

**THE AMERICAN ECONOMIC ASSOCIATION**

**FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

**THE AMERICAN ECONOMIC ASSOCIATION**

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## INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of  
The American Economic Association  
Nashville, Tennessee

We have audited the accompanying financial statements of The American Economic Association (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 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 The American Economic Association as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Fraser, Dean & Howard, PLLC*

Nashville, Tennessee  
March 9, 2016

**THE AMERICAN ECONOMIC ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,527,320	\$ 1,258,329
Accounts receivable	2,228,634	2,295,128
Prepaid expenses	209,767	306,692
Investments	32,883,983	33,116,154
Furniture, fixtures, software and equipment, net of accumulated depreciation of \$1,048,749 and \$922,460, respectively	504,084	251,974
Total assets	\$ 37,353,788	\$ 37,228,277
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 747,852	\$ 630,107
Deferred revenue	3,064,956	3,012,152
Total liabilities	3,812,808	3,642,259
Net assets:		
Unrestricted	33,392,672	33,418,805
Temporarily restricted	148,308	167,213
Total net assets	33,540,980	33,586,018
Total liabilities and net assets	\$ 37,353,788	\$ 37,228,277

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND OTHER**  
**CHANGES IN UNRESTRICTED NET ASSETS**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Unrestricted operating revenues:		
License fees	\$ 4,147,764	\$ 4,231,702
Institutional subscriptions	1,612,046	1,634,763
ASSA annual meeting	1,198,555	1,213,036
<i>Job Openings for Economists</i> listing fees	1,182,920	903,300
Fulltext, copyright and other fees	853,979	865,306
Membership dues	598,761	585,356
Member print, CD & foreign postage	377,656	395,672
Submission fees	197,500	194,970
Conference fees	77,025	82,585
Advertising	73,300	82,650
Other	9,631	9,558
Sale of mailing list	4,588	12,528
Total unrestricted operating revenues	<u>10,333,725</u>	<u>10,211,426</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	45,005	92,890
Total unrestricted operating revenues and support	<u>10,378,730</u>	<u>10,304,316</u>
Expenses:		
Publications:		
<i>American Economic Review</i>	2,073,160	2,046,498
<i>EconLit</i>	825,185	870,569
<i>Journal of Economic Perspectives</i>	792,947	768,885
<i>Journal of Economic Literature</i>	638,164	678,103
<i>AEJ: Economic Policy</i>	546,038	493,621
<i>AEJ: Applied Economics</i>	545,030	470,584
<i>AEJ: Macroeconomics</i>	512,181	479,932
<i>AEJ: Microeconomics</i>	452,401	432,579
<i>Job Openings for Economists</i>	253,222	195,556
<i>Resources for Economists</i>	30,687	46,887
	<u>6,669,015</u>	<u>6,483,214</u>
Programs and activities:		
ASSA annual meeting	1,195,411	1,236,235
Summer program	161,316	234,555
Continuing education conference	149,167	139,855
Website development	132,712	85,325
Government relations	111,152	109,303
CeMent workshops	109,322	50,330
Support of other organizations	84,608	81,531
Economic education conference	69,697	87,851
JOE network development cost amortization	60,612	20,197
External grant expense	45,005	92,890
RCT registry	34,592	22,313
	<u>2,153,594</u>	<u>2,160,385</u>
Management and general:		
Employee compensation	701,299	718,596
Other	318,846	335,726
Committees	176,435	152,465
Rent	67,047	63,438
Unrelated business income tax	11,527	12,268
	<u>1,275,154</u>	<u>1,282,493</u>
Total expenses	<u>10,097,763</u>	<u>9,926,092</u>
Increase in unrestricted net assets from operations	280,967	378,224
Investment (loss) income	<u>(307,100)</u>	<u>2,864,662</u>
(Decrease) increase in unrestricted net assets	<u>\$ (26,133)</u>	<u>\$ 3,242,886</u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION  
STATEMENTS OF CHANGES IN NET ASSETS  
For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Total unrestricted operating revenues	\$ 10,333,725	\$ 10,211,426
Net assets released from restrictions	45,005	92,890
Total unrestricted operating expenses	(10,097,763)	(9,926,092)
Investment (loss) income	<u>(307,100)</u>	<u>2,864,662</u>
(Decrease) increase in unrestricted net assets	<u>(26,133)</u>	<u>3,242,886</u>
Temporarily restricted net assets:		
Grant proceeds	26,100	79,501
Net assets released from restrictions	<u>(45,005)</u>	<u>(92,890)</u>
Decrease in temporarily restricted net assets	<u>(18,905)</u>	<u>(13,389)</u>
(Decrease) increase in net assets	(45,038)	3,229,497
Net assets - beginning of year	<u>33,586,018</u>	<u>30,356,521</u>
Net assets - end of year	<u><u>\$ 33,540,980</u></u>	<u><u>\$ 33,586,018</u></u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flow from operating activities:		
Change in net assets	\$ (45,038)	\$ 3,229,497
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	126,289	100,551
Realized and unrealized investment loss (gain)	1,407,382	(1,867,366)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	66,494	(54,015)
Decrease (increase) in prepaid expenses	96,925	(68,746)
Increase in accounts payable and accrued liabilities	117,745	107,041
Increase (decrease) in deferred revenue	52,804	(131,390)
Net cash provided by operating activities	<u>1,822,601</u>	<u>1,315,572</u>
Cash flows from investing activities:		
Purchases of investments, net	(3,008,211)	(1,997,249)
Proceeds from sale of investments	1,833,000	500,000
Purchases of property, software and equipment	<u>(378,399)</u>	<u>(142,034)</u>
Net cash used in investing activities	<u>(1,553,610)</u>	<u>(1,639,283)</u>
Net increase (decrease) in cash and cash equivalents	268,991	(323,711)
Cash and cash equivalents - beginning of year	<u>1,258,329</u>	<u>1,582,040</u>
Cash and cash equivalents - end of year	<u>\$ 1,527,320</u>	<u>\$ 1,258,329</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	<u>\$ 11,159</u>	<u>\$ 20,210</u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The American Economic Association (the “Association”) is an educational organization whose purpose is to encourage economic research, especially the historical and statistical study of the actual conditions of industrial life, to issue publications on economic subjects and to encourage freedom of economic discussion.

