

THE AMERICAN ECONOMIC ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2011 and 2010

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, 2011 and 2010, 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, 2011 and 2010, 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 7, 2012

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 1,434,625	\$ 1,458,188
Accounts receivable	2,081,449	1,472,049
Prepaid expenses	77,078	119,448
Investments	20,943,734	20,785,237
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of \$747,994 and \$734,172, respectively	<u>23,280</u>	<u>14,854</u>
Total assets	<u><u>\$ 24,560,166</u></u>	<u><u>\$ 23,849,776</u></u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 1,091,023	\$ 987,618
Deferred revenue	<u>2,417,528</u>	<u>2,550,022</u>
Total liabilities	<u>3,508,551</u>	<u>3,537,640</u>
Net assets:		
Unrestricted	20,890,854	20,134,760
Temporarily restricted	<u>160,761</u>	<u>177,376</u>
Total net assets	<u>21,051,615</u>	<u>20,312,136</u>
Total liabilities and net assets	<u><u>\$ 24,560,166</u></u>	<u><u>\$ 23,849,776</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, 2011 and 2010

	2011	2010
Unrestricted operating revenues:		
License fees	\$ 4,033,549	\$ 3,569,278
Nonmember subscriptions	1,870,438	1,917,085
Membership dues	1,405,951	1,432,282
<i>Job Openings for Economists</i> listing fees	961,860	822,791
Fulltext, copyright and other fees	617,234	321,250
Submission fees	199,575	184,850
Advertising	117,550	134,437
Conference fees	48,395	34,380
Annual meeting (net of associated costs of \$997,265 and \$930,973, respectively)	34,886	32,734
Other	21,261	43,769
Sale of mailing list	18,160	24,124
Total unrestricted operating revenues	9,328,859	8,516,980
Net assets released from restrictions:		
Satisfaction of program restrictions	18,595	77,390
Total unrestricted operating revenues and support	9,347,454	8,594,370
Expenses:		
Publications:		
<i>American Economic Review</i>	2,103,316	1,724,343
<i>Journal of Economic Literature</i>	927,377	899,089
<i>Journal of Economic Perspectives</i>	802,464	785,468
<i>AEJ: Applied Economics</i>	467,003	437,485
<i>AEJ: Economic Policy</i>	389,162	397,302
<i>AEJ: Macroeconomics</i>	394,932	397,636
<i>AEJ: Microeconomics</i>	441,918	404,037
<i>EconLit</i>	902,603	791,660
<i>Job Openings for Economists</i>	135,468	135,971
<i>Resources for Economists</i>	39,569	37,155
	6,603,812	6,010,146
Programs and activities:		
Government relations	114,853	94,740
Summer program	103,325	94,682
Continuing education conference	90,213	96,533
Support of other organizations	51,905	78,553
CeMent workshops	40,478	28,575
Economic education conference	37,149	-
External grant expense	18,595	77,390
AEA annual meeting - web casting and music session	11,146	17,336
Website - graduate and undergraduate	8,760	10,429
	476,424	498,238
Management and general:		
Employee compensation	776,679	726,972
Other	328,721	457,139
Committees	126,593	134,087
Rent	57,631	60,481
Unrelated business income tax	5,077	37,536
	1,294,701	1,416,215
Total expenses	8,374,937	7,924,599
Increase in unrestricted net assets from operations	972,517	669,771
Investment (loss) income	(216,423)	2,584,468
Increase in unrestricted net assets	\$ 756,094	\$ 3,254,239

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
Total unrestricted operating revenues	\$ 9,328,859	\$ 8,516,980
Net assets released from restrictions	18,595	77,390
Total unrestricted operating expenses	(8,374,937)	(7,924,599)
Investment (loss) income	(216,423)	2,584,468
	<u>756,094</u>	<u>3,254,239</u>
Temporarily restricted net assets:		
Grant proceeds	1,980	61,810
Net assets released from restrictions	(18,595)	(77,390)
	<u>(16,615)</u>	<u>(15,580)</u>
Increase in net assets	739,479	3,238,659
Net assets - beginning of year	<u>20,312,136</u>	<u>17,073,477</u>
Net assets - end of year	<u><u>\$ 21,051,615</u></u>	<u><u>\$ 20,312,136</u></u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flow from operating activities:		
Change in net assets	\$ 739,479	\$ 3,238,659
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,822	15,897
Unrealized and realized investment losses (gains)	858,470	(2,022,591)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(609,400)	5,371
Decrease (increase) in prepaid expenses	42,370	(53,826)
Increase (decrease) in accounts payable and accrued liabilities	103,405	(71,921)
Decrease in deferred revenue	(132,494)	(294,527)
Net cash provided by operating activities	<u>1,015,652</u>	<u>817,062</u>
Cash flows from investing activities:		
Purchases of investments, net	(1,416,967)	(2,529,226)
Proceeds from sale of investments	400,000	1,400,000
Purchases of property and equipment	(22,248)	-
Net cash used in investing activities	<u>(1,039,215)</u>	<u>(1,129,226)</u>
Net decrease in cash and cash equivalents	(23,563)	(312,164)
Cash and cash equivalents - beginning of year	<u>1,458,188</u>	<u>1,770,352</u>
Cash and cash equivalents - end of year	<u>\$ 1,434,625</u>	<u>\$ 1,458,188</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	<u>\$ 44,448</u>	<u>\$ 14,089</u>

See notes to the financial statements.

**THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

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

Accounts receivable are stated at the amount the Association expects to collect from outstanding balances. The Association accounts for potential losses in accounts receivable through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes that accounts receivable are fully collectible at December 31, 2011 and 2010. As a result, no allowance for uncollectible accounts has been provided.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

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, 2011 and 2010 amounted to \$13,822 and \$15,897, 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 2011 pertain to the January 2011 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 \$571,832 and \$554,750 for the years ended December 31, 2011 and 2010, respectively.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

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 expenses of \$5,077 and \$37,536 in 2011 and 2010, 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 Association accounts for income taxes in accordance with income tax accounting guidance in FASB ASC Topic 740, “Income Taxes.” The guidance 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. The Association does not believe there were any uncertain tax positions at December 31, 2011 and 2010. Additionally, the Association has not recognized any significant tax related interest and penalties in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2008 through December 31, 2011.

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 the 2010 financial statements in order to conform with the 2011 presentation.

**THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Association evaluated subsequent events through March 7, 2012, 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.

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME

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. |
| Level 2 | Inputs to the valuation methodology include the following: <ul style="list-style-type: none">• 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. There have been no changes in methodologies used at December 31, 2011 and 2010. The Association's mutual funds are valued at the net asset values of shares held by the Association at year end.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME (Continued)

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Large blend	\$ 8,811,134	\$ -	\$ -	\$ 8,811,134
Foreign large blend	4,296,062	-	-	4,296,062
Long-term bond	3,132,556	-	-	3,132,556
Intermediate-term bond	1,706,425	-	-	1,706,425
Mid-cap blend	1,059,351	-	-	1,059,351
Small blend	1,047,905	-	-	1,047,905
Diversified emerging markets	<u>890,301</u>	<u>-</u>	<u>-</u>	<u>890,301</u>
Total investments at fair value	<u>\$ 20,943,734</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,943,734</u>

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Large blend	\$ 7,613,601	\$ -	\$ -	\$ 7,613,601
Foreign large blend	4,513,297	-	-	4,513,297
Intermediate-term bond	3,341,719	-	-	3,341,719
Long-term bond	2,183,065	-	-	2,183,065
Diversified emerging markets	1,094,495	-	-	1,094,495
Small blend	1,026,145	-	-	1,026,145
Mid-cap blend	<u>1,012,915</u>	<u>-</u>	<u>-</u>	<u>1,012,915</u>
Total investments at fair value	<u>\$ 20,785,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,785,237</u>

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

	<u>2011</u>	<u>2010</u>
Dividends and interest	\$ 642,047	\$ 561,877
Realized and unrealized gain (loss), net	<u>(858,470)</u>	<u>2,022,591</u>
	<u>\$ (216,423)</u>	<u>\$ 2,584,468</u>

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

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 \$282,606 and \$263,155 during the years ended December 31, 2011 and 2010, respectively.

The minimum future rental commitments under noncancelable operating leases at December 31, 2011 are as follows:

Years ending <u>December 31,</u>	
2012	\$ 268,937
2013	<u>145,679</u>
	<u>\$ 414,616</u>

The Association also has contracts for hotel rooms and facilities for various meetings through 2020, 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>2011</u>	<u>2010</u>
Ebsco	\$ 3,213,791	\$ 2,812,454
ProQuest	557,690	416,205
Ovid	247,899	270,989
Dialog	13,568	11,830
Other	488	6,504
OCLC	<u>113</u>	<u>51,296</u>
	<u>\$ 4,033,549</u>	<u>\$ 3,569,278</u>

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 4 – LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES
(Continued)

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

	<u>2011</u>	<u>2010</u>
Sales of reprints and copies	\$ 15,601	\$ 18,605
CSWEP	3,270	9,645
Other	2,390	7,815
Calendar sales	<u>-</u>	<u>7,704</u>
	<u>\$ 21,261</u>	<u>\$ 43,769</u>

NOTE 5 – OTHER GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2011</u>	<u>2010</u>
Bank and credit card charges	\$ 92,157	\$ 124,044
Accounting and legal	69,641	47,261
Postage and shipping	28,702	14,964
Database Management	26,475	128,646
Miscellaneous	17,903	19,054
Telephone	16,531	12,165
Office supplies	15,690	11,913
Insurance	15,340	18,698
Mailing list file maintenance	14,688	21,059
Marketing	14,027	20,429
Election expenses	12,144	17,673
Website and minor equipment	5,423	11,475
Calendar expenses	<u>-</u>	<u>9,758</u>
	<u>\$ 328,721</u>	<u>\$ 457,139</u>

NOTE 6 – RETIREMENT ANNUITY PLAN

Employees of the Association are eligible for participation in a defined contribution retirement annuity plan. Contributions 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 \$298,667 and \$257,411 for the years ended December 31, 2011 and 2010, respectively.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2011 and 2010

NOTE 7 – CONCENTRATIONS

The Association maintains deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”). At December 31, 2011, all deposit account balances of the Association were fully insured under the Temporary Unlimited Coverage for Noninterest-bearing Transaction Accounts, which expires on December 31, 2012.

The Association also maintains cash in money market funds in the amount of \$473,976 at December 31, 2011 and \$473,901 at December 31, 2010. The money market funds were not insured at December 31, 2011 and 2010.

At December 31, 2011 and 2010, investments in various mutual funds were managed by one brokerage and investment company with an account balance totaling \$20,943,734 and \$20,785,237, respectively. Investments are not insured by FDIC or any other government agency and are subject to investment risk, including loss of principal. However, investments are insured by the Securities and Investor Protection Corporation, which covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

At December 31, 2011, accounts receivable from two companies who have an agreement with the Association to sell *EconLit* represented approximately 84% of total accounts receivable. At December 31, 2010, accounts receivable from one company who has an agreement with the Association to sell *EconLit* represented approximately 67% of total accounts receivable.

During 2011 and 2010, the Association received approximately 34% and 33%, respectively, of their revenue from one company who has an agreement with the Association to sell *EconLit*.