

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 (the "Association") as of December 31, 2004 and 2003, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2004 and 2003, 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.

Deloitte & Touche LLP

March 29, 2005

THE AMERICAN ECONOMIC ASSOCIATION
**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003**

	2004	2003
ASSETS		
CASH AND CASH EQUIVALENTS (Note 1)	\$ 2,167,714	\$ 2,366,512
INVESTMENTS (Notes 1 and 2)	11,887,988	10,214,368
ACCOUNTS RECEIVABLE—no allowance for doubtful accounts considered necessary	832,598	717,267
INVENTORY OF <i>INDEX OF ECONOMIC ARTICLES</i> (Note 1)	—	3,485
PREPAID EXPENSES	42,160	69,727
FURNITURE, FIXTURES AND EQUIPMENT—net of accumulated depreciation and amortization of \$546,906 and \$524,881, respectively (Note 1)	86,561	57,729
TOTAL ASSETS	<u><u>\$15,017,021</u></u>	<u><u>\$13,429,088</u></u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 662,183	\$ 1,027,069
DEFERRED REVENUE (Note 1)	2,952,975	2,706,191
Total liabilities	<u>3,615,158</u>	<u>3,733,260</u>
COMMITMENTS (Note 3)		
NET ASSETS:		
Unrestricted	11,067,066	9,253,784
Temporarily restricted (Note 1)	334,797	442,044
Total net assets	<u>11,401,863</u>	<u>9,695,828</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$15,017,021</u></u>	<u><u>\$13,429,088</u></u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES, AND OTHER CHANGES
IN UNRESTRICTED NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
UNRESTRICTED OPERATING REVENUES:		
Membership dues and nonmember subscriptions	\$2,457,961	\$2,391,471
<i>Job Openings for Economists</i> listing fees	366,500	220,970
License fees (Note 5)	2,330,532	2,090,679
Advertising	75,503	99,990
Sale of <i>Index of Economic Articles</i>	1,831	101,578
Sale of copies, reprints and handbooks	35,323	32,721
Sale of mailing list	50,766	59,078
Annual meeting (net of associated costs of \$606,611 and \$630,542, respectively)	53,288	136,957
Investment return designated for current operations (Notes 1 and 2)	629,044	503,453
Other (Note 5)	178,954	299,858
	<u>6,179,702</u>	<u>5,936,755</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	207,216	297,211
	<u>6,386,918</u>	<u>6,233,966</u>
OPERATING EXPENSES:		
Publication:		
<i>American Economic Review</i>	1,376,831	1,339,861
<i>Journal of Economic Literature</i>	1,356,570	1,822,346
<i>Journal of Economic Perspectives</i>	743,089	707,280
<i>Job Openings for Economists</i>	101,623	105,675
<i>Survey</i>	15,234	22,918
<i>Index of Economic Articles</i> and <i>EconLit</i>	368,725	206,300
	<u>3,962,072</u>	<u>4,204,380</u>
Management and general:		
General and administrative:		
Salaries and benefits (Note 4)	455,487	428,148
Rent (Note 3)	49,864	45,044
Other (Note 6)	355,159	393,775
Committees	154,298	160,343
	<u>1,014,808</u>	<u>1,027,310</u>
Total publication, management and general expenses	4,976,880	5,231,690
Program expenses	207,216	297,211
Total unrestricted operating expenses	<u>5,184,096</u>	<u>5,528,901</u>
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	1,202,822	705,065
INVESTMENT RETURN MORE THAN AMOUNTS DESIGNATED FOR CURRENT OPERATIONS (Notes 1 and 2)	610,460	1,433,913
INCREASE IN UNRESTRICTED NET ASSETS	<u><u>\$1,813,282</u></u>	<u><u>\$2,138,978</u></u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
**STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
UNRESTRICTED NET ASSETS:		
Total unrestricted operating revenues	6,179,702	\$ 5,936,755
Net assets released from restrictions	207,216	297,211
Total unrestricted operating expenses	(5,184,096)	(5,528,901)
Investment return more than amounts designated for current operations	610,460	1,433,913
Increase in unrestricted net assets	<u>1,813,282</u>	<u>2,138,978</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grant proceeds	99,969	157,700
Net assets released from restrictions	(207,216)	(297,211)
Decrease in temporarily restricted net assets	<u>(107,247)</u>	<u>(139,511)</u>
INCREASE IN NET ASSETS	1,706,035	1,999,467
NET ASSETS—Beginning of year	<u>9,695,828</u>	<u>7,696,361</u>
NET ASSETS—End of year	<u>\$11,401,863</u>	<u>\$ 9,695,828</u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipt of membership dues, nonmember subscriptions, license fees and other operating revenue	\$ 5,682,111	\$ 5,910,089
Disbursements to suppliers and employees	(5,248,779)	(5,189,717)
Disbursements for income taxes	(13,595)	—
Grant proceeds	99,969	157,700
Grant disbursements	(207,216)	(297,211)
Proceeds from interest, dividends and capital gain distributions on investments	331,460	264,383
Net cash provided by operating activities	<u>643,950</u>	<u>845,244</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(6,565,063)	(692,863)
Proceeds from sales of investments	5,799,487	730,000
Purchases of furniture, fixtures and equipment	(77,172)	(6,399)
Net cash (used in) provided by investing activities	<u>(842,748)</u>	<u>30,738</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(198,798)	875,982
CASH AND CASH EQUIVALENTS—Beginning of year	2,366,512	1,490,530
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,167,714</u>	<u>\$ 2,366,512</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 1,706,035	\$ 1,999,467
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,422	83,953
Loss on disposal of furniture, fixtures and equipment	6,918	—
Unrealized and realized investment gains	(908,044)	(1,672,983)
Increase in accounts receivable	(115,331)	(107,380)
Decrease (increase) in inventory of <i>Index of Economic Articles</i>	3,485	(3,485)
Decrease (increase) in prepaid expenses	27,567	(34,766)
Decrease in accounts payable and accrued liabilities	(364,886)	(3,729)
Increase in deferred revenue	246,784	584,167
Net cash provided by operating activities	<u>\$ 643,950</u>	<u>\$ 845,244</u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION**NOTES TO FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2004 AND 2003****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.

