

THE AMERICAN ECONOMIC ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 and 2015, 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 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 The American Economic Association as of December 31, 2016 and 2015, 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 3, 2017

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015**

	2016	2015
Assets		
Cash and cash equivalents	\$ 1,547,666	\$ 1,527,320
Accounts receivable	2,191,687	2,228,634
Prepaid expenses	386,646	209,767
Investments	35,260,846	32,883,983
Furniture, fixtures, software and equipment, net of accumulated depreciation of \$1,244,105 and \$1,048,749, respectively	383,904	504,084
Total assets	\$ 39,770,749	\$ 37,353,788
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 637,921	\$ 747,852
Deferred revenue	2,920,544	3,064,956
Total liabilities	3,558,465	3,812,808
Net assets:		
Unrestricted	36,067,688	33,392,672
Temporarily restricted	144,596	148,308
Total net assets	36,212,284	33,540,980
Total liabilities and net assets	\$ 39,770,749	\$ 37,353,788

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, 2016 and 2015

	2016	2015
Unrestricted operating revenues:		
License fees	\$ 4,421,562	\$ 4,147,764
Institutional subscriptions	1,552,579	1,612,046
ASSA annual meeting	1,261,652	1,198,555
<i>Job Openings for Economists</i> listing fees	1,105,160	1,182,920
Fulltext, copyright and other fees	799,845	853,979
Membership dues	598,724	598,761
Member print, CD & foreign postage	327,891	377,656
Submission fees	221,050	197,500
Advertising	77,850	73,300
Conference fees	69,455	77,025
Other	16,605	9,631
Sale of mailing list	8,537	4,588
Total unrestricted operating revenues	10,460,910	10,333,725
Net assets released from restrictions:		
Satisfaction of program restrictions	5,912	45,005
Total unrestricted operating revenues and support	10,466,822	10,378,730
Expenses:		
Publications:		
<i>American Economic Review</i>	1,978,032	2,073,160
<i>EconLit</i>	874,732	825,185
<i>Journal of Economic Perspectives</i>	779,951	792,947
<i>Journal of Economic Literature</i>	667,943	638,164
<i>AEJ: Economic Policy</i>	586,308	546,038
<i>AEJ: Applied Economics</i>	561,643	545,030
<i>AEJ: Macroeconomics</i>	470,644	512,181
<i>AEJ: Microeconomics</i>	466,501	452,401
<i>Job Openings for Economists</i>	208,853	253,222
<i>Resources for Economists</i>	26,851	30,687
	6,621,458	6,669,015
Programs and activities:		
ASSA annual meeting	1,440,824	1,195,411
Website content, maintenance & management	361,990	132,712
Summer program	261,280	161,316
Program committees	213,383	124,996
Continuing education conference	136,940	149,167
Government relations	116,789	111,152
RCT registry	116,054	34,592
Amortization of website development costs	112,359	-
CTREE conference	94,002	69,697
Support of other organizations	85,193	84,608
CeMent workshops	61,146	109,322
JOE network development cost amortization	60,612	60,612
External grant expense	5,912	45,005
	3,066,484	2,278,590
Management and general:		
Employee compensation	662,151	701,299
Other	471,297	318,846
Administrative committees	68,041	51,439
Rent	67,825	67,047
Unrelated business income tax	12,618	11,527
	1,281,932	1,150,158
Total expenses	10,969,874	10,097,763
(Decrease) increase in unrestricted net assets from operations	(503,052)	280,967
Investment income (loss)	3,178,068	(307,100)
Increase (decrease) in unrestricted net assets	\$ 2,675,016	\$ (26,133)

