

**AMERICAN FINANCE ASSOCIATION**

**Financial Statements**

**June 30, 2018 and 2017**

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# **LEIBA & BOWERS**

Certified Public Accountants

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## **Independent Auditor's Report**

Board of Directors  
American Finance Association

We have audited the accompanying financial statements of the AMERICAN FINANCE ASSOCIATION (the Association), which comprise the statements of financial position as of June 30, 2018 and summarized for June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

The Association's 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 Association's internal control. Accordingly, we express no such opinion. An audit also 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 AMERICAN FINANCE ASSOCIATION as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the AMERICAN FINANCE ASSOCIATION's June 30, 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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LEIBA & BOWERS  
Certified Public Accountants  
December 31, 2018

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AMERICAN FINANCE ASSOCIATION  
Statements of Financial Position  
As of June 30, 2018 and Summarized for June 30, 2017

|                                         | Unrestricted         | Temporarily<br>Restricted | 2018                 | 2017                 |
|-----------------------------------------|----------------------|---------------------------|----------------------|----------------------|
| <b>ASSETS</b>                           |                      |                           |                      |                      |
| Cash and cash equivalents               | \$ 888,524           | \$ 24,969                 | \$ 913,493           | \$ 668,074           |
| Accounts receivable-Wiley               | 274,152              | -                         | 274,152              | 252,599              |
| Investments                             | 17,616,752           | 362,327                   | 17,979,079           | 16,700,936           |
| <b>Total Assets</b>                     | <b>\$ 18,779,428</b> | <b>\$ 387,296</b>         | <b>\$ 19,166,724</b> | <b>\$ 17,621,609</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                      |                           |                      |                      |
| <b>Liabilities</b>                      |                      |                           |                      |                      |
| Reviewer credits                        | 493,307              | -                         | 493,307              | 397,515              |
| Accrued payroll liability               | \$ 15,480            | \$ -                      | \$ 15,480            | \$ -                 |
| Accrued expenses payable                | 111,504              | -                         | 111,504              | 82,072               |
| <b>Total Liabilities</b>                | <b>620,291</b>       | <b>-</b>                  | <b>620,291</b>       | <b>479,587</b>       |
| <b>Net Assets</b>                       |                      |                           |                      |                      |
| Net assets, Beginning                   | 16,771,967           | 370,055                   | 17,142,022           | 15,426,675           |
| Change in net assets                    | 1,387,170            | 17,241                    | 1,404,411            | 1,715,347            |
| <b>Net Assets, End</b>                  | <b>18,159,137</b>    | <b>387,296</b>            | <b>18,546,433</b>    | <b>17,142,022</b>    |
| <b>Total Liabilities and Net Assets</b> | <b>\$ 18,779,428</b> | <b>\$ 387,296</b>         | <b>\$ 19,166,724</b> | <b>\$ 17,621,609</b> |

See independent auditor's report and notes to financial statements.

AMERICAN FINANCE ASSOCIATION  
Statements of Activities  
For the Year Ended June 30, 2018 and Summarized for June 30, 2017

|                                        | Unrestricted         | Temporarily<br>Restricted | 2018                 | 2017                 |
|----------------------------------------|----------------------|---------------------------|----------------------|----------------------|
| <b>REVENUES AND SUPPORT</b>            |                      |                           |                      |                      |
| Membership and subscription income     | \$ 1,323,635         | \$ -                      | \$ 1,323,635         | \$ 1,227,442         |
| Article submission fees                | 174,390              | -                         | 174,390              | 154,275              |
| Job postings                           | 201,203              | -                         | 201,203              | 210,750              |
| Reprints and rights fees               | 151,510              | -                         | 151,510              | 214,929              |
| Interest and dividends                 | 419,630              | 8,905                     | 428,535              | 411,131              |
| Donative grants                        | -                    | 90,000                    | 90,000               | 90,000               |
| <b>Total Revenues and Support</b>      | <b>2,270,368</b>     | <b>98,905</b>             | <b>2,369,273</b>     | <b>2,308,527</b>     |
| Net assets released from restriction   | 90,000               | (90,000)                  | -                    | -                    |
| <b>Net Revenues and Support</b>        | <b>2,360,368</b>     | <b>8,905</b>              | <b>2,369,273</b>     | <b>2,308,527</b>     |
| <b>EXPENSES</b>                        |                      |                           |                      |                      |
| Program services                       | 1,658,208            | -                         | 1,658,208            | 1,564,266            |
| Supporting services and administration | 166,475              | -                         | 166,475              | 167,641              |
| <b>Total Expenses</b>                  | <b>1,824,683</b>     | <b>-</b>                  | <b>1,824,683</b>     | <b>1,731,907</b>     |
| <b>Change from Operations</b>          | <b>535,685</b>       | <b>8,905</b>              | <b>544,590</b>       | <b>576,620</b>       |
| <b>INVESTMENT GAINS</b>                |                      |                           |                      |                      |
| Realized gains                         | 8,015                | -                         | 8,015                | 58,430               |
| Unrealized gains                       | 843,470              | 8,336                     | 851,806              | 1,080,297            |
| <b>Total Investment Gains</b>          | <b>851,485</b>       | <b>8,336</b>              | <b>859,821</b>       | <b>1,138,727</b>     |
| <b>Change in Net Assets</b>            | <b>1,387,170</b>     | <b>17,241</b>             | <b>1,404,411</b>     | <b>1,715,347</b>     |
| Net Assets, Beginning                  | 16,771,967           | 370,055                   | 17,142,022           | 15,426,675           |
| <b>Net Assets, End</b>                 | <b>\$ 18,159,137</b> | <b>\$ 387,296</b>         | <b>\$ 18,546,433</b> | <b>\$ 17,142,022</b> |

