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Independent Auditors' 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 (the "Association") as of December 31, 2002 and 2001, 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, such financial statements present fairly, in all material respects, the financial position of The American Economic Association as of December 31, 2002 and 2001, 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

March 14, 2003

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS		
CASH AND CASH EQUIVALENTS (Note 1)	\$ 1,490,530	\$ 1,631,277
INVESTMENTS (Notes 1 and 2)	8,578,522	9,956,707
ACCOUNTS RECEIVABLE, no allowance for doubtful accounts considered necessary	609,887	445,881
INVENTORY OF <i>INDEX OF ECONOMIC ARTICLES</i> (Note 1)	—	10,287
PREPAID EXPENSES	34,961	27,767
FURNITURE, FIXTURES AND EQUIPMENT, net of accumulated depreciation and amortization of \$464,928 and \$374,269, respectively (Note 1)	135,283	166,159
TOTAL ASSETS	<u>\$10,849,183</u>	<u>\$12,238,078</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 1,030,798	\$ 1,035,182
DEFERRED REVENUE: (Note 1)		
Membership dues and nonmember subscriptions	2,112,424	1,851,296
<i>Job Openings for Economists</i> listing fees	9,600	—
Total deferred revenue	<u>2,122,024</u>	<u>1,851,296</u>
Total liabilities	<u>3,152,822</u>	<u>2,886,478</u>
COMMITMENTS (Note 3)		
NET ASSETS:		
Unrestricted	7,114,806	8,880,052
Temporarily restricted (Note 1)	581,555	471,548
Total net assets	<u>7,696,361</u>	<u>9,351,600</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$10,849,183</u>	<u>\$12,238,078</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, 2002 AND 2001**

	2002	2001
UNRESTRICTED OPERATING REVENUES:		
Membership dues and nonmember subscriptions (Note 1)	\$ 2,166,558	\$ 2,071,846
<i>Job Openings for Economists</i> listing fees	160,050	—
<i>Job Openings for Economists</i> subscriptions (Note 1)	8	5,580
License fees (Note 5)	1,813,202	1,526,955
Advertising	113,640	137,720
Sale of <i>Index of Economic Articles</i>	2,091	5,343
Sale of copies, reprints and handbooks	35,119	40,670
Sale of mailing list	63,533	53,566
Annual meeting (net of associated costs of \$486,559 and \$489,535)	78,222	85,809
Investment return designated for current operations (Notes 1 and 2)	579,399	638,656
Other (Notes 1 and 5)	145,987	255,337
	<u>5,157,809</u>	<u>4,821,482</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	220,389	199,394
	<u>5,378,198</u>	<u>5,020,876</u>
OPERATING EXPENSES:		
Publication:		
<i>American Economic Review</i>	1,400,646	1,271,600
<i>Journal of Economic Literature</i>	1,754,301	1,572,179
<i>Journal of Economic Perspectives</i>	713,205	702,491
<i>Job Openings for Economists</i>	76,774	74,305
<i>Survey</i> (Note 1)	35,274	25,116
<i>Index of Economic Articles</i>	70,037	95,666
	<u>4,050,237</u>	<u>3,741,357</u>
Management and general:		
General and administrative:		
Salaries and benefits (Note 4)	411,895	415,855
Rent (Note 3)	42,883	37,769
Other (Note 6)	421,091	373,988
Committees	144,391	129,265
	<u>1,020,260</u>	<u>956,877</u>
Total publication, management and general expenses	5,070,497	4,698,234
Program expenses	220,389	199,394
Total unrestricted operating expenses	<u>5,290,886</u>	<u>4,897,628</u>
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	87,312	123,248
INVESTMENT RETURN LESS THAN AMOUNTS DESIGNATED FOR CURRENT OPERATIONS (Notes 1 and 2)	(1,852,558)	(1,389,441)
DECREASE IN UNRESTRICTED NET ASSETS	<u><u>\$(1,765,246)</u></u>	<u><u>\$(1,266,193)</u></u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION

**STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
UNRESTRICTED NET ASSETS:		
Total unrestricted operating revenues	\$ 5,157,809	\$ 4,821,482
Net assets released from restrictions	220,389	199,394
Total unrestricted operating expenses	(5,290,886)	(4,897,628)
Investment return less than amounts designated for current operations	(1,852,558)	(1,389,441)
Decrease in unrestricted net assets	<u>(1,765,246)</u>	<u>(1,266,193)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grant proceeds	330,396	375,979
Net assets released from restrictions	<u>(220,389)</u>	<u>(199,394)</u>
Increase in temporarily restricted net assets	<u>110,007</u>	<u>176,585</u>
DECREASE IN NET ASSETS	(1,655,239)	(1,089,608)
NET ASSETS AT BEGINNING OF YEAR	<u>9,351,600</u>	<u>10,441,208</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 7,696,361</u></u>	<u><u>\$ 9,351,600</u></u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipt of membership dues, nonmember subscriptions, license fees and other operating revenue	\$ 4,685,681	\$ 3,951,976
Disbursements to suppliers and employees	(4,985,109)	(4,456,734)
Grant proceeds	330,396	375,979
Grant disbursements	(220,389)	(199,394)
Proceeds from interest, dividends and capital gain distributions on investments	286,093	324,045
Net cash provided by (used in) operating activities	<u>96,672</u>	<u>(4,128)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,936,130)	(1,364,193)
Proceeds from sales of investments	1,755,062	1,653,603
Purchases of furniture, fixtures and equipment	(56,351)	(106,171)
Net cash (used in) provided by investing activities	<u>(237,419)</u>	<u>183,239</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(140,747)	179,111
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,631,277</u>	<u>1,452,166</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,490,530</u>	<u>\$ 1,631,277</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net assets	\$(1,655,239)	\$(1,089,608)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	87,227	85,183
Unrealized and realized investment losses	1,559,253	1,074,830
Increase in accounts receivable	(164,006)	(82,816)
Decrease in inventory of <i>Index of Economic Articles</i>	10,287	7,573
(Increase) decrease in prepaid expenses	(7,194)	31,155
(Decrease) increase in accounts payable and accrued liabilities	(4,384)	117,589
Increase in deferred revenue	270,728	22,247
Decrease in accrual for <i>Survey</i>	—	(170,281)
Net cash provided by (used in) operating activities	<u>\$ 96,672</u>	<u>\$ (4,128)</u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION**NOTES TO FINANCIAL STATEMENTS****YEARS ENDED DECEMBER 31, 2002 AND 2001****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.

