

THE AMERICAN ECONOMIC ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2009 and 2008

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 statements of financial position of The American Economic Association (a nonprofit organization) as of December 31, 2009 and 2008, 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, 2009 and 2008, 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, 2010

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 1,770,352	\$ 3,939,381
Accounts receivable	1,477,420	1,450,926
Prepaid expenses	65,622	77,866
Investments	17,633,420	11,609,559
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of \$718,275 and \$689,650, respectively	30,751	59,376
Total assets	\$ 20,977,565	\$ 17,137,108
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 1,059,539	\$ 1,294,492
Deferred revenue	2,844,549	2,532,468
Total liabilities	3,904,088	3,826,960
Net assets:		
Unrestricted	16,880,521	13,070,525
Temporarily restricted	192,956	239,623
Total net assets	17,073,477	13,310,148
Total liabilities and net assets	\$ 20,977,565	\$ 17,137,108

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Unrestricted operating revenues:		
License fees	\$ 3,345,355	\$ 3,022,003
Nonmember subscriptions	1,825,464	1,595,013
Membership dues	1,423,236	1,443,474
<i>Job Openings for Economists</i> listing fees	738,400	867,065
Fulltext, copyright and other fees	260,022	324,005
Submission fees	155,850	151,451
Advertising	124,685	128,239
Annual meeting (net of associated costs of \$978,715 and \$834,799 respectively)	91,030	97,699
Other	51,874	32,890
Sale of mailing list	36,325	32,190
Continuing education fees	27,725	-
Total unrestricted operating revenues	<u>8,079,966</u>	<u>7,694,029</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	186,895	76,914
Total unrestricted operating revenues and support	<u>8,266,861</u>	<u>7,770,943</u>
Operating expenses:		
Publication:		
<i>American Economic Review</i>	1,633,407	1,666,170
<i>Journal of Economic Literature</i>	920,516	955,692
<i>EconLit</i>	893,410	1,017,961
<i>Journal of Economic Perspectives</i>	830,567	921,696
<i>AEJ: Applied Economics</i>	494,538	231,160
<i>AEJ: Macroeconomics</i>	407,028	231,161
<i>AEJ: Microeconomics</i>	396,231	231,160
<i>AEJ: Economic Policy</i>	390,821	231,161
<i>Job Openings for Economists</i>	137,279	123,401
<i>Resources for Economists</i>	51,399	47,669
Total publication, management and general expenses	<u>6,155,196</u>	<u>5,657,231</u>
Management and general:		
General and administrative:		
Salaries and benefits	581,093	567,332
Other	504,184	374,123
Support of other organizations	76,915	71,853
Rent	56,663	60,686
Summer program	184,163	175,472
Committees	170,284	119,236
Continuing education program	132,831	1,530
Washington representation	28,929	-
Unrelated business income tax	9,936	31,923
Total publication, management and general expenses	<u>1,744,998</u>	<u>1,402,155</u>
Total publication, management and general expenses	<u>7,900,194</u>	<u>7,059,386</u>
Program expenses	186,895	76,914
Total unrestricted operating expenses	<u>8,087,089</u>	<u>7,136,300</u>
Increase in unrestricted net assets from operations	179,772	634,643
Investment income (loss)	3,630,224	(5,970,703)
Increase (decrease) in unrestricted net assets	<u>\$ 3,809,996</u>	<u>\$ (5,336,060)</u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Unrestricted net assets:		
Total unrestricted operating revenues	\$ 8,079,966	\$ 7,694,029
Net assets released from restrictions	186,895	76,914
Total unrestricted operating expenses	(8,087,089)	(7,136,300)
Investment income (loss)	<u>3,630,224</u>	<u>(5,970,703)</u>
Increase (decrease) in unrestricted net assets	<u>3,809,996</u>	<u>(5,336,060)</u>
Temporarily restricted net assets:		
Grant proceeds	140,228	147,421
Net assets released from restrictions	<u>(186,895)</u>	<u>(76,914)</u>
(Decrease) increase in temporarily restricted net assets	<u>(46,667)</u>	<u>70,507</u>
Increase (decrease) in net assets	3,763,329	(5,265,553)
Net assets - beginning of year	<u>13,310,148</u>	<u>18,575,701</u>
Net assets - end of year	<u><u>\$ 17,073,477</u></u>	<u><u>\$ 13,310,148</u></u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flow from operating activities:		
Change in net assets	\$ 3,763,329	\$ (5,265,553)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,625	28,632
Unrealized and realized investment (gains) losses	(3,223,711)	6,429,365
Changes in operating assets and liabilities:		
Increase in accounts receivable	(26,494)	(136,887)
Decrease (increase) in prepaid expenses	12,244	(7,840)
(Decrease) increase in accounts payable and accrued liabilities	(234,953)	225,917
Increase in deferred revenue	312,081	349,801
Net cash provided by operating activities	<u>631,121</u>	<u>1,623,435</u>
Cash flows from investing activities:		
Purchases of investments, net	(2,800,150)	(404,334)
Purchases of furniture, fixtures and equipment	<u>-</u>	<u>(10,245)</u>
Net cash used in investing activities	<u>(2,800,150)</u>	<u>(414,579)</u>
Net (decrease) increase in cash and cash equivalents	(2,169,029)	1,208,856
Cash and cash equivalents - beginning of year	<u>3,939,381</u>	<u>2,730,525</u>
Cash and cash equivalents - end of year	<u>\$ 1,770,352</u>	<u>\$ 3,939,381</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	<u>\$ 11,574</u>	<u>\$ 48,940</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

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

The Association accounts for potential losses in accounts receivable utilizing the allowance method. Management believes that accounts receivable are fully collectible at December 31, 2009 and 2008. As a result, no allowance for uncollectible accounts has been provided.

