

Deloitte & Touche LLP

Suite 2400
424 Church Street
Nashville, Tennessee 37219-2396

www.us.deloitte.com

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, 2001 and 2000, 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, 2001 and 2000, 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 13, 2002

THE AMERICAN ECONOMIC ASSOCIATION STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2001 AND 2000

	2001	2000
Assets		
CASH AND CASH EQUIVALENTS (Note 1)	\$ 1,631,277	\$ 1,452,166
INVESTMENTS (Notes 1 and 2)	9,956,707	11,320,947
ACCOUNTS RECEIVABLE, no allowance for doubtful accounts considered necessary	445,881	363,065
INVENTORY OF <i>Index of Economic Articles</i> (Note 1)	10,287	17,860
PREPAID EXPENSES	27,767	58,922
FURNITURE, FIXTURES AND EQUIPMENT, net of accumulated depreciation and amortization of \$374,269 and \$289,129, respectively (Note 1)	166,159	145,171
TOTAL ASSETS	<u><u>\$12,238,078</u></u>	<u><u>\$13,358,131</u></u>
Liabilities and Net Assets		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 1,035,182	\$ 917,593
DEFERRED REVENUE: (Note 1)		
Membership dues and nonmember subscriptions	1,851,296	1,824,927
<i>Job Openings for Economists</i> subscriptions	—	4,122
Total deferred revenue	1,851,296	1,829,049
ACCRUAL FOR SURVEY (Note 1)	—	170,281
Total liabilities	<u>2,886,478</u>	<u>2,916,923</u>
COMMITMENTS (Note 3)		
NET ASSETS:		
Unrestricted	8,880,052	10,146,245
Temporarily restricted (Note 1)	471,548	294,963
Total net assets	<u>9,351,600</u>	<u>10,441,208</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$12,238,078</u></u>	<u><u>\$13,358,131</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, 2001 AND 2000

	2001	2000
UNRESTRICTED OPERATING REVENUES:		
Membership dues and nonmember subscriptions (Note 1)	\$ 2,071,846	\$ 2,024,559
<i>Job Openings for Economists</i> subscriptions (Note 1)	5,580	8,634
License fees (Note 5)	1,526,955	1,392,567
Advertising	137,720	151,805
Sale of <i>Index of Economic Articles</i>	5,343	90,697
Sale of copies, reprints and handbooks	40,670	48,646
Sale of mailing list	53,566	80,589
Annual meeting (net of associated costs of \$489,535 and \$451,002)	85,809	90,503
Investment return designated for current operations (Notes 1 and 2)	638,656	691,180
Other (Notes 1 and 5)	255,337	77,772
	<u>4,821,482</u>	<u>4,656,952</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions	199,394	215,068
	<u>199,394</u>	<u>215,068</u>
Total unrestricted operating revenues and other support	<u>5,020,876</u>	<u>4,872,020</u>
OPERATING EXPENSES:		
Publication:		
<i>American Economic Review</i>	1,271,600	1,130,079
<i>Journal of Economic Literature</i>	1,572,179	1,444,511
<i>Journal of Economic Perspectives</i>	702,491	614,452
<i>Job Openings for Economists</i>	74,305	77,633
<i>Survey</i> (Note 1)	25,116	31,239
<i>Index of Economic Articles</i>	95,666	189,129
	<u>3,741,357</u>	<u>3,487,043</u>
Management and general:		
General and administrative:		
Salaries and benefits (Note 4)	415,855	348,018
Rent (Note 3)	37,769	31,749
Other (Note 6)	373,988	338,027
Committees	129,265	136,220
	<u>956,877</u>	<u>854,014</u>
Total publication, management and general expenses	4,698,234	4,341,057
Program expenses	199,394	209,068
Total unrestricted operating expenses	<u>4,897,628</u>	<u>4,550,125</u>
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	123,248	321,895
INVESTMENT RETURN LESS THAN AMOUNTS DESIGNATED FOR CURRENT OPERATIONS (Notes 1 and 2)	<u>(1,389,441)</u>	<u>(1,518,806)</u>
DECREASE IN UNRESTRICTED NET ASSETS	<u><u>\$(1,266,193)</u></u>	<u><u>\$(1,196,911)</u></u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
UNRESTRICTED NET ASSETS:		
Total unrestricted operating revenues	\$ 4,821,482	\$ 4,656,952
Net assets released from restrictions	199,394	215,068
Total unrestricted operating expenses	(4,897,628)	(4,550,125)
Investment return less than amounts designated for current operations	(1,389,441)	(1,518,806)
Decrease in unrestricted net assets	<u>(1,266,193)</u>	<u>(1,196,911)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grant proceeds	375,979	272,439
Net assets released from restrictions	(199,394)	(215,068)
Increase in temporarily restricted net assets	<u>176,585</u>	<u>57,371</u>
DECREASE IN NET ASSETS	(1,089,608)	(1,139,540)
NET ASSETS AT BEGINNING OF YEAR	<u>10,441,208</u>	<u>11,580,748</u>
NET ASSETS AT END OF YEAR	<u>\$ 9,351,600</u>	<u>\$10,441,208</u>