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Total unrestricted operating revenues	\$ 10,460,910	\$ 10,333,725
Net assets released from restrictions	5,912	45,005
Total unrestricted operating expenses	(10,969,874)	(10,097,763)
Investment income (loss)	<u>3,178,068</u>	<u>(307,100)</u>
Increase (decrease) in unrestricted net assets	<u>2,675,016</u>	<u>(26,133)</u>
Temporarily restricted net assets:		
Grant proceeds	2,200	26,100
Net assets released from restrictions	<u>(5,912)</u>	<u>(45,005)</u>
Decrease in temporarily restricted net assets	<u>(3,712)</u>	<u>(18,905)</u>
Increase (decrease) in net assets	2,671,304	(45,038)
Net assets - beginning of year	<u>33,540,980</u>	<u>33,586,018</u>
Net assets - end of year	<u><u>\$ 36,212,284</u></u>	<u><u>\$ 33,540,980</u></u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flow from operating activities:		
Change in net assets	\$ 2,671,304	\$ (45,038)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	195,356	126,289
Realized and unrealized investment (gain) loss	(2,145,799)	1,407,382
Changes in operating assets and liabilities:		
Decrease in accounts receivable	36,947	66,494
(Increase) decrease in prepaid expenses	(176,879)	96,925
(Decrease) increase in accounts payable and accrued liabilities	(109,931)	117,745
(Decrease) increase in deferred revenue	(144,412)	52,804
Net cash provided by operating activities	326,586	1,822,601
Cash flows from investing activities:		
Purchases of investments	(1,031,064)	(3,008,211)
Proceeds from sale of investments	800,000	1,833,000
Purchases of furniture, fixtures, software and equipment	(75,176)	(378,399)
Net cash used in investing activities	(306,240)	(1,553,610)
Net increase in cash and cash equivalents	20,346	268,991
Cash and cash equivalents - beginning of year	1,527,320	1,258,329
Cash and cash equivalents - end of year	\$ 1,547,666	\$ 1,527,320
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	\$ 8,905	\$ 11,159

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 and 2015. As a result, no allowance for uncollectible accounts has been provided.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

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, 2016 and 2015 amounted to \$195,356 and \$126,289, 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, 2016 and 2015

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 \$346,800 and \$377,142 for the years ended December 31, 2016 and 2015, 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 \$12,618 and \$11,527 in 2016 and 2015, 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, 2016 and 2015. 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, 2013 through December 31, 2016.

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.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Association evaluated subsequent events through March 3, 2017, 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, 2016 and 2015. 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, 2016 and 2015**

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Large blend	\$ 16,102,496	\$ -	\$ -	\$ 16,102,496
Foreign large blend	8,051,515	-	-	8,051,515
Corporate bond	4,396,943	-	-	4,396,943
Large value	4,114,614	-	-	4,114,614
World bond	1,884,029	-	-	1,884,029
Intermediate-term bond	<u>711,249</u>	<u>-</u>	<u>-</u>	<u>711,249</u>
Total investments at fair value	<u>\$ 35,260,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,260,846</u>

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>

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

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 1,032,269	\$ 1,100,282
Realized and unrealized gain (loss), net	<u>2,145,799</u>	<u>(1,407,382)</u>
	<u>\$ 3,178,068</u>	<u>\$ (307,100)</u>

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

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 \$325,425 and \$322,128 during the years ended December 31, 2016 and 2015, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2016 are as follows:

Years ending <u>December 31,</u>	
2017	\$ 327,833
2018	194,682
2019	<u>130,056</u>
	<u>\$ 652,571</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>2016</u>	<u>2015</u>
Ebsco	\$ 3,582,497	\$ 3,496,084
ProQuest	618,894	549,563
Ovid	218,833	100,817
Other	<u>1,338</u>	<u>1,300</u>
	<u>\$ 4,421,562</u>	<u>\$ 4,147,764</u>

**THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015**

NOTE 5 – OTHER MANAGEMENT AND GENERAL EXPENSES

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

	<u>2016</u>	<u>2015</u>
Database management	\$ 115,818	\$ 29,003
Bank and credit card charges	94,491	95,359
Accounting and legal	73,522	56,030
Miscellaneous	56,842	22,176
Insurance	45,185	42,933
Election expenses	22,650	21,872
Telephone	20,317	17,756
Mailing list file maintenance	15,581	13,554
Office supplies	9,523	8,873
Non-capital equipment	9,018	1,538
Postage and shipping	<u>8,350</u>	<u>9,752</u>
	<u>\$ 471,297</u>	<u>\$ 318,846</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 \$348,949 and \$320,562 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, all deposit account balances per financial institution were insured up to \$250,000. Excess uninsured balances of the Association at December 31, 2016 and 2015 were approximately \$1,125,000 and \$949,000, respectively.

The Association also maintains cash in money market funds in the amount of \$475,467 at December 31, 2016 and \$474,259 at December 31, 2015. The money market funds were not insured at December 31, 2016 and 2015.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2016 and 2015

NOTE 7 – CONCENTRATIONS (Continued)

At December 31, 2016 and 2015, investments in various mutual funds were managed by brokerage and investment companies with an account balance totaling \$35,260,846 and \$32,883,983, 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, 2016 and 2015, accounts receivable from two companies who have an agreement with the Association to sell *EconLit* represented approximately 87% and 89%, respectively, of total accounts receivable.

During 2016 and 2015, the Association received approximately 35% and 34%, respectively, of its revenue from one company who has an agreement with the Association to sell *EconLit*.