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

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.

Inventory of Index of Economic Articles is stated at the lower of cost or market. This publication was discontinued during 2003.

Furniture, fixtures and equipment is stated at cost net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Temporarily restricted net assets represent amounts available for various student programs and economic conferences. Certain temporarily restricted net assets are administered on a reimbursement basis; therefore, disbursements are allowed prior to receipt of grant proceeds.

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 life 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 based on the number of users with access to the online service and the amount of time those users have access. 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.

Deferred revenue represents income from membership dues and nonmember subscriptions to the various periodicals of the Association which are deferred when received.

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 recognized \$15,520 and \$0 in 2004 and 2003, respectively, in 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 reclassifications also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and reclassifications.

2. INVESTMENTS AND INVESTMENT RETURN

Investments consist of:

	2004	2003
Mutual funds:		
Equity	\$ 9,667,600	\$ 7,250,940
Debt	2,220,388	2,963,428
	<u>\$11,887,988</u>	<u>\$10,214,368</u>

Investment return for the years ended December 31, 2004 and 2003, consists of:

	2004	2003
Dividends and unrealized gains—net	\$ 652,864	\$ 1,928,601
Net realized gain on sales	582,364	7,246
Interest	4,276	1,519
	<u>1,239,504</u>	<u>1,937,366</u>
Investment gain	(629,044)	(503,453)
Investment return designated for current operations	<u>\$ 610,460</u>	<u>\$ 1,433,913</u>
Investment return more than amounts designated for current operations		

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. Total rental expense under these leases, which is included in various categories of operating expenses, was approximately \$167,000 and \$116,000 during the years ended December 31, 2004 and 2003.

The minimum future rental commitments under noncancelable operating leases at December 31, 2004 are as follows:

Year Ending	
December 31	
2005	\$172,792
2006	179,115
2007	179,729
2008	182,349
2009	123,029
Thereafter	46,692
	<u>\$883,706</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. Total plan expense was approximately \$126,000 and \$118,000 for the years ended December 31, 2004 and 2003, respectively.

5. LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES

License fees for the years ended December 31, 2004 and 2003, consist of the following:

	2004	2003
Ovid	\$ 670,702	\$ 698,615
Ebsco	954,433	718,631
OCLC	267,125	265,953
Cambridge Scientific Abstracts	214,866	176,999
Elsevier Science	83,404	68,990
Copyright Clearance Center	65,519	81,378
EconLit-AEA	14,955	19,650
Dialog	21,942	27,891
Miscellaneous	37,586	32,572
	<u>\$2,330,532</u>	<u>\$2,090,679</u>

Other unrestricted operating revenues for the years ended December 31, 2004 and 2003, consist of the following:

	2004	2003
AER submission fees	\$117,827	\$117,773
CSWEP	19,005	17,950
Other	42,122	164,135
	<u>\$178,954</u>	<u>\$299,858</u>

6. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses for the years ended December 31, 2004 and 2003, consist of the following:

	2004	2003
Dues and subscriptions	\$ 71,151	\$ 85,051
Accounting and legal	64,227	57,954
Mailing list file maintenance	59,799	80,414
Bank charges	47,939	51,224
Postage	33,578	37,647
Depreciation	24,212	23,301
Election expenses	13,729	14,239
Insurance and miscellaneous	20,190	20,360
Office supplies	11,359	15,559
Telephone	8,975	8,026
	<u>\$355,159</u>	<u>\$393,775</u>