



F R A S I E R , D E A N & H O W A R D , P L L C

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550
NASHVILLE, TENNESSEE 37203
PHONE 615-383-6592, FAX 615-383-7094

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, 2006 and 2005, 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, 2006 and 2005, 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

March 26, 2007

THE AMERICAN ECONOMIC ASSOCIATION**NOTES TO FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2006 AND 2005****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The American Economic Association (the "Association") is an educational organization whose purposes are 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. Prior to 2006, the Association designated a portion of its investment return (\$702,785 for the year ended December 31, 2005) for support of current operations with the remainder designated to support operations of future years and to offset potential market declines and other unforeseen contingencies. In 2006, the board voted to remove this designation. As a result, investment income previously reported in the 2005 financial statements has been reclassified in the accompanying financial statements to conform with 2006 presentation.

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, 2006 and 2005, 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, 2006 and 2005 amounted to \$30,984 and \$38,037, 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. Income from life membership dues is recognized over the estimated average lives of these members. Nonmember subscriptions to the various periodicals of the Association are recognized as operating revenue following the distribution of the specified publications to the subscribers. 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 *Index of Economic Articles*, mailing lists and copies, reprints and handbooks 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 2006 pertain to the January 2006 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. As a result of cost shifting from *JEL* to *EconLit*, 2006 *JEL* expenses appear to decline while *EconLit* expenses appear to increase when little has changed in the combined operation.

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 \$508,000 and \$500,000 for the years ended December 31, 2006 and 2005, 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 \$52,039 and \$0 in 2006 and 2005, 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.

Reclassifications

Certain reclassifications have been made to the 2005 balances to conform with the 2006 financial statement presentation.

2. INVESTMENTS AND INVESTMENT INCOME

Investments consist of the following at December 31, 2006 and 2005:

	2006	2005
Mutual funds	<u>\$16,286,253</u>	<u>\$13,126,064</u>

Investment income consists of the following for the years ended December 31, 2006 and 2005:

	2006	2005
Dividends and unrealized gains—net interest	\$ 1,660,189	\$ 738,076
	<u>90,588</u>	<u>20,099</u>
	<u>\$ 1,750,777</u>	<u>\$ 758,175</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 \$177,000 and \$171,000 during the years ended December 31, 2006 and 2005, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2006 are as follows:

Years ending December 31	
2007	\$ 216,625
2008	243,011
2009	257,668
2010	215,052
2011	168,360
Thereafter	210,450
	<u>\$1,311,166</u>

The Association also has contracts for hotel rooms and facilities for various meetings through 2013. Most of these contracts contain indemnification clauses whereby the Association indemnifies the hotel for claims, losses and other liabilities arising from the use of the hotel and facilities or the Association's non-compliance with the Americans with Disabilities Act. Most of these indemnification clauses also require the hotel to indemnify the Association for claims, losses and other liabilities arising from the hotel's non-compliance with the Americans with Disabilities Act.

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 \$143,000 and \$127,000 for the years ended December 31, 2006 and 2005, respectively.

5. LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES

License fees consist of the following for the years ended December 31, 2006 and 2005:

	2006	2005
Ebsco	\$1,347,595	\$1,248,463
Ovid	566,513	571,561
Cambridge Scientific Abstracts	306,287	282,908
OCLC	248,513	262,917
Dialog	21,130	18,537
EconLit-AEA	8,640	12,370
Other	4,263	—
Elsevier Science	—	44,528
	<u>\$2,502,941</u>	<u>\$2,441,284</u>

Other unrestricted operating revenues consist of the following for the years ended December 31, 2006 and 2005:

	2006	2005
AER submission fees	\$ 126,640	\$ 152,780
CSWEP	18,515	15,940
Other	1,041	156
	<u>\$ 146,196</u>	<u>\$ 168,876</u>

6. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses consist of the following for the years ended December 31, 2006 and 2005:

	2006	2005
Bank and credit card charges	\$ 55,489	\$ 50,928
Mailing list file maintenance	53,055	48,307
Postage and shipping	40,455	33,139
Web site and minor equipment	39,929	—
Accounting and legal	36,585	33,076
Miscellaneous	23,646	13,035
Depreciation	20,897	13,544
Insurance	15,207	12,062
Election expenses	13,458	14,446
Telephone	8,979	9,149
Office supplies	7,072	9,224
	<u>\$314,772</u>	<u>\$236,910</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 \$1,378,314 at December 31, 2006 and \$1,604,081 at December 31, 2005. The Association also maintains cash in an uninsured money market fund in the amount of \$991,900 at December 31, 2006 and \$1,022,396 at December 31, 2005.

Accounts receivable from three companies who have an agreement with the Association to sell EconLit represent approximately 80% and 72% of total accounts receivable at December 31, 2006 and 2005, respectively.

