THE AMERICAN ECONOMIC ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2012 and 2011

THE AMERICAN ECONOMIC ASSOCIATION

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FRASIERDEAN HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

To the Executive Committee of
The American Economic Association
Nashville, Tennessee

We have audited the accompanying financial statements of The American Economic Association (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, 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, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, 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

Nashville, Tennessee
March 8, 2013

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 1,486,040	$ 1,434,625
Accounts receivable	2,147,973	2,081,449
Prepaid expenses	199,260	77,078
Investments	24,621,591	20,943,734
Furniture, fixtures and equipment, net of accumulated depreciation and amortization of $774,924 and $747,994, respectively	117,991	23,280
Total assets	$ 28,572,855	$ 24,560,166
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 671,363	$ 712,842
Deferred revenue	3,278,567	2,795,709
Total liabilities	3,949,930	3,508,551
Net assets:		
Unrestricted	24,459,190	20,890,854
Temporarily restricted	163,735	160,761
Total net assets	24,622,925	21,051,615
Total liabilities and net assets	$ 28,572,855	$ 24,560,166

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, 2012 and 2011

	2012	2011
Unrestricted operating revenues:		
License fees	$ 3,914,641	$ 4,033,549
Institutional subscriptions	1,798,284	1,870,438
Annual meeting	1,276,016	1,032,151
Membership dues	1,239,429	1,405,951
Job Openings for Economists listing fees	1,039,025	961,860
Fulltext, copyright and other fees	841,225	617,234
Submission fees	191,800	199,575
Advertising	89,450	117,550
Conference fees	61,765	48,395
Sale of mailing list	17,471	18,160
Other	11,732	21,261
Total unrestricted operating revenues	10,480,838	10,326,124
Net assets released from restrictions:		
Satisfaction of program restrictions	16,925	18,595
Total unrestricted operating revenues and support	10,497,763	10,344,719
Expenses:		
Publications:		
American Economic Review	2,042,624	2,103,316
Journal of Economic Literature	894,797	927,377
Journal of Economic Perspectives	810,722	802,464
AEJ: Applied Economics	486,008	467,003
AEJ: Economic Policy	467,576	389,162
AEJ: Macroeconomics	436,270	394,932
AEJ: Microeconomics	421,042	441,918
EconLit	898,228	902,603
Job Openings for Economists	142,479	135,468
Resources for Economists	36,536	39,569
	6,636,282	6,603,812
Programs and activities:		
AEA annual meeting - Denver 2011	-	1,008,411
AEA annual meeting - Chicago 2012	1,185,674	-
AEA annual meeting - San Diego 2013	495,927	-
Summer program	211,815	103,325
Continuing education conference	129,553	90,213
Government relations	95,376	114,853
Economic education conference	76,906	37,149
CeMent workshops	69,406	40,478
Support of other organizations	65,432	51,905
External grant expense	16,925	18,595
Website - graduate and undergraduate	7,873	8,760
	2,354,887	1,473,689
Management and general:		
Employee compensation	734,851	776,679
Other	293,248	328,721
Committees	146,151	126,593
Rent	57,943	57,631
Unrelated business income tax	14,268	5,077
	1,246,461	1,294,701
Total expenses	10,237,630	9,372,202
Increase in unrestricted net assets from operations	260,133	972,517
Investment income (loss)	3,308,203	(216,423)
Increase in unrestricted net assets	$ 3,568,336	$ 756,094

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2012 and 2011

	2012	**2011**
Unrestricted net assets:		
Total unrestricted operating revenues	$ 10,480,838	$ 10,326,124
Net assets released from restrictions	16,925	18,595
Total unrestricted operating expenses	(10,237,630)	(9,372,202)
Investment income (loss)	3,308,203	(216,423)
Increase in unrestricted net assets	3,568,336	756,094
Temporarily restricted net assets:		
Grant proceeds	19,899	1,980
Net assets released from restrictions	(16,925)	(18,595)
Increase (decrease) in temporarily restricted net assets	2,974	(16,615)
Increase in net assets	3,571,310	739,479
Net assets - beginning of year	21,051,615	20,312,136
Net assets - end of year	$ 24,622,925	$ 21,051,615

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash flow from operating activities:		
Change in net assets	$ 3,571,310	$ 739,479
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,930	13,822
Unrealized and realized investment (gains) losses	(2,522,178)	858,470
Changes in operating assets and liabilites:		
Increase in accounts receivable	(66,524)	(609,400)
(Increase) decrease in prepaid expenses	(122,182)	42,370
Decrease in accounts payable and accrued liabilities	(41,479)	(274,776)
Increase in deferred revenue	482,858	245,687
Net cash provided by operating activities	1,328,735	1,015,652
Cash flows from investing activities:		
Purchases of investments, net	(5,562,926)	(1,416,967)
Proceeds from sale of investments	4,407,247	400,000
Purchases of property and equipment	(121,641)	(22,248)
Net cash used in investing activities	(1,277,320)	(1,039,215)
Net increase (decrease) in cash and cash equivalents	51,415	(23,563)
Cash and cash equivalents - beginning of year	1,434,625	1,458,188
Cash and cash equivalents - end of year	$ 1,486,040	$ 1,434,625
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	$ 1,500	$ 44,448

See notes to the financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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, 2012 and 2011. As a result, no allowance for uncollectible accounts has been provided.

