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## INDEPENDENT AUDITOR'S REPORT

Executive Committee of  
The American Economic Association  
Nashville, Tennessee

We have audited the accompanying statements of financial position of The American Economic Association (a nonprofit organization) as of December 31, 2008 and 2007, 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. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, 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.

*Frasier, Dean & Howard, PLLC*

March 19, 2009

**THE AMERICAN ECONOMIC ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,939,381	\$ 2,730,525
Accounts receivable	1,450,926	1,314,039
Prepaid expenses	77,866	70,026
Investments	11,609,559	17,634,590
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of \$689,650 and \$661,018, respectively	<u>59,376</u>	<u>77,763</u>
Total assets	<u><u>\$ 17,137,108</u></u>	<u><u>\$ 21,826,943</u></u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 1,294,492	\$ 1,068,575
Deferred revenue	<u>2,532,468</u>	<u>2,182,667</u>
Total liabilities	<u><u>3,826,960</u></u>	<u><u>3,251,242</u></u>
Net assets:		
Unrestricted	13,070,525	18,406,585
Temporarily restricted	<u>239,623</u>	<u>169,116</u>
Total net assets	<u><u>13,310,148</u></u>	<u><u>18,575,701</u></u>
Total liabilities and net assets	<u><u>\$ 17,137,108</u></u>	<u><u>\$ 21,826,943</u></u>

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, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Unrestricted operating revenues:		
License fees	\$ 3,022,003	\$ 2,811,443
Nonmember subscriptions	1,595,013	1,508,651
Membership dues	1,443,474	1,466,245
<i>Job Openings for Economists</i> listing fees	867,065	708,000
Fulltext, copyright and other fees	324,005	221,456
Submission fees	151,451	129,601
Advertising	128,239	146,050
Annual meeting (net of associated costs of \$834,799 and \$959,971 respectively)	97,699	72,995
Other	32,890	38,567
Sale of mailing list	32,190	26,666
	<hr/>	<hr/>
Total unrestricted operating revenues	7,694,029	7,129,674
Net assets released from restrictions:		
Satisfaction of program restrictions	76,914	112,153
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Total unrestricted operating revenues and support	7,770,943	7,241,827
Operating expenses:		
Publication:		
<i>American Economic Review</i>	1,666,170	1,605,005
<i>EconLit</i>	1,017,961	941,560
<i>Journal of Economic Literature</i>	955,692	1,038,527
<i>American Economic Journals</i>	924,642	611,213
<i>Journal of Economic Perspectives</i>	921,696	849,822
<i>Job Openings for Economists</i>	123,401	107,552
<i>Resources for Economists</i>	47,669	43,958
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	5,657,231	5,197,637
Management and general:		
General and administrative:		
Salaries and benefits	567,332	522,267
Other	375,653	293,405
Support of other organizations	71,853	73,718
Rent	60,686	53,511
Summer program	175,472	195,000
Committees	119,236	107,128
Unrelated business income tax	31,923	39,015
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	1,402,155	1,284,044
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Total publication, management and general expenses	7,059,386	6,481,681
Program expenses	76,914	112,153
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Total unrestricted operating expenses	7,136,300	6,593,834
Increase in unrestricted net assets from operations	634,643	647,993
Investment (loss) income	(5,970,703)	1,547,124
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(Decrease) increase in unrestricted net assets	\$ (5,336,060)	\$ 2,195,117
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See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION  
STATEMENTS OF CHANGES IN NET ASSETS  
For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Unrestricted net assets:		
Total unrestricted operating revenues	\$ 7,694,029	\$ 7,129,674
Net assets released from restrictions	76,914	112,153
Total unrestricted operating expenses	(7,136,300)	(6,593,834)
Investment (loss) income	<u>(5,970,703)</u>	<u>1,547,124</u>
(Decrease) increase in unrestricted net assets	<u>(5,336,060)</u>	<u>2,195,117</u>
Temporarily restricted net assets:		
Grant proceeds	147,421	100,532
Net assets released from restrictions	<u>(76,914)</u>	<u>(112,153)</u>
Increase (decrease) in temporarily restricted net assets	<u>70,507</u>	<u>(11,621)</u>
(Decrease) increase in net assets	(5,265,553)	2,183,496
Net assets - beginning of year	<u>18,575,701</u>	<u>16,392,205</u>
Net assets - end of year	<u><u>\$ 13,310,148</u></u>	<u><u>\$ 18,575,701</u></u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flow from operating activities:		
Change in net assets	\$ (5,265,553)	\$ 2,183,496
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,632	45,090
Unrealized and realized investment losses (gains)	6,429,365	(922,986)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(136,887)	(265,782)
Increase in prepaid expenses	(7,840)	(12,850)
Increase in accounts payable and accrued liabilities	225,917	240,896
Increase (decrease) in deferred revenue	349,801	(322,788)
Net cash provided by operating activities	<u>1,623,435</u>	<u>945,076</u>
Cash flows from investing activities:		
Purchases of investments, net	(404,334)	(425,351)
Purchases of furniture, fixtures and equipment	<u>(10,245)</u>	<u>(75,196)</u>
Net cash used in investing activities	<u>(414,579)</u>	<u>(500,547)</u>
Net increase in cash and cash equivalents	1,208,856	444,529
Cash and cash equivalents - beginning of year	<u>2,730,525</u>	<u>2,285,996</u>
Cash and cash equivalents - end of year	<u><u>\$ 3,939,381</u></u>	<u><u>\$ 2,730,525</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	<u><u>\$ 48,940</u></u>	<u><u>\$ 5,120</u></u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**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 in its Statements of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. 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**

The Association accounts for potential losses in accounts receivable utilizing the allowance method. Management believes that accounts receivable are fully collectible at December 31, 2008 and 2007, respectively. As a result, no allowance for uncollectible accounts has been provided.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2008 and 2007**

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

**Furniture, Fixtures and Equipment**

Furniture, fixtures and equipment is 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. Depreciation expense for the years ended December 31, 2008 and 2007 amounted to \$28,632 and \$45,090, 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. Nonmember 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, back issues, and reprints are recognized when the related material is shipped to the customer. Full text, copyright and other related fees are recognized when received.