THE AMERICAN ECONOMIC ASSOCIATION**STATEMENTS OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,285,996	\$ 2,632,541
ACCOUNTS RECEIVABLE	1,048,257	1,023,105
PREPAID EXPENSES	57,176	85,408
INVESTMENTS	16,286,253	13,126,064
FURNITURE, FIXTURES AND EQUIPMENT—net of accumulated depreciation and amortization of \$615,928 and \$584,944, respectively	47,657	53,637
TOTAL ASSETS	<u>\$19,725,339</u>	<u>\$16,920,755</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 827,679	\$ 798,269
DEFERRED REVENUE	2,859,824	2,820,826
Total liabilities	<u>3,687,503</u>	<u>3,619,095</u>
NET ASSETS:		
Unrestricted	15,857,099	13,064,998
Temporarily restricted	180,737	236,662
Total net assets	<u>16,037,836</u>	<u>13,301,660</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$19,725,339</u>	<u>\$16,920,755</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES, AND OTHER
CHANGES IN UNRESTRICTED NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
UNRESTRICTED OPERATING REVENUES:		
Membership dues and nonmember subscriptions	\$2,868,345	\$2,991,824
License fees	2,502,941	2,441,284
<i>Job Openings for Economists</i> listing fees	586,750	512,835
Other	146,196	168,876
Advertising	123,158	128,133
Annual meeting (net of associated costs of \$844,212 and \$694,500, respectively)	94,533	54,089
Fulltext, copyright, and other fees	89,038	92,862
Sale of mailing list	26,189	49,901
Sale of copies, reprints, and handbooks	19,944	21,378
Total unrestricted operating revenues	<u>6,457,094</u>	<u>6,461,182</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	114,215	184,725
Total unrestricted operating revenues and support	<u>6,571,309</u>	<u>6,645,907</u>
OPERATING EXPENSES:		
Publication:		
<i>American Economic Review</i>	1,519,252	1,577,807
<i>Journal of Economic Literature</i>	831,550	1,135,103
<i>Journal of Economic Perspectives</i>	816,597	759,121
<i>American Economic Journals</i>	50,203	—
<i>EconLit</i>	936,925	618,497
<i>Resources for Economists</i>	38,700	51,394
<i>Job Openings for Economists</i>	112,613	90,192
<i>Survey</i>	—	10,823
	<u>4,305,840</u>	<u>4,242,937</u>
Management and general:		
General and administrative:		
Salaries and benefits	422,919	422,995
Other	314,772	236,910
Dues and subscriptions	74,356	73,326
Rent	55,165	54,671
Committees	75,679	90,586
Summer program	115,000	100,000
Unrelated business income tax	52,039	—
	<u>1,109,930</u>	<u>978,488</u>
Total publication, management, and general expenses	5,415,770	5,221,425
Program expenses	114,215	184,725
Total unrestricted operating expenses	<u>5,529,985</u>	<u>5,406,150</u>
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	1,041,324	1,239,757
INVESTMENT RETURN MORE THAN AMOUNTS DESIGNATED FOR CURRENT OPERATIONS	<u>1,750,777</u>	<u>758,175</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u><u>\$2,792,101</u></u>	<u><u>\$1,997,932</u></u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION**STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
UNRESTRICTED NET ASSETS:		
Total unrestricted operating revenues	\$ 6,457,094	\$ 6,461,182
Net assets released from restrictions	114,215	184,725
Total unrestricted operating expenses	(5,529,985)	(5,406,150)
Investment income	1,750,777	758,175
Increase in unrestricted net assets	<u>2,792,101</u>	<u>1,997,932</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grant proceeds	58,290	86,590
Net assets released from restrictions	(114,215)	(184,725)
Decrease in temporarily restricted net assets	<u>(55,925)</u>	<u>(98,135)</u>
INCREASE IN NET ASSETS	2,736,176	1,899,797
NET ASSETS—Beginning of year	<u>13,301,660</u>	<u>11,401,863</u>
NET ASSETS—End of year	<u>\$ 16,037,836</u>	<u>\$ 13,301,660</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,736,176	\$1,899,797
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,984	38,037
Unrealized and realized investment gains	(1,233,925)	(380,644)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(25,152)	(190,507)
Decrease (increase) in prepaid expenses	28,232	(43,248)
Increase in accounts payable and accrued liabilities	29,410	136,086
Increase (decrease) in deferred revenue	38,998	(132,149)
Net cash provided by operating activities	<u>1,604,723</u>	<u>1,327,372</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,926,264)	(857,432)
Purchases of furniture, fixtures, and equipment	(25,004)	(5,113)
Net cash used in investing activities	<u>(1,951,268)</u>	<u>(862,545)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(346,545)	464,827
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,632,541</u>	<u>2,167,714</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,285,996</u>	<u>\$2,632,541</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	<u>\$ 32,864</u>	<u>\$ 1,925</u>

See notes to the financial statements.