



FRASIER, DEAN & HOWARD, PLLC

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 statement of financial position of The American Economic Association (the "Association") as of December 31, 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 year 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 audit. The financial statements of The American Economic Association as of December 31, 2004 were audited by other auditors whose report dated March 29, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects the financial position of The American Economic Association as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Fraser, Dean & Howard, PLLC

March 23, 2006

THE AMERICAN ECONOMIC ASSOCIATION**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2005 AND 2004**

	2005	2004
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,632,541	\$ 2,167,714
ACCOUNTS RECEIVABLE	1,023,105	832,598
PREPAID EXPENSES	85,408	42,160
INVESTMENTS	13,126,064	11,887,988
FURNITURE, FIXTURES AND EQUIPMENT—net of accumulated depreciation and amortization of \$584,944 and \$546,906, respectively	53,637	86,561
TOTAL ASSETS	<u>\$16,920,755</u>	<u>\$15,017,021</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 803,718	\$ 662,183
DEFERRED REVENUE	2,815,377	2,952,975
Total liabilities	<u>3,619,095</u>	<u>3,615,158</u>
NET ASSETS:		
Unrestricted	13,064,998	11,067,066
Temporarily restricted	236,662	334,797
Total net assets	<u>13,301,660</u>	<u>11,401,863</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$16,920,755</u>	<u>\$15,017,021</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, 2005 AND 2004

	2005	2004
UNRESTRICTED OPERATING REVENUES:		
Membership dues and nonmember subscriptions	\$2,991,824	\$2,457,961
License fees	2,534,146	2,330,532
Investment return designated for current operations	702,785	629,044
<i>Job Openings for Economists</i> listing fees	512,835	366,500
Other	168,876	178,954
Advertising	128,133	75,503
Annual meeting (net of associated costs of \$694,500 and \$606,611, respectively)	54,089	53,288
Sale of mailing list	49,901	50,766
Sale of copies, reprints, and handbooks	21,378	35,323
Sale of <i>Index of Economic Articles</i>	—	1,831
Total unrestricted operating revenues	<u>7,163,967</u>	<u>6,179,702</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	184,725	207,216
Total unrestricted operating revenues and support	<u>7,348,692</u>	<u>6,386,918</u>
OPERATING EXPENSES:		
Publication:		
<i>American Economic Review</i>	1,577,807	1,376,831
<i>Journal of Economic Literature</i>	1,186,497	1,356,570
<i>Journal of Economic Perspectives</i>	759,121	743,089
<i>Index of Economic Articles</i> and <i>EconLit</i>	618,497	368,725
<i>Job Openings for Economists</i>	90,192	101,623
<i>Survey</i>	10,823	15,234
	<u>4,242,937</u>	<u>3,962,072</u>
Management and general:		
General and administrative:		
Salaries and benefits	422,995	455,487
Other	310,236	355,159
Rent	54,671	49,864
Committees	190,586	154,298
	<u>978,488</u>	<u>1,014,808</u>
Total publication, management, and general expenses	5,221,425	4,976,880
Program expenses	184,725	207,216
Total unrestricted operating expenses	<u>5,406,150</u>	<u>5,184,096</u>
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	1,942,542	1,202,822
INVESTMENT RETURN MORE THAN AMOUNTS DESIGNATED FOR CURRENT OPERATIONS	55,390	610,460
INCREASE IN UNRESTRICTED NET ASSETS	<u><u>\$1,997,932</u></u>	<u><u>\$1,813,282</u></u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION**STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
UNRESTRICTED NET ASSETS:		
Total unrestricted operating revenues	\$ 7,163,967	\$ 6,179,702
Net assets released from restrictions	184,725	207,216
Total unrestricted operating expenses	(5,406,150)	(5,184,096)
Investment return more than amounts designated for current operations	55,390	610,460
Increase in unrestricted net assets	<u>1,997,932</u>	<u>1,813,282</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grant proceeds	86,590	99,969
Net assets released from restrictions	(184,725)	(207,216)
Decrease in temporarily restricted net assets	<u>(98,135)</u>	<u>(107,247)</u>
INCREASE IN NET ASSETS	1,899,797	1,706,035
NET ASSETS—Beginning of year	<u>11,401,863</u>	<u>9,695,828</u>
NET ASSETS—End of year	<u>\$13,301,660</u>	<u>\$11,401,863</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION**STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipt of membership dues, nonmember subscriptions, license fees, and other operating revenue	\$ 6,133,077	\$ 5,682,111
Disbursements to suppliers and employees	(5,083,176)	(5,248,779)
Disbursements for income taxes	(1,925)	(13,595)
Grant proceeds	86,590	99,969
Grant disbursements	(184,725)	(207,216)
Proceeds from interest, dividends, and capital gain distributions on investments	377,531	331,460
Net cash provided by operating activities	<u>1,327,372</u>	<u>643,950</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(857,432)	(6,565,063)
Proceeds from sales of investments	—	5,799,487
Purchases of furniture, fixtures, and equipment	(5,113)	(77,172)
Net cash used in investing activities	<u>(862,545)</u>	<u>(842,748)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	464,827	(198,798)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,167,714</u>	<u>2,366,512</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,632,541</u>	<u>\$ 2,167,714</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 1,899,797	\$ 1,706,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	38,037	41,422
Loss on disposal of furniture, fixtures, and equipment	—	6,918
Unrealized and realized investment gains	(380,644)	(908,044)
Increase in accounts receivable	(190,507)	(115,331)
Decrease in inventory of <i>Index of Economic Articles</i>	—	3,485
(Increase) decrease in prepaid expenses	(43,248)	27,567
Increase (decrease) in accounts payable and accrued liabilities	141,535	(364,886)
(Decrease) increase in deferred revenue	(137,598)	246,784
Net cash provided by operating activities	<u>\$ 1,327,372</u>	<u>\$ 643,950</u>

