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INDEPENDENT AUDITORS' 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, 2007 and 2006, 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 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, 2007 and 2006, 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.

As discussed in Note 8 to the financial statements, an error resulting in overstatement of previously reported deferred revenue as of December 31, 2006 and 2005 was discovered by management. Accordingly, the financial statements have been restated to correct the error.

Frasier, Dean & Howard, PLLC

February 25, 2008

THE AMERICAN ECONOMIC ASSOCIATION

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006**

	2007	2006 (Restated)
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,730,525	\$ 2,285,996
ACCOUNTS RECEIVABLE	1,314,039	1,048,257
PREPAID EXPENSES	70,026	57,176
INVESTMENTS	17,634,590	16,286,253
FURNITURE, FIXTURES, AND EQUIPMENT—net of accumulated depreciation and amortization of \$661,018 and \$615,928, respectively	77,763	47,657
TOTAL ASSETS	<u>\$21,826,943</u>	<u>\$19,725,339</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$1,068,575	\$ 827,679
DEFERRED REVENUE	2,182,667	2,505,455
Total liabilities	<u>3,251,242</u>	<u>3,333,134</u>
NET ASSETS:		
Unrestricted	18,406,585	16,211,468
Temporarily restricted	169,116	180,737
Total net assets	<u>18,575,701</u>	<u>16,392,205</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$21,826,943</u>	<u>\$19,725,339</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, 2007 AND 2006**

	2007	2006
UNRESTRICTED OPERATING REVENUES:		
Membership dues and nonmember subscriptions	\$2,974,896	\$2,868,345
License fees	2,811,443	2,502,941
<i>Job Openings for Economists</i> listing fees	708,000	586,750
Fulltext, copyright and other fees	221,456	89,038
Other	148,315	146,196
Advertising	146,050	123,158
Annual meeting (net of associated costs of \$844,212 and \$694,500, respectively)	72,995	94,533
Sale of mailing list	26,666	26,189
Sale of copies and reprints	19,853	19,944
	<hr/>	<hr/>
Total unrestricted operating revenues	7,129,674	6,457,094
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	112,153	114,215
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Total unrestricted operating revenues and support	7,241,827	6,571,309
OPERATING EXPENSES:		
Publication:		
<i>American Economic Review</i>	1,605,005	1,519,252
<i>Journal of Economic Literature</i>	1,038,527	831,550
<i>Journal of Economic Perspectives</i>	849,822	816,597
<i>American Economic Journals</i>	611,213	50,203
<i>EconLit</i>	941,560	936,925
<i>Resources for Economists</i>	43,958	38,700
<i>Job Openings for Economists</i>	107,552	112,613
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	5,197,637	4,305,840
Management and general:		
General and administrative:		
Salaries and benefits	522,267	422,919
Other	293,405	314,772
Support of other organizations	73,718	74,356
Rent	53,511	55,165
Committees	107,128	75,679
Summer program	195,000	115,000
Unrelated business income tax	39,015	52,039
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	1,284,044	1,109,930
Total publication, management and general expenses	6,481,681	5,415,770
Program expenses	112,153	114,215
	<hr/>	<hr/>
Total unrestricted operating expenses	6,593,834	5,529,985
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	647,993	1,041,324
INVESTMENT INCOME	1,547,124	1,750,777
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INCREASE IN UNRESTRICTED NET ASSETS	<u>\$2,195,117</u>	<u>\$2,792,101</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006 (Restated)
UNRESTRICTED NET ASSETS:		
Total unrestricted operating revenues	\$ 7,129,674	\$ 6,457,094
Net assets released from restrictions	112,153	114,215
Total unrestricted operating expenses	(6,593,834)	(5,529,985)
Investment income	1,547,124	1,750,777
Increase in unrestricted net assets	<u>2,195,117</u>	<u>2,792,101</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grant proceeds	100,532	58,290
Net assets released from restrictions	(112,153)	(114,215)
Decrease in temporarily restricted net assets	<u>(11,621)</u>	<u>(55,925)</u>
INCREASE IN NET ASSETS	<u>2,183,496</u>	<u>2,736,176</u>
NET ASSETS—Beginning of year, as previously reported	16,392,205	13,301,660
Adjustment for overstatement of deferred revenue	—	354,369
NET ASSETS—Beginning of year, as restated	<u>16,392,205</u>	<u>13,656,029</u>
NET ASSETS—End of year	<u>\$18,575,701</u>	<u>\$16,392,205</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,183,496	\$ 2,736,176
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	45,090	30,984
Unrealized and realized investment gains	(922,986)	(1,233,925)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(265,782)	(25,152)
(Increase) decrease in prepaid expenses	(12,850)	28,232
Increase in accounts payable and accrued liabilities	240,896	29,410
(Decrease) increase in deferred revenue	(322,788)	38,998
Net cash provided by operating activities	<u>945,076</u>	<u>1,604,723</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(425,351)	(1,926,264)
Purchases of furniture, fixtures and equipment	(75,196)	(25,004)
Net cash used in investing activities	<u>(500,547)</u>	<u>(1,951,268)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	444,529	(346,545)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,285,996</u>	<u>2,632,541</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$2,730,525</u>	<u>\$2,285,996</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	<u>\$5,120</u>	<u>\$32,864</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007 AND 2006

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 consolidated statements of activities 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.