See independent auditor's report and notes to financial statements.

AMERICAN FINANCE ASSOCIATION  
 Statements of Functional Expenses  
 For the Year Ended June 30, 2018 and Summarized for June 30, 2017

|                                      | Program<br>Services | Supporting<br>Services and<br>Administration | 2018                | 2017                |
|--------------------------------------|---------------------|----------------------------------------------|---------------------|---------------------|
| Prizes and awards                    | \$ 91,320           | \$ -                                         | \$ 91,320           | \$ 105,805          |
| Compensation of officers             | 155,314             | 103,825                                      | 259,139             | 255,314             |
| Accounting and legal fees            | -                   | 18,435                                       | 18,435              | 21,113              |
| Occupancy                            | 288,542             | -                                            | 288,542             | 243,614             |
| Printing and publications            | 726,390             | -                                            | 726,390             | 647,740             |
| Insurance                            | -                   | 5,713                                        | 5,713               | 5,664               |
| Conferences and meetings             | 323,948             | -                                            | 323,948             | 367,892             |
| Website and computer expenses        | 8,562               | -                                            | 8,562               | 16,303              |
| Women's Initiative expenses          | 58,471              | -                                            | 58,471              | 21,993              |
| Executive Secretary Treasurer Office | 5,661               | 38,502                                       | 44,163              | 46,469              |
| <br>                                 |                     |                                              |                     |                     |
| Total Expenses                       | <u>\$ 1,658,208</u> | <u>\$ 166,475</u>                            | <u>\$ 1,824,683</u> | <u>\$ 1,731,907</u> |

See independent auditor's report and notes to financial statements.

AMERICAN FINANCE ASSOCIATION  
Statements of Cash Flows  
For the Years Ended June 30, 2018 and 2017

|                                                                                             | 2018         | 2017         |
|---------------------------------------------------------------------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                 |              |              |
| Change in net assets                                                                        | \$ 1,404,411 | \$ 1,715,347 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |              |              |
| Unrealized market gains                                                                     | (851,805)    | (1,080,297)  |
| (Increase) decrease in accounts receivable                                                  | (21,553)     | (252,599)    |
| Increase (decrease) in other liabilities                                                    | 44,912       | (71,981)     |
| Increase (decrease) in reviewer credits                                                     | 95,790       | (24,101)     |
|                                                                                             | 671,755      | 286,369      |
| <b>CASH FLOWS USED IN INVESTING ACTIVITY</b>                                                |              |              |
| Net purchases of investments                                                                | (426,336)    | (459,367)    |
|                                                                                             | (426,336)    | (459,367)    |
| Net change in cash and cash equivalents                                                     | 245,419      | (172,998)    |
| Cash and cash equivalents, Beginning                                                        | 668,074      | 841,072      |
|                                                                                             | \$ 913,493   | \$ 668,074   |
| Cash and cash equivalents, End                                                              | \$ 913,493   | \$ 668,074   |

Note: No interest or income taxes paid.

See independent auditor's report and notes to financial statements.



AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE 1. ORGANIZATION & ACTIVITIES

The American Finance Association (AFA) is a nonprofit organization founded in 1952 and incorporated under the laws of the state of Illinois. AFA is registered to do business in the state of Utah where the Executive Secretary-Treasurer is based. In prior years, it was qualified to transact business in the state of California.

AFA is a membership association of persons with an interest in finance. AFA is dedicated to improving public understanding of financial problems and promotion of finance scholarship. It publishes the Journal of Finance and other finance related publications. AFA encourages the improvement of the study of finance in colleges and universities and facilitate the placement of financial professionals in academic, business, and non-profit occupational positions.

Membership is available to any person having a professional interest in finance. Members are admitted after making proper application to the Executive Secretary and Treasurer and paying prescribed membership dues.