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, 2012 and 2011 amounted to $26,930 and $13,822, 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. Institutional 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 and back issues are recognized when the related material is shipped to the customer. Full text, copyright and other related fees are recognized when received.

Deferred Revenue

Deferred revenue represents income from membership dues and institutional subscriptions to the various periodicals of the Association, as well as registration, advertising and exhibitor income related to the annual meeting in January of the subsequent year. The membership dues and institutional subscriptions are deferred when received and amortized over the terms of the memberships. The deferred income related to the annual meeting is recognized when the meeting takes place.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Annual Meeting

An annual meeting is held in January of each year by the Association under the name Allied Social Science Associations. Gross revenues are reported in the unrestricted operating revenues section of the accompanying financial statements.

Prior to 2012, the net proceeds of the annual meeting were shared with other organizations. Beginning in 2012, the Association ceased the sharing of the net proceeds from the annual meeting. As such, the revenues and expenses from the annual meeting are shown at gross on the accompanying statement of unrestricted revenues, expenses and other changes in unrestricted net assets, and the expenses of the annual meeting are expensed as incurred. The 2011 annual meeting revenues and expenses, which were previously shown at net, have been shown at gross on the accompanying statement of unrestricted revenues, expenses and other changes in unrestricted net assets in order to conform with the 2012 presentation. Included in the accompanying statement of unrestricted revenues, expenses and other changes in unrestricted net assets are expenses incurred in 2012 for the San Diego meeting held in January 2013, which primarily consist of personnel costs of the Association for planning the meeting.

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 $585,866 and $571,832 for the years ended December 31, 2012 and 2011, 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 expenses of $14,268 and $5,077 in 2012 and 2011, 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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, 2012 and 2011. 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, 2009 through December 31, 2012.

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 2011 financial statements in order to conform with the 2012 presentation.

Subsequent Events

The Association evaluated subsequent events through March 8, 2013, 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).

NOTE 2 – INVESTMENTS AND INVESTMENT INCOME (Continued)

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:

- 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's 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, 2012 and 2011. The Association's mutual funds are valued at the net asset values of shares held by the Association at year end.

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Large blend	$ 10,219,053	$ -	$ -	$ 10,219,053
Foreign large blend	5,933,541	-	-	5,933,541
Long-term bond	3,257,652	-	-	3,257,652
Large value	2,593,601	-	-	2,593,601
World bond	1,330,446	-	-	1,330,446
Intermediate-term bond	1,287,298	-	-	1,287,298
Total investments at fair value	$ 24,621,591	$ -	$ -	$ 24,621,591

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:

	Level 1	Level 2	Level 3	Total
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	890,301	-	-	890,301
Total investments at fair value	$ 20,943,734	$ -	$ -	$ 20,943,734

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

	2012	2011
Dividends and interest	$ 786,025	$ 642,047
Realized and unrealized gain (loss), net	2,522,178	(858,470)
	$ 3,308,203	$ (216,423)

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 $300,708 and $282,606 during the years ended December 31, 2012 and 2011, respectively.

NOTE 3 – COMMITMENTS (Continued)

The minimum future rental commitments under noncancelable operating leases at December 31, 2012 are as follows:

Years ending December 31,	
2013	$ 305,217
2014	311,928
2015	315,128
2016	318,424
2017	205,243
Thereafter	68,415
	$ 1,524,355

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

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

	2012	2011
Ebsco	$ 3,102,210	$ 3,213,791
ProQuest	545,765	557,690
Ovid	254,601	247,899
Dialog	8,894	13,568
Other	3,171	488
OCLC	-	113
	$ 3,914,641	$ 4,033,549

NOTE 5 – OTHER GENERAL AND ADMINISTRATIVE EXPENSES

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

	2012	2011
Bank and credit card charges	$ 87,688	$ 92,157
Accounting and legal	53,878	69,641
Miscellaneous	49,461	17,903
Postage and shipping	22,312	28,702
Insurance	21,112	15,340
Election expenses	17,105	12,144
Mailing list file maintenance	12,769	14,688
Telephone	11,702	16,531
Office supplies	8,105	15,690
Website and minor equipment	4,822	5,423
Database Management	2,912	26,475
Marketing	1,382	14,027
	$ 293,248	$ 328,721

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 $298,967 and $298,667 for the years ended December 31, 2012 and 2011, respectively.

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, 2012 and 2011, all deposit account balances of the Association were fully insured under the Temporary Unlimited Coverage for Noninterest-bearing Transaction Accounts, which expired on December 31, 2012.

The Association also maintains cash in money market funds in the amount of $474,053 at December 31, 2012 and $473,976 at December 31, 2011. The money market funds were not insured at December 31, 2012 and 2011.

NOTE 7 – CONCENTRATIONS (Continued)

At December 31, 2012 and 2011, investments in various mutual funds were managed by brokerage and investment companies with an account balance totaling $24,621,591 and $20,943,734, 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, 2012 and 2011, accounts receivable from two companies who have an agreement with the Association to sell *EconLit* represented approximately 85% and 84%, respectively, of total accounts receivable.

During 2012 and 2011, the Association received approximately 30% and 34%, respectively, of their revenue from one company who has an agreement with the Association to sell *EconLit*.