Investments

Investments are reported at fair value as reported by the respective funds.

Accounts Receivable

The Association accounts for potential losses in accounts receivable utilizing the allowance method. Management believes that accounts receivable are fully collectible for the years ended December 31, 2007 and 2006, respectively. 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, 2007 and 2006 amounted to \$45,090 and \$30,984, 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 Sciences Association. 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 2007 pertain to the January 2007 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.

Journal of Economic Literature and EconLit Expense

The *Journal of Economic Literature* ("JEL") published citations to economics literature until the late 1990s. With the development of *EconLit*, the publication of citations in the print version of the *JEL* ceased. Citations continue to be published in the compact disk version of the *JEL*, but their main role is in the database that is *EconLit*. As the importance of *EconLit* has grown, the costs of recording citations and producing *EconLit* has slowly but steadily been separated from the costs of publishing the *JEL*. This transition was completed in 2006.

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 \$522,600 and \$500,000 for the years ended December 31, 2007 and 2006, 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 \$39,015 and \$52,039 in 2007 and 2006, 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.

2. INVESTMENTS AND INVESTMENT INCOME

Investments consist of the following at December 31:

	2007	2006
Mutual funds	<u>\$17,634,590</u>	<u>\$16,286,253</u>

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

	2007	2006
Dividends and interest	\$ 624,138	\$ 516,852
Realized and unrealized gains/loss, net	922,986	1,233,925
	<u>\$ 1,547,124</u>	<u>\$ 1,750,777</u>

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 \$216,625 and \$177,000 during the years ended December 31, 2007 and 2006, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2007 are as follows:

Years ending December 31,	
2008	\$ 243,011
2009	257,668
2010	215,052
2011	168,360
2012	168,360
Thereafter	42,090
	<u>\$ 1,094,541</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.

4. 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 \$193,800 and \$143,000 for the years ended December 31, 2007 and 2006, respectively.

5. LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES

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

	2007	2006
Ebsco	\$ 1,751,777	\$ 1,347,595
Ovid	494,370	566,513
Cambridge Scientific Abstracts	343,098	306,287
OCLC	149,091	248,513
Elsevier Science	54,263	—
Dialog	17,014	21,130
EconLit-AEA	1,830	8,640
Other	—	4,263
	<u>\$ 2,811,443</u>	<u>\$ 2,502,941</u>

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

	2007	2006
Manuscript submission fees	\$ 129,601	\$ 126,640
CSWEP	16,887	18,515
Other	1,827	1,041
	<u>\$ 148,315</u>	<u>\$ 146,196</u>

6. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

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

	2007	2006
Bank and credit card charges	\$ 47,863	\$ 55,489
Mailing list file maintenance	67,336	53,055
Postage and shipping	12,178	40,455
Web site and minor equipment	25,321	39,929
Accounting and legal	56,448	36,585
Miscellaneous	23,128	23,646
Depreciation	13,930	20,897
Insurance	13,236	15,207
Election expenses	14,366	13,458
Telephone	8,306	8,979
Office supplies	11,293	7,072
	<u>\$ 293,405</u>	<u>\$ 314,772</u>

7. CONCENTRATIONS

The Association maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Excess uninsured balances of the Association amounted to \$1,355,983 at December 31, 2007 and \$1,378,314 at December 31, 2006. The Association also maintains cash in an uninsured money market fund in the amount of \$1,447,694 at December 31, 2007 and \$991,900 at December 31, 2006.

Accounts receivable from three companies who have an agreement with the Association to sell *EconLit* represent approximately 74% and 80% of total accounts receivable at December 31, 2007 and 2006, respectively.

8. PRIOR PERIOD ADJUSTMENT

Management of the Association identified an overstatement of deferred revenue that requires restatement of its audited financial statements for the year ended December 31, 2006. The overstatement of deferred revenue resulted from excess amounts of deferred revenue carried forward from the year ended December 31, 2005.

There is no effect on change in net assets for the years ended December 31, 2007 and 2006 as a result of the restatement. The restatement decreased liabilities by \$354,369 and increased unrestricted net assets by \$354,369 at December 31, 2006 and 2005. There was no effect on temporarily restricted net assets at December 31, 2006 and 2005.