3,738,894
Global Bonds	1,582,220	1,362,203
Money Market Mutual Funds	<u>394,980</u>	<u>309,749</u>
Total mutual funds	16,361,089	14,241,334
Equity securities – domestic	<u>18,600</u>	<u>-</u>
Total assets at fair value	\$ <u>16,379,689</u>	\$ <u>14,241,334</u>

AIChE's policy is to recognize transfers in and transfers out between fair value levels as of the beginning of the period in which the transfer takes place. During the years ended December 31, 2012 and 2011, no such transfers between fair value levels occurred.

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NOTE 14 – ENDOWMENT NET ASSETS

The Board of AIChE recognizes that New York State adopted as law the New York Prudent Management of Institutional Funds Act ("NYPMIFA") on September 17, 2010. NYPMIFA replaced the prior law which was the Uniform Management of Institutional Funds Act ("UMIFA"). In addition, NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered unrestricted by the donor will be reflected as temporarily restricted until appropriated.

The Board explicitly appropriated all earnings as of and prior to September 17, 2010, whether deemed spent or not, as unrestricted. All unappropriated earnings on donor-restricted endowment funds after September 17, 2010, that would otherwise be considered unrestricted by the donor, are reflected as temporarily restricted until appropriated.

AIChE's Board has interpreted NYPMIFA as allowing AIChE to appropriate for expenditure or accumulate so much of an endowment fund as AIChE determines is prudent for the uses, benefits, purposes and duration for which the endowment fund was established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise, the assets in a donor-restricted endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board.

As a result of this interpretation, AIChE has not changed the way permanently restricted net assets are classified. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The policy for valuing AIChE's investments is described in Note 2E. In accordance with U.S. GAAP, any deterioration of the fair value of assets associated with donor-restricted endowment funds that falls below the level the donor requires AIChE to retain in perpetuity is to be reported in unrestricted net assets. AIChE has not incurred such deficiencies in its endowment funds as of December 31, 2012 and 2011.

AIChE's endowment investment policy is to invest 35% of assets into fixed-income mutual funds and cash equivalents, and 65% into equity mutual funds based on an asset allocation with the objective of capital appreciation.

Changes in endowment net assets for year ended December 31, 2012 were as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>
Investment activity:				
Interest and dividends	\$ 30,398	\$ 15,415	\$ -	\$ 45,813
Realized and unrealized gains on investments	<u>42,755</u>	<u>65,942</u>	<u>-</u>	<u>108,697</u>
Total investment activity	<u>73,153</u>	<u>81,357</u>	<u>-</u>	<u>154,510</u>
Contributions	-	-	119,367	119,367
Amount appropriated for expenditure	-	-	-	-
Earnings spent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, beginning of year	<u>1,048,730</u>	<u>22,434</u>	<u>599,175</u>	<u>1,670,339</u>
Endowment net assets, end of year	<u>\$ 1,121,883</u>	<u>\$ 103,791</u>	<u>\$ 718,542</u>	<u>\$ 1,944,216</u>

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NOTE 14 – ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for year ended December 31, 2011 were as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2011 Total</u>
Investment activity:				
Interest and dividends	\$ 28,521	\$ 17,306	\$ -	\$ 45,827
Realized and unrealized losses on investments	<u>(19,002)</u>	<u>(17,220)</u>	<u>-</u>	<u>(36,222)</u>
Total investment activity	<u>9,519</u>	<u>86</u>	<u>-</u>	<u>9,605</u>
Amount appropriated for expenditure	-	-	-	-
Earnings spent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, beginning of year	<u>1,039,211</u>	<u>22,348</u>	<u>599,175</u>	<u>1,660,734</u>
Endowment net assets, end of year	<u>\$ 1,048,730</u>	<u>\$ 22,434</u>	<u>\$ 599,175</u>	<u>\$ 1,670,339</u>

Endowment net assets of \$1,944,216 and \$1,670,339, respectively, as of December 31, 2012 and 2011 are included with investments in the accompanying statements of financial position.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

In prior years, the net assets associated with AIChE's Center for Chemical Process Safety ("CCPS") were classified as temporarily restricted net assets. In the current year, AIChE's management concluded that the CCPS payments by member companies are similar to membership dues rather than contributions. Therefore, it was concluded that the CCPS revenues should be classified as unrestricted revenues and therefore it was necessary to record a prior period adjustment to reclassify the prior year temporarily restricted net asset balance for CCPS to the unrestricted net asset category in the current year. Accordingly, during the year ended December 31, 2012, AIChE recorded a prior period adjustment which transferred \$6,026,573 from the temporarily restricted net assets class to the unrestricted net assets class. Such prior period adjustment represented the amounts included in temporarily restricted net assets that were deemed to be unrestricted as of January 1, 2011. This transfer consisted of amounts relating to the CCPS program and other temporarily restricted funds that were deemed by AIChE's management to have been fully released by incurring expenditures in prior years or was for programs that are no longer carried out by AIChE. Such prior period adjustment had no effect on the overall net assets of AIChE as of December 31, 2012 and only impacted the classification of net assets between unrestricted and temporarily restricted.

NOTE 16 – SUBSEQUENT EVENTS

AIChE has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through May 15, 2013, the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2012 through May 15, 2013, that would require adjustment to or disclosure in the accompanying financial statements, except for the lease agreements signed subsequent to year-end as disclosed in Note 9A.