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”). Accordingly, net assets of the Association and changes therein are classified and reported as follows:

**Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of changes in net assets as net assets released from restrictions.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased.

**Investments**

Investments are reported at fair value as reported by the respective funds using quoted market prices.

**Accounts Receivable**

Accounts receivable are stated at the amount the Association expects to collect from outstanding balances. The Association accounts for potential losses in accounts receivable through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes that accounts receivable are fully collectible at December 31, 2015 and 2014. As a result, no allowance for uncollectible accounts has been provided.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Furniture, Fixtures, Software and Equipment**

Furniture, fixtures, software and equipment are stated at cost net of accumulated depreciation. Expenditures for ordinary maintenance and repairs are charged to expense. Renewals and betterments that materially extend the life of assets are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years. Depreciation expense for the years ended December 31, 2015 and 2014 amounted to \$126,289 and \$100,551, respectively.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets represent amounts available for various research programs and economic conferences.

**Revenue Recognition**

Membership dues are recognized as operating revenue over the life of the membership. Institutional subscriptions to the various periodicals of the Association are recognized over the term of the subscriptions. License fees are recognized as operating revenue as users obtain access to the online service. Listing fees and advertising revenues are recognized when the related publication is published or made available online. Sales of mailing lists and back issues are recognized when the related material is shipped to the customer. Fulltext, copyright and other fees are recognized when received or over the term of the contract.

**Deferred Revenue**

Deferred revenue represents income from membership dues and institutional subscriptions to the various periodicals of the Association, as well as registration, advertising and exhibitor income related to the annual meeting in January of the subsequent year. The membership dues and institutional subscriptions are deferred when received and amortized over the terms of the memberships. The deferred income related to the annual meeting is recognized when the meeting takes place.

**Annual Meeting**

An annual meeting is held in January of each year by the Association under the name Allied Social Science Associations (“ASSA”). Revenues and expenses from the annual meeting are shown at gross on the accompanying statements of unrestricted revenues, expenses and other changes in unrestricted net assets. The expenses of the annual meeting are expensed as incurred. Also included in the accompanying statements of unrestricted revenues, expenses and other changes in unrestricted net assets are expenses incurred during the year for the meeting held in January of the following year, which primarily consist of personnel costs of the Association for planning the meeting.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Shipping and Handling Costs**

It is the Association's policy to classify shipping and handling costs as a part of operating expenses in the line items to which they relate. Total shipping and handling costs were approximately \$377,142 and \$414,153 for the years ended December 31, 2015 and 2014, respectively.

**Income Taxes**

The Association files its federal income tax return as an educational organization substantially exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Association is subject to federal and state income taxes on certain revenues, which are not substantially related to its tax-exempt purpose. This "unrelated business income" includes income from advertising. The Association has recorded expenses of \$11,527 and \$12,268 in 2015 and 2014, respectively, in federal and state income taxes on unrelated business income. The Association has been determined to be an organization which is not a private foundation.

The Association accounts for income taxes in accordance with income tax accounting guidance in the Income Taxes topic of the FASB ASC. The guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Association does not believe there were any uncertain tax positions at December 31, 2015 and 2014. Additionally, the Association has not recognized any significant tax related interest and penalties in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2012 through December 31, 2015.

**Accounting Estimates**

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Reclassifications**

Certain reclassifications have been made to the 2014 statement of unrestricted revenues, expenses and other changes in unrestricted net assets in order to conform with the 2015 presentation.