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipt of membership dues, nonmember subscriptions, license fees and other operating revenue	\$ 3,951,976	\$ 3,957,235
Disbursements to suppliers and employees	(4,456,734)	(4,163,376)
Grant proceeds	375,979	272,439
Grant disbursements	(199,394)	(209,068)
Proceeds from interest, dividends and capital gain distributions on investments	324,045	334,348
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(4,128)	191,578
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,364,193)	(316,739)
Proceeds from sale of investments	1,653,603	400,000
Purchases of furniture, fixtures and equipment	(106,171)	(80,080)
NET CASH PROVIDED BY INVESTING ACTIVITIES	183,239	3,181
NET INCREASE IN CASH AND CASH EQUIVALENTS	179,111	194,759
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,452,166	1,257,407
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,631,277	\$ 1,452,166
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$(1,089,608)	\$(1,139,540)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	85,183	45,238
Unrealized and realized investment losses	1,074,830	1,161,974
Increase in accounts receivable	(82,816)	(33,018)
Decrease in inventory of <i>Index of Economic Articles</i>	7,573	17,107
Decrease (increase) in prepaid expenses	31,155	(22,090)
Increase in accounts payable and accrued liabilities	117,589	108,687
Increase in deferred revenue	22,247	24,481
(Decrease) increase in accrual for <i>Survey</i>	(170,281)	28,739
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (4,128)	\$ 191,578

See notes to financial statements.

THE AMERICAN ECONOMIC ASSOCIATION NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

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 provided approximately \$29,000 during the year ended December 31, 2000, 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 reversed and 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 2001 or 2000. 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. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*, and No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and as interpreted by the FASB and the Derivatives Implementation Group through *Statement 133 Implementation Issues*, as of January 1, 2001. These pronouncements established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The adoption of these pronouncements did not have a material impact on the financial position or changes in net assets of the Association as of and for the year ended December 31, 2001.

2. Investments and Investment Return

Investments consist of:

	2001	2000
Mutual funds:		
Equity	\$6,227,212	\$ 8,696,844
Debt	3,729,495	2,624,103
	<u>\$9,956,707</u>	<u>\$11,320,947</u>

Investment return for the years ended December 31, 2001 and 2000, consists of:

	2001	2000
Dividends and unrealized gains and losses, net	\$(1,652,113)	\$ (846,820)
Net realized gain on sales	887,874	1,585
Interest	13,454	17,609
	<u>(750,785)</u>	<u>(827,626)</u>
Investment return designated for current operations	(638,656)	(691,180)
	<u>\$(1,389,441)</u>	<u>\$(1,518,806)</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 \$114,000 and \$106,000 during the years ended December 31, 2001 and 2000.

The minimum future rental commitments under noncancelable operating leases at December 31, 2001 are as follows:

Year Ending December 31,	
2002	\$100,416
2003	67,276
2004	35,412
2005	1,920
	<u>\$205,024</u>

The Association also has contracts for hotel rooms and facilities for various meetings through 2006.

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 \$109,000 and \$101,000 for the years ended December 31, 2001 and 2000, respectively.

5. License Fees and Other Unrestricted Operating Revenues

License fees for the years ended December 31, 2001 and 2000, consist of the following:

	2001	2000
SilverPlatter	\$ 772,000	\$ 863,650
OCLC	268,430	253,378
Ebsco	144,619	56,334
Cambridge Scientific Abstracts	95,237	51,148
Copyright Clearance Center	77,121	7,068
Ovid	71,139	81,936
EconLit—AEA	30,381	37,950
Elsevier Science	22,729	—
Dialog/Knight-Ridder	22,420	25,936
Miscellaneous	22,879	15,167
	<u><u>\$1,526,955</u></u>	<u><u>\$1,392,567</u></u>

Other unrestricted operating revenues for the years ended December 31, 2001 and 2000, consist of the following:

	2001	2000
AER submission fees	\$ 78,706	\$62,845
CSWEP	6,350	14,544
Other	170,281	383
	<u><u>\$255,337</u></u>	<u><u>\$77,772</u></u>

6. Other General and Administrative Expenses

Other general and administrative expenses for the years ended December 31, 2001 and 2000, consist of the following:

	2001	2000
Dues and subscriptions	\$ 87,986	\$ 86,301
Accounting and legal	31,896	41,608
Mailing list file maintenance	80,393	50,721
Bank charges	28,395	26,135
Postage	27,205	22,908
Depreciation	37,355	36,200
Election expenses	15,959	16,703
Insurance and miscellaneous	31,036	24,153
Office supplies	25,618	24,117
Telephone	8,145	9,181
	<u><u>\$373,988</u></u>	<u><u>\$338,027</u></u>