An annual convention is held in January of each year by the Association under the name Allied Social Science Associations. Revenues and expenses of the meeting are audited. Revenues, net of expenses disclosed parenthetically, are reported in the unrestricted operating revenue section of the accompanying financial statements. Net revenues recognized in 2008 pertain to the January 2008 meeting.

**Deferred Revenue**

Deferred revenue represents income from membership dues and nonmember subscriptions to the various periodicals of the Association, which are deferred when received and amortized over the terms of the memberships.

**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 \$504,765 and \$495,075 for the years ended December 31, 2008 and 2007, respectively.

**THE AMERICAN ECONOMIC ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2008 and 2007**

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

**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 \$31,923 and \$39,015 in 2008 and 2007, 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.

**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.

**Reclassification**

Certain reclassifications have been made to 2007 balances to conform with 2008 financial statement presentation.

**NOTE 2 – INVESTMENTS AND INVESTMENT INCOME**

Investments and their fair value measurement consist of the following at December 31:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1) 2008</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1) 2007</b>
	<u>2008</u>	<u>2007</u>
Mutual funds	\$ 11,609,559	\$ 17,634,590



**THE AMERICAN ECONOMIC ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2008 and 2007**

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

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

	<u>2008</u>	<u>2007</u>
Dividends and interest	\$ 458,662	\$ 624,138
Realized and unrealized (loss) gain, net	<u>(6,429,365)</u>	<u>922,986</u>
	<u>\$ (5,970,703)</u>	<u>\$ 1,547,124</u>

Subsequent to December 31, 2008, and through February 28, 2009, the investment market experienced a significant decline in value, which materially affected the value of the investments held by the Organization. Through February 28, 2009 investment balances declined an additional \$1,943,500.

**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 \$243,012 and \$216,625 during the years ended December 31, 2008 and 2007, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2008 are as follows:

<u>Years ending December 31,</u>	
2009	\$ 257,668
2010	215,052
2011	168,360
2012	168,360
2013	<u>42,090</u>
	<u>\$ 851,530</u>

The Association also has contracts for hotel rooms and facilities for various meetings through 2015, although the majority of these contracts do not contain attrition clauses.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2008 and 2007**

**NOTE 4 – LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES**

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

	<u>2008</u>	<u>2007</u>
Ebsco	\$ 1,988,581	\$ 1,751,777
Ovid	441,474	494,370
Cambridge Scientific Abstracts	353,701	343,098
OCLC	220,152	149,091
Dialog	16,815	17,014
Other	1,280	-
Elsevier Science	-	54,263
EconLit-AEA	-	1,830
	<u>\$ 3,022,003</u>	<u>\$ 2,811,443</u>

Other unrestricted operating revenues consist of the following for the years ended December 31:

	<u>2008</u>	<u>2007</u>
CSWEP	\$ 18,610	\$ 16,887
Sales of reprints and copies	12,974	19,758
Other	<u>1,306</u>	<u>1,922</u>
	<u>\$ 32,890</u>	<u>\$ 38,567</u>

**NOTE 5 – RETIREMENT ANNUITY PLAN**

Employees of the Association are eligible for participation in a defined contribution retirement annuity plan. Payments 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 \$224,600 and \$193,800 for the years ended December 31, 2008 and 2007, respectively.

**THE AMERICAN ECONOMIC ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2008 and 2007**

**NOTE 6 – OTHER GENERAL AND ADMINISTRATIVE EXPENSES**

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

	<u>2008</u>	<u>2007</u>
Bank and credit card charges	\$ 94,582	\$ 47,863
Accounting and legal	87,267	56,448
Mailing list file maintenance	74,637	67,336
Miscellaneous	28,540	23,128
Website and minor equipment	25,343	25,321
Postage and shipping	14,474	12,178
Election expenses	14,197	14,366
Insurance	13,887	13,236
Telephone	9,367	8,306
Office supplies	8,526	11,293
Depreciation	3,303	13,930
Continuing education program	<u>1,530</u>	<u>-</u>
	<u>\$ 375,653</u>	<u>\$ 293,405</u>

**NOTE 7 – CONCENTRATIONS**

The Association maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 and \$100,000 in 2008 and 2007, respectively. Excess uninsured balances of the Association amounted to \$82,908 at December 31, 2008 and \$1,355,983 at December 31, 2007. The Association also maintains cash in money market funds in the amount of \$3,199,451 at December 31, 2008 and \$1,447,694 at December 31, 2007. The money market funds were not insured at December 31, 2007. During 2008 the FDIC began insuring a portion of money market funds and will continue to insure balances until at least April 30, 2009. Excess uninsured money market balances of the Association amounted to \$898,857.

Accounts receivable from three companies who have an agreement with the Association to sell *EconLit* represent approximately 80% and 71% of total accounts receivable at December 31, 2008 and 2007, respectively.