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2005 AND 2004

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. The Association designates only a portion of its cumulative investment return for support of current operations; the remainder is designated to support operations of future years and to offset potential market declines and other unforeseen contingencies. Investment returns representing five percent of total cash and cash equivalents and investments at the beginning of the year are designated to support current operations.

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, 2005 and 2004, 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, 2005 and 2004 amounted to \$38,037 and \$41,422, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent amounts available for various student 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 on-line service. Listing fees and advertising revenues are recognized when the related publication is published or made available on line. Sales of *Index of Economic Articles*, mailing lists and copies, reprints and handbooks are recognized when the related material is shipped to the customer.

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 \$500,000 for the year ended December 31, 2005.

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 and the sale of mailing lists. The Association has recorded \$0 and \$15,520 in 2005 and 2004, 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 RETURN

Investments consist of the following at December 31, 2005 and 2004:

	2005	2004
Mutual funds	<u>\$13,126,064</u>	<u>\$11,887,988</u>

Investment return consists of the following for the years ended December 31, 2005 and 2004:

	2005	2004
Dividends and unrealized gains—net	\$ 738,076	\$ 652,864
Net realized gain on sales	—	582,364
Interest	<u>20,099</u>	<u>4,276</u>
Investment gain	758,175	1,239,504
Investment return designated for current operations	<u>(702,785)</u>	<u>(629,044)</u>
Investment return more than amounts designated for current operations	<u>\$ 55,390</u>	<u>\$ 610,460</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 \$171,000 and \$167,000 during the years ended December 31, 2005 and 2004, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2005 are as follows:

Year ending December 31	
2006	\$177,191
2007	179,725
2008	182,345
2009	123,027
2010	46,692
	<u>\$708,980</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 \$127,000 and \$126,000 for the years ended December 31, 2005 and 2004, respectively.

5. LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES

License fees consist of the following for the years ended December 31, 2005 and 2004:

	2005	2004
Ebsco	\$1,253,349	\$ 954,433
Ovid	571,561	670,702
Cambridge Scientific Abstracts	282,908	214,866
OCLC	262,917	267,125
Miscellaneous	46,900	37,586
Elsevier Science	44,528	83,404
Copyright Clearance Center	41,076	65,519
Dialog	18,537	21,942
EconLit-AEA	12,370	14,955
	<u>\$2,534,146</u>	<u>\$2,330,532</u>

Other unrestricted operating revenues consist of the following for the years ended December 31, 2005 and 2004:

	2005	2004
AER submission fees	\$152,780	\$117,827
CSWEP	15,940	19,005
Other	156	42,122
	<u>\$168,876</u>	<u>\$178,954</u>

6. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses consist of the following for the years ended December 31, 2005 and 2004:

	2005	2004
Dues and subscriptions	\$ 73,326	\$ 71,151
Bank charges	50,928	47,939
Mailing list file maintenance	48,307	59,799
Postage	33,139	33,578
Accounting and legal	33,076	64,227
Insurance and miscellaneous	25,097	20,190
Election expenses	14,446	13,729
Depreciation	13,544	24,212
Office supplies	9,224	11,359
Telephone	9,149	8,975
	<u>\$310,236</u>	<u>\$355,159</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 \$1,604,081 at December 31, 2005. The Association also maintains cash in an uninsured money market fund in the amount of \$1,022,396 at December 31, 2005.

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