ALLAN H. MELTZER

DISTINGUISHED FELLOW

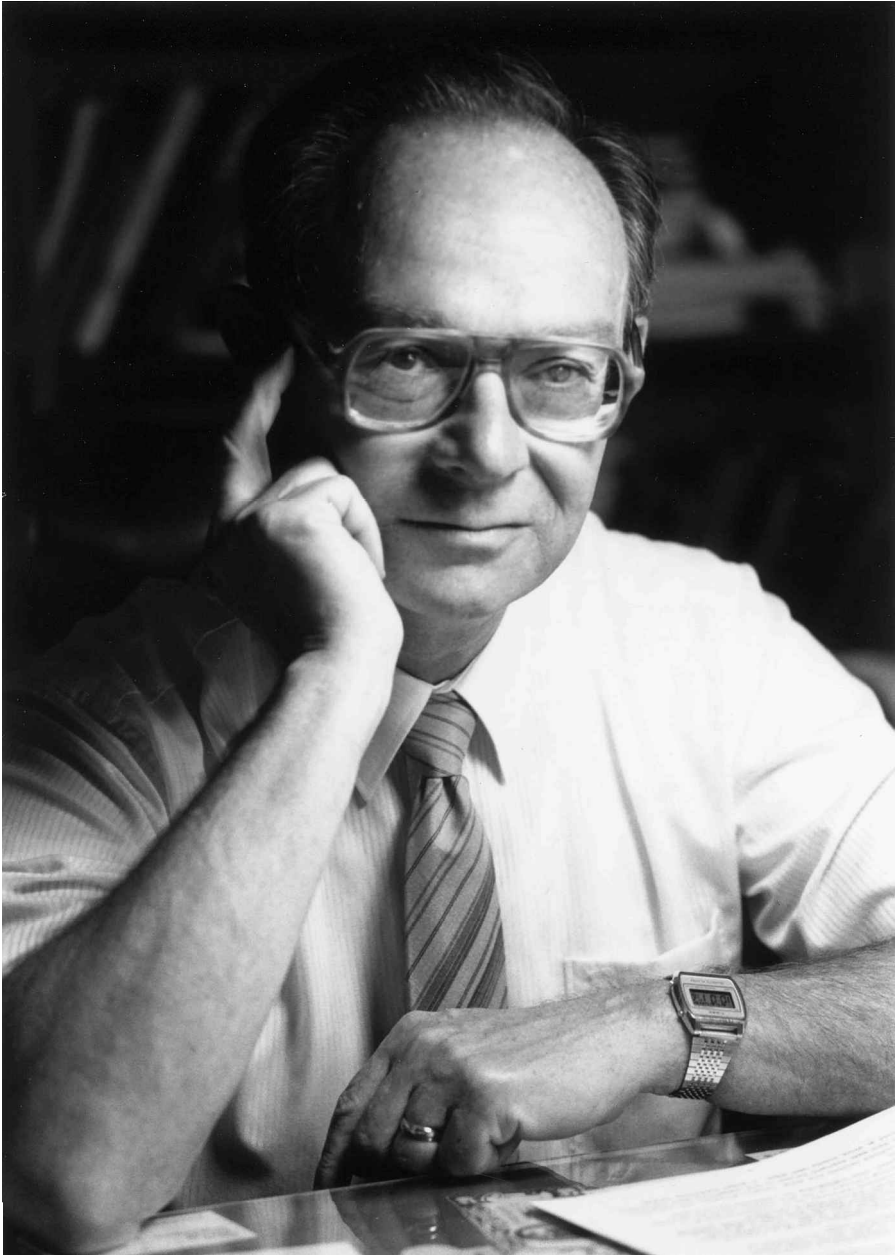
2001

Allan Meltzer's remarkable and still very active career spans the entire range from basic research through high-level public service. His achievements in either area alone would merit recognition as a Distinguished Fellow of the American Economic Association.

Meltzer's econometric work on money demand in the 1960's has stood the test of time as have few empirical studies in economics. His numerical estimates of the income (or wealth) and interest elasticities of an aggregate U.S. money demand function have stood up well to replication and 35 years of new data. This research in money demand is one piece of years of research in monetary economics, beginning with his study of French money supply in the 1950's. It includes cross-section studies of money demand by business firms, empirical studies done jointly with Karl Brunner, and influential work in monetary theory, much of it also with Brunner. He has made a long series of contributions to the study of monetary institutions, including the history of the Federal Reserve System, and to the history of monetary thought.

Another facet of Meltzer's basic research, which can be traced back to work with Francisco Arcelus and Scott Richard in the 1970's, is on the economic theory of politics. This work was followed with a series of articles, and then the 1991 monograph *Political Economy*, written with Richard and Alex Cukierman. Meltzer is a principal founder of the thriving research area that we now call political economy.

Meltzer's public service record includes membership on the Council of Economic Advisers and, most recently, his chairmanship of the International Financial Institution Advisory Commission, appointed to advise the U.S. Congress. Indeed, Meltzer has been an intelligent, courageous, and tireless contributor to the public discussion of economic policy issues, whether or not he has had an office or an appointment to do so. He and Karl Brunner founded the Shadow Open Market Committee years ago to ensure that the Federal Reserve has informed, independent critics. Meltzer has performed this essential role in various ways in various countries throughout his long and eminent career.



Allan F. Meltzer