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, 2009 and 2008 amounted to \$28,625 and \$28,632, respectively.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2009 pertain to the January 2009 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 \$727,134 and \$504,765 for the years ended December 31, 2009 and 2008, 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 \$9,936 and \$31,923 in 2009 and 2008, 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 AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

On January 1, 2009, the Association adopted FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This interpretation 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. This interpretation must be applied to all existing tax positions upon initial adoption. Tax years that remain open for examination include years ended December 31, 2006 through December 31, 2009. The Association has no tax penalties or interest reported in the accompanying financial statements. Adoption of this pronouncement had no impact on the Association's financial statements.

AEJ Publication Expense

During 2009 the Association began publication of four new American Economic Journals ("AEJ"). Pre-publication cost in 2008 has been allocated equally between the journals on the statements of unrestricted revenues, expenses and other changes in unrestricted net assets.

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.

Subsequent Events

The Association evaluated subsequent events through March 19, 2010, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Standards Codification

The FASB ASC became the sole authoritative source of generally accepted accounting principles in the United States of America for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative literature previously issued by a standard setter. Adoption of the FASB ASC has no effect on the Association's unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets or cash flows.

Reclassification

Certain reclassifications have been made to 2008 balances to conform with 2009 financial statement presentation.

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME

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

	Quoted Prices in Active Markets for Identical Assets (Level 1) 2009	Quoted Prices in Active Markets for Identical Assets (Level 1) 2008
	<u>2009</u>	<u>2008</u>
Mutual funds	\$ 17,133,420	\$ 11,609,559
Certificates of deposit	<u>500,000</u>	<u>-</u>
Total Investments	<u>\$ 17,633,420</u>	<u>\$ 11,609,559</u>

Fair value of assets is measured as required by the Fair Value Measurements and Disclosures 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.

**THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008**

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME (Continued)

- 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 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. The Association's mutual funds are valued at the net asset values of shares held by the Organization at year end. The certificates of deposit are valued at cost which approximates fair value.

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

	<u>2009</u>	<u>2008</u>
Dividends and interest	\$ 406,513	\$ 458,662
Realized and unrealized gain (loss), net	<u>3,223,711</u>	<u>(6,429,365)</u>
	<u>\$ 3,630,224</u>	<u>\$ (5,970,703)</u>

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 \$257,668 and \$243,012 during the years ended December 31, 2009 and 2008, respectively.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 3 – COMMITMENTS (Continued)

The minimum future rental commitments under noncancelable operating leases at December 31, 2009 are as follows:

<u>Years ending December 31,</u>	
2010	\$ 263,155
2011	266,006
2012	268,937
2013	<u>145,679</u>
	<u>\$ 943,777</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.

NOTE 4 – LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES

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

	<u>2009</u>	<u>2008</u>
Ebsco	\$ 2,422,748	\$ 1,988,581
Cambridge Scientific Abstracts	381,023	353,701
Ovid	344,680	441,474
OCLC	153,294	220,152
Other	26,625	1,280
Dialog	<u>16,985</u>	<u>16,815</u>
	<u>\$ 3,345,355</u>	<u>\$ 3,022,003</u>

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

	<u>2009</u>	<u>2008</u>
CSWEP	\$ 25,200	\$ 18,610
Sales of reprints and copies	15,315	12,974
Calendar sales	9,363	-
Other	<u>1,996</u>	<u>1,306</u>
	<u>\$ 51,874</u>	<u>\$ 32,890</u>

**THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008**

NOTE 5 – OTHER GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2009</u>	<u>2008</u>
Bank and credit card charges	\$ 133,857	\$ 94,582
Database Management	89,364	44,013
Accounting and legal	62,271	87,267
Calendar expenses	50,699	-
Miscellaneous	36,530	28,540
Insurance	33,624	13,887
Mailing list file maintenance	32,789	30,624
Election expenses	18,255	14,197
Telephone	15,897	9,367
Office supplies	11,736	8,526
Postage and shipping	8,564	14,474
Website and minor equipment	8,121	25,343
Depreciation	<u>2,477</u>	<u>3,303</u>
	<u>\$ 504,184</u>	<u>\$ 374,123</u>

NOTE 6 – 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 \$249,170 and \$224,600 for the years ended December 31, 2009 and 2008, respectively.

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. The Association's financial institution participated in a FDIC program that insured some additional balances over \$250,000, but this coverage was terminated on December 31, 2009. After close of business on December 31, 2009, uninsured deposit account balances of the Association amounted to \$1,328,345.

The Association also maintains cash in money market funds in the amount of \$473,847 at December 31, 2009 and \$3,199,451 at December 31, 2008. The money market funds were not insured at December 31, 2009. During 2008 and through April 30, 2009, the FDIC insured a portion of money market funds. At December 31, 2008, uninsured money market balances of the Association amounted to \$898,857.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2009 and 2008

NOTE 7 – CONCENTRATIONS (Continued)

Accounts receivable from three companies who have an agreement with the Association to sell *EconLit* represent approximately 82% and 76% of total accounts receivable at December 31, 2009 and 2008, respectively.