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.

Deferred revenue represents income from membership dues and nonmember subscriptions to the various periodicals of the Association which are deferred when received. These amounts are then recognized as operating revenue following the distribution of the specified publications to the members and subscribers of the Association. Income from life membership dues is recognized over the estimated average life of these members.

Accrual for Survey. Prior to January 2002, every four years, the Association published a *Survey* which listed, among other things, the names and addresses of its membership. The *Survey* was published and distributed most recently in 1997 at no cost to the membership. To properly match the publishing cost of these publications with revenue from membership dues, the Association accrued for estimated publishing costs which were expected to reduce actual *Survey* expenses in the year of publication. In January 2002, the executive committee voted to discontinue the printed publication of the *Survey*. As a result, the accrual of \$170,281 as of December 31, 2001 was recognized as other income in 2001.

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.

Federal 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. As required by Section 511(a) of this Code, the Association is subject to federal 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. There was no tax due on such revenue for 2002 or 2001. 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.

New accounting pronouncements. The Association adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, on January 1, 2002. SFAS No. 144 provides clarifications of certain implementation issues with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, along with additional guidance on the accounting for the impairment or disposal of long-lived assets. The adoption of SFAS No. 144 did not have an impact on the financial position or changes in net assets of the Association.

2. INVESTMENTS AND INVESTMENT RETURN

Investments consist of:

	2002	2001
Mutual funds:		
Equity	\$ 5,156,246	\$ 6,227,212
Debt	<u>3,422,276</u>	<u>3,729,495</u>
	<u>\$ 8,578,522</u>	<u>\$ 9,956,707</u>

Investment return for the years ended December 31, 2002 and 2001, consists of:

	2002	2001
Dividends and unrealized gains and losses, net	\$ (838,174)	\$(1,652,113)
Net realized (loss) gain on sales	(440,012)	887,874
Interest	<u>5,027</u>	<u>13,454</u>
Investment loss	<u>(1,273,159)</u>	<u>(750,785)</u>
Investment return designated for current operations	<u>(579,399)</u>	<u>(638,656)</u>
Investment return less than amounts designated for current operations	<u>\$(1,852,558)</u>	<u>\$(1,389,441)</u>

3. COMMITMENTS

The Association leases office space under cancelable and noncancelable operating leases. Total rental expense under these leases, which is included in various categories of operating expenses, was approximately \$123,000 and \$114,000 during the years ended December 31, 2002 and 2001.

The minimum future rental commitments under noncancelable operating leases at December 31, 2002 are as follows:

Year Ending	
December 31,	
2003	\$132,946
2004	103,050
2005	36,240
2006	1,920
	<u>\$274,156</u>

The Association also has contracts for hotel rooms and facilities for various meetings through 2007.

4. RETIREMENT ANNUITY PLAN

Employees of the Association are eligible for participation in a contributory 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 pension expense was approximately \$110,000 and \$109,000 for the years ended December 31, 2002 and 2001, respectively.

5. LICENSE FEES AND OTHER UNRESTRICTED OPERATING REVENUES

License fees for the years ended December 31, 2002 and 2001, consist of the following:

	2002	2001
SilverPlatter/Ovid	\$ 719,253	\$ 772,000
Ebsco	451,379	144,619
OCLC	291,047	268,430
Cambridge Scientific Abstracts	132,164	95,237
Ovid	66,884	71,139
Elsevier Science	48,198	22,729
Copyright Clearance Center	27,713	77,121
EconLit—AEA	25,860	30,381
Dialog	21,034	22,420
Miscellaneous	29,670	22,879
	<u>\$1,813,202</u>	<u>\$1,526,955</u>

Other unrestricted operating revenues for the years ended December 31, 2002 and 2001, consist of the following:

	2002	2001
AER submission fees	\$ 95,765	\$ 78,706
CSWEP	17,700	6,350
Other	32,522	170,281
	<u>\$ 145,987</u>	<u>\$ 255,337</u>

6. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses for the years ended December 31, 2002 and 2001, consist of the following:

	2002	2001
Dues and subscriptions	\$ 84,406	\$ 87,986
Accounting and legal	33,166	31,896
Mailing list file maintenance	93,430	80,393
Bank charges	45,082	28,395
Postage	47,767	27,205
Depreciation	29,781	37,355
Election expenses	27,520	15,959
Insurance and miscellaneous	26,985	31,036
Office supplies	23,554	25,618
Telephone	9,400	8,145
	<u>\$421,091</u>	<u>\$373,988</u>