**THE AMERICAN ECONOMIC ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2015 and 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

The Association evaluated subsequent events through March 9, 2016, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

**NOTE 2 – INVESTMENTS AND INVESTMENT INCOME**

Fair value of assets is measured as required by the Fair Value Measurements topic of the FASB ASC, which establishes 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 (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described below:

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

Level 2      Inputs to the valuation methodology include the following:

- 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.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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. There have been no changes in methodologies used at December 31, 2015 and 2014. The Association's mutual funds are valued at the net asset values of shares held by the Association at year end.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2015 and 2014**

**NOTE 2 – INVESTMENTS AND INVESTMENT INCOME (Continued)**

The following table sets forth by level, within the fair value hierarchy, the Association’s investments at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Large blend	\$ 14,386,191	\$ -	\$ -	\$ 14,386,191
Foreign large blend	7,686,693	-	-	7,686,693
Corporate bond	4,074,385	-	-	4,074,385
Large value	3,520,908	-	-	3,520,908
World bond	1,760,316	-	-	1,760,316
Intermediate-term bond	<u>1,455,490</u>	<u>-</u>	<u>-</u>	<u>1,455,490</u>
Total investments at fair value	<u>\$ 32,883,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,883,983</u>

The following table sets forth by level, within the fair value hierarchy, the Association’s investments at fair value as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Large blend	\$ 15,371,428	\$ -	\$ -	\$ 15,371,428
Foreign large blend	6,840,645	-	-	6,840,645
Corporate bond	4,142,083	-	-	4,142,083
Large value	3,905,854	-	-	3,905,854
World bond	1,492,010	-	-	1,492,010
Intermediate-term bond	<u>1,364,134</u>	<u>-</u>	<u>-</u>	<u>1,364,134</u>
Total investments at fair value	<u>\$ 33,116,154</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,116,154</u>

Investment income consists of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Dividends and interest	\$ 1,100,282	\$ 997,296
Realized and unrealized (loss) gain, net	<u>(1,407,382)</u>	<u>1,867,366</u>
	<u>\$ (307,100)</u>	<u>\$ 2,864,662</u>

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2015 and 2014**

**NOTE 3 – COMMITMENTS**

The Association leases office space under cancelable and noncancelable operating leases. The Association indemnifies the lessor under one of these leases for claims, losses and other liabilities arising from the conduct of the Association or its agents. Rental expense under these leases, which is included in various categories of operating expenses, totaled approximately \$322,128 and \$318,832 during the years ended December 31, 2015 and 2014, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2015 are as follows:

Years ending <u>December 31,</u>	
2016	\$ 318,425
2017	327,833
2018	194,682
2019	<u>130,056</u>
	<u>\$ 970,996</u>

The Association also has contracts for hotel rooms and facilities for various meetings through 2024, although the majority of these contracts do not contain attrition clauses.

**NOTE 4 – LICENSE FEES**

License fees consist of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Ebsco	\$ 3,496,084	\$ 3,454,572
ProQuest	549,563	582,523
Ovid	100,817	193,661
Other	<u>1,300</u>	<u>946</u>
	<u>\$ 4,147,764</u>	<u>\$ 4,231,702</u>

**THE AMERICAN ECONOMIC ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2015 and 2014**

**NOTE 5 – OTHER MANAGEMENT AND GENERAL EXPENSES**

Other management and general expenses consist of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Bank and credit card charges	\$ 95,359	\$ 81,428
Accounting and legal	56,030	92,079
Insurance	42,933	31,025
Database management	29,003	42,032
Miscellaneous	22,176	14,866
Election expenses	21,872	21,085
Telephone	17,756	15,844
Mailing list file maintenance	13,554	13,908
Postage and shipping	9,752	13,229
Office supplies	8,873	10,051
Non-capital equipment	<u>1,538</u>	<u>179</u>
	<u>\$ 318,846</u>	<u>\$ 335,726</u>

**NOTE 6 – RETIREMENT ANNUITY PLAN**

Employees of the Association are eligible for participation in a defined contribution retirement annuity plan. Contributions by the Association and participating employees are based on the employees' compensation. Benefit payments are based on the amounts accumulated from such contributions. Plan expense totaled approximately \$320,562 and \$314,794 for the years ended December 31, 2015 and 2014, respectively.

**NOTE 7 – CONCENTRATIONS**

The Association maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC"). At December 31, 2015 and 2014, all deposit account balances per financial institution were insured up to \$250,000. Excess uninsured balances of the Association at December 31, 2015 and 2014 were approximately \$949,000 and \$764,000, respectively.

The Association also maintains cash in money market funds in the amount of \$474,259 at December 31, 2015 and \$474,157 at December 31, 2014. The money market funds were not insured at December 31, 2015 and 2014.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2015 and 2014**

**NOTE 7 – CONCENTRATIONS (Continued)**

At December 31, 2015 and 2014, investments in various mutual funds were managed by brokerage and investment companies with an account balance totaling \$32,883,983 and \$33,116,154, respectively. Investments are not insured by FDIC or any other government agency and are subject to investment risk, including loss of principal. However, investments are insured by the Securities Investor Protection Corporation, which covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

At December 31, 2015 and 2014, accounts receivable from two companies who have an agreement with the Association to sell *EconLit* represented approximately 89% and 86%, respectively, of total accounts receivable.

During 2015 and 2014, the Association received approximately 34% of its revenue from one company who has an agreement with the Association to sell *EconLit*.