In its June 2015 mid-year board meeting, AFA approved the establishment of “Committee for a Women’s Initiative in Finance” with an initial funding of \$50,000 and an annual operating budget of \$30,000. This Committee’s goal is to promote the advancement of women academics in finance, and it will operate as a subcommittee of the AFA Board.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on an accrual basis in accordance with generally accepted accounting principles applicable to nonprofit organizations, and in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification 958, *Not-for-Profit Entities*.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of externally imposed restrictions by donors on their gifts. Accordingly, net assets of the Association are classified and reported as follows:

**Unrestricted** - Net assets are not subject to donor-imposed conditions, or those conditions have been satisfied by the actions of AFA or the passage of time. Net assets that are designated or reserved by the Board of Directors for a particular purpose are considered unrestricted since the conditions are not imposed by outside donors.

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018 and 2017

**Temporarily restricted** - Net assets are subject to donor-imposed conditions. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Thus when restricted grants or awards are disbursed by AFA, the donor-imposed conditions have been satisfied and the net assets are reclassified as unrestricted revenues. Investment income earned on restricted funds is treated as temporarily restricted until spent.

Temporarily restricted net assets consist of the Fischer Black funds, and funds used to satisfy the Brattle Group and Amundi Smith-Breeden awards. AFA received a founding donation from the Executor of the Estate of Fischer Black to establish an award to honor a body of work representing original theoretical research concepts that have a direct and significant impact on finance practice. This is awarded biennially to a top researcher in Finance under the age of 40, or under 45 for a winner who had not been awarded a Ph.D. (or equivalent) by age 35. AFA receives restricted donations designated to fund the Brattle Group and Smith-Breeden prizes which are awarded to authors of recent, outstanding articles published in the Journal of Finance.

Summarized Prior Period Totals

The financial statements include certain prior period summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the AFA's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Use of Estimates - Functional Allocation of Expenses

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Part of the AFA accounting relies on periodic financial reports provided by Wiley Periodicals, Inc. (Wiley), and accordingly, there are assumptions, estimates, and timing differences involving the Wiley accounting. Estimates were used in allocating costs reported on the Statement of Functional Expenses. Costs were allocated to two broad functional categories: (1) program services, which include the direct costs of journal publications, subscription services, conferences, scholarship, and awards disbursed, and (2) supporting services and administration.

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018 and 2017

Cash and Cash Equivalents

Cash and savings are held in checking and money market accounts at commercial banks and brokerage money market accounts. Management believes AFA is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable represent the amount due from Wiley Periodicals, Inc. Amount due from Wiley was \$274,152 and \$252,599 as of June 30, 2018 and 2017, respectively. No allowance for uncollectible amount was established in either year. See Note 6.

Investments

Investments are carried at quoted market prices of publicly traded securities. Realized and unrealized gains and losses are reported in the Statement of Activities. Money market funds are reported as cash equivalents and not as investments. See Note 4.

Revenue Recognition

In general, revenues are recognized when earned. Membership subscriptions are recorded when paid. Donations are recognized when received or an unconditional promise is made by a donor. Income from subscriptions, related fee income, and associated costs are recognized quarterly when an accounting is prepared by Wiley and approved by AFA under terms of their agreement. See Note 6.

Income Taxes

AFA is a nonprofit corporation exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). AFA has been classified by the Internal Revenue Service as a public charity, not a private foundation.

**NOTE 3. NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted assets are released from restrictions when the donors' conditions are satisfied. Usually, this occurs when AFA incurs expenses that fulfills the donors' conditions.

In the current year, AFA received donations of \$45,000 from the Brattle Group and \$45,000 from Smith-Breden. During the year, \$90,000 was used to pay prizes awarded for outstanding papers recently published in the Journal of Finance.

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE 4. INVESTMENTS

Investments are considered available for sale and are carried at market value based on quoted prices in active markets. Realized and unrealized gains and losses are reported in the Statement of Activities. AFA holds its investments in six highly diversified mutual fund accounts consisting of equity and debt funds. Money market funds are reported as cash equivalents and not as investments.

During 2018, investments changed in value:

|                               | Equities            | Debt                | Total               | %             |
|-------------------------------|---------------------|---------------------|---------------------|---------------|
| July 1, 2017, Market Value    | \$10,518,867        | \$ 6,182,069        | \$16,700,936        | 100.00        |
| Interest & Dividends          | 240,261             | 186,910             | 427,171             | 2.56          |
| Realized Gains                | 0                   | 8,015               | 8,015               | 0.05          |
| Unrealized Gains (Losses)     | 1,062,699           | (210,894)           | 851,805             | 5.10          |
| Total Return                  | 1,302,960           | (15,969)            | 1,286,991           | 7.71          |
| Net Transfers During the Year | (1,241)             | (7,607)             | (8,848)             | (0.05)        |
| June 30, 2018 Market Value    | <u>\$11,820,586</u> | <u>\$ 6,158,493</u> | <u>\$17,979,079</u> | <u>107.66</u> |

During 2017, investments changed in value:

|                               | Equities            | Debt                | Total               | %             |
|-------------------------------|---------------------|---------------------|---------------------|---------------|
| July 1, 2016, Market Value    | \$ 7,474,005        | \$ 7,687,267        | \$15,161,272        | 100.00        |
| Interest & Dividends          | 201,715             | 207,712             | 409,427             | 2.70          |
| Realized Gains                | 0                   | 58,430              | 58,430              | 0.40          |
| Unrealized Gains (Losses)     | 1,344,297           | (264,000)           | 1,080,297           | 7.13          |
| Total Return                  | 1,546,012           | 2,142               | 1,548,154           | 10.23         |
| Net Transfers During the Year | 1,498,850           | (1,507,340)         | (8,490)             | (0.06)        |
| June 30, 2017 Market Value    | <u>\$10,518,867</u> | <u>\$ 6,182,069</u> | <u>\$16,700,936</u> | <u>110.17</u> |

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018 and 2017

At June 30, 2018, the investment funds were allocated to net asset classes as follows:

|                                | Equities            | Debt                | Total               |
|--------------------------------|---------------------|---------------------|---------------------|
| Temp. Restrict - Fischer Black | \$ 96,925           | \$ 265,402          | \$ 362,327          |
| Unrestricted                   | 11,723,661          | 5,893,091           | 17,616,752          |
| Total                          | <u>\$11,820,586</u> | <u>\$ 6,158,493</u> | <u>\$17,979,079</u> |
| Percentage                     | <u>65.75%</u>       | <u>34.25%</u>       | <u>100.00%</u>      |

At June 30, 2017, the investment funds were allocated to net asset classes as follows:

|                                | Equities            | Debt                | Total               |
|--------------------------------|---------------------|---------------------|---------------------|
| Temp. Restrict - Fischer Black | \$ 87,394           | \$ 266,596          | \$ 353,990          |
| Unrestricted                   | 10,431,473          | 5,915,473           | 16,346,946          |
| Total                          | <u>\$10,518,867</u> | <u>\$ 6,182,069</u> | <u>\$16,700,936</u> |
| Percentage                     | <u>62.98%</u>       | <u>37.02%</u>       | <u>100.00%</u>      |

Investments above were stated at fair market value based on market quotes in active markets which is a Level 1 measurement basis under ASC 820.

NOTE 5. LIABILITIES

Reviewer Credits.

Articles submitted to the Journal of Finance are reviewed by scholars assigned by the Editor. AFA provides credits as an honorarium to the reviewer, and the credits may be used to offset the reviewer's own fees for submission of articles. At June 30, 2018, AFA reflects a \$493,307 (\$397,515 at June 30, 2017) liability for reviewer credits which represents the value of credits awarded to the reviewers in lieu of payment.

NOTE 6. COMMITMENT – Wiley Periodicals, Inc. (Wiley)

In January 2015, the contract with Wiley , Inc. was renewed through January 2020. The contract provides for the allocation of profit 85% to AFA and 15% to Wiley, and a guaranteed annual minimum payment of \$1,000,000.

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE 7. COMMITMENTS - OTHER

Contracts

AFA uses an outside company to help manage the submission of articles to the Journal of Finance. The company assists with management of submission, review, acceptance, and transfer of publication and other files to the third party publisher, and accounting for submission fee charges and reviewer honoraria credits. AFA is committed for three years to make minimum payment of \$6,000 to this company.

AFA is obligated under terms of agreements to make payments of \$333,180 for 2019, \$178,180 for 2020 and \$78,180 thereafter for services rendered by its editor, co-editor, assistant editor, and executive secretary-treasurer.

Occupancy

Under an agreement that ends on June 30, 2019 but can be renewed for three years, AFA is obligated to make support payment of \$285,000 (with cost of living adjustment) for 2019 and \$200,000 thereafter through 2022 to three universities, for occupancy, course reduction, and related services relating to the editorial offices of the Journal of Finance.

Over the next five years, AFA is obligated to make minimum payments due under all contract obligations as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u>       |
|-----------------------------|---------------------|
| 2019                        | \$ 627,780          |
| 2020                        | 387,780             |
| 2021                        | 278,180             |
| 2022                        | 278,180             |
| 2023                        | 78,180              |
| Total                       | <u>\$ 1,650,100</u> |

NOTE 8. SUBSEQUENT EVENT AND MANAGEMENT REVIEW

AFA has evaluated subsequent events after the statement of financial position date of June 30, 2018, through December 31, 2018, which was the date the financial statements were available to be issued.