

AMERICAN FINANCE ASSOCIATION

Financial Statements

June 30, 2019 and 2018

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LEIBA & BOWERS

Certified Public Accountants

305 North El Dorado Street, Suite 302
Stockton, California 95202

(209) 948-9119 • (209) 948-1621 fax

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, 2019 and summarized for June 30, 2018, 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, 2019 and 2018, 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, 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



LEIBA & BOWERS

Certified Public Accountants
October 29, 2019

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AMERICAN FINANCE ASSOCIATION
 Statements of Financial Position
 As of June 30, 2019 and Summarized for June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
ASSETS				
Cash and cash equivalents	\$ 996,940	\$ 115,836	\$ 1,112,776	\$ 913,493
Accounts receivable-Wiley	277,084	-	277,084	274,152
Contributions receivable	-	366,169	366,169	-
Investments	18,886,219	752,551	19,638,770	17,979,079
Total Assets	\$ 20,160,243	\$ 1,234,556	\$ 21,394,799	\$ 19,166,724
LIABILITIES AND NET ASSETS				
Liabilities				
Reviewer credits	\$ 585,105	\$ -	\$ 585,105	\$ 493,307
Accrued payroll liability	15,942	-	15,942	15,480
Accrued expenses payable	268,873	-	268,873	111,504
Total Liabilities	869,920	-	869,920	620,291
Net Assets				
Net assets, Beginning	18,159,137	387,296	18,546,433	17,142,022
Change in net assets	1,131,186	847,260	1,978,446	1,404,411
Net Assets, End	19,290,323	1,234,556	20,524,879	18,546,433
Total Liabilities and Net Assets	\$ 20,160,243	\$ 1,234,556	\$ 21,394,799	\$ 19,166,724

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

AMERICAN FINANCE ASSOCIATION
Statements of Activities
For the Year Ended June 30, 2019 and Summarized for June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	2018
REVENUES AND SUPPORT				
Membership and subscription income	\$ 1,210,150	\$ -	\$ 1,210,150	\$ 1,323,635
Annual meeting revenues	2,705	-	2,705	1,299
Article submission fees	180,390	-	180,390	174,390
Job postings	200,254	-	200,254	201,203
Reprints and rights fees	260,736	-	260,736	150,211
Total Revenues and Support	1,854,235	-	1,854,235	1,850,738
GRANTS AND CONTRIBUTIONS				
Donative grants	-	90,000	90,000	90,000
Fischer Black Fund	-	837,344	837,344	-
Grants and contributions released from restriction	140,000	(140,000)	-	-
Total Grants and Donations	140,000	787,344	927,344	90,000
Total Revenues, Support, Grants and Donations	1,994,235	787,344	2,781,579	1,940,738
EXPENSES				
Program services	2,012,804	-	2,012,804	1,658,208
Supporting services and administration	126,310	-	126,310	166,475
Total Expenses	2,139,114	-	2,139,114	1,824,683
Change in Net Assets from Operating Activities	(144,879)	787,344	642,465	116,055
INVESTMENTS				
Interest and dividends	463,503	19,729	483,232	428,535
Realized gains (losses)	-	(3,251)	(3,251)	8,015
Unrealized gains	812,562	43,438	856,000	851,806
Change in Net Assets from Investing Activity	1,276,065	59,916	1,335,981	1,288,356
Change in Net Assets	1,131,186	847,260	1,978,446	1,404,411
Net Assets, Beginning	18,159,137	387,296	18,546,433	17,142,022
Net Assets, End	\$ 19,290,323	\$ 1,234,556	\$ 20,524,879	\$ 18,546,433

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

AMERICAN FINANCE ASSOCIATION
Statements of Functional Expenses
For the Year Ended June 30, 2019 and Summarized for June 30, 2018

	Program Services	Supporting Services and Administration	2019	2018
Journal of Finance:				
Editors' compensation	\$ 155,316	\$ -	\$ 155,316	\$ 155,314
Editors' support	238,928	-	238,928	199,040
Reviewers and referees	112,330	-	112,330	108,325
Occupancy	295,768	-	295,768	288,542
Wiley publishing	427,888	-	427,888	400,294
Other costs	19,592	-	19,592	18,731
Total Journal of Finance	1,249,822	-	1,249,822	1,170,246
Annual meeting and conference	257,329	-	257,329	220,518
Student travel grants	127,833	-	127,833	104,750
Prizes and awards	140,000	-	140,000	90,000
Women's Initiative	17,959	-	17,959	58,471
Executive secretary-treasurer office	86,805	80,640	167,445	147,988
Website and computer	133,056	-	133,056	8,562
Legal and accounting	-	39,947	39,947	18,435
Insurance	-	5,723	5,723	5,713
Total Expenses	\$ 2,012,804	\$ 126,310	\$ 2,139,114	\$ 1,824,683

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

AMERICAN FINANCE ASSOCIATION
Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,978,446	\$ 1,404,411
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized market (gains) losses	(852,749)	(859,821)
(Increase) decrease in accounts receivable	(2,932)	(21,553)
(Increase) decrease in pledges receivable	(366,169)	-
Increase (decrease) in other liabilities	157,829	44,912
Increase (decrease) in reviewer credits	91,800	95,790
Net cash provided by operating activities	1,006,225	663,739
CASH FLOWS USED IN INVESTING ACTIVITY		
Net purchases of investments	(806,942)	(418,320)
Net cash used in investing activity	(806,942)	(418,320)
Net change in cash and cash equivalents	199,283	245,419
Cash and cash equivalents, Beginning	913,493	668,074
Cash and cash equivalents, End	\$ 1,112,776	\$ 913,493

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, 2019 and 2018

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 (EST) 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, revenues, expenses, gains and losses are classified based on the existence donor-imposed restrictions. Accordingly, net assets and changes are classified and reported as without donor restrictions and with donor restrictions as follows:

Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenses are reported as decrease in net assets without donor restrictions.

AMERICAN FINANCE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Net assets with donor restrictions are subject to donor-imposed restrictions that will be met either by actions of AFA or the passage of time. Generally, the donors' imposed restrictions on these assets permit AFA to use all or part of the income earned on related investments only for certain general or specific purposes.

Net assets include donor restrictions - purpose restricted 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, 2018, 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.

Cash and Cash Equivalents

Cash and savings are held in checking and money market accounts at commercial banks and brokerage money market accounts. The accounts are insured by the Federal Deposit Corporation (FDIC) up to \$250,000. Total uninsured cash balances at June 30, 2019 and 2018 were \$793,221 and \$574,896, respectively.

AMERICAN FINANCE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Accounts Receivable

Accounts receivable represent the amount due from Wiley Periodicals, Inc. Amount due from Wiley was \$277,084 and \$274,152 as of June 30, 2019 and 2018, respectively. No allowance for uncollectible amount was established in either year. See Note 6.

Contributions Receivable

Unconditional promises to give are recorded as receivables and revenue when received. AFA distinguishes between pledges received for each net asset category in accordance with donor-imposed restrictions. Contributions are recorded after being discounted to the anticipated net present value of the future cash flows. The discounts on these amounts are computed using risk-free interest rate of 3% applicable to the year in which the pledge is made. Amortization of the discount is included in Fischer Black Fund donations in the statement of activities.

AFA began recording contributions receivable in 2019. Management believes all contributions will be collected and accordingly, no allowance for uncollectible contributions has been established as of June 30, 2019.

Contributions are expected to be realized as follows:

	One Year or Less	Greater than One Year	Total
Contributions receivable	\$ 107,230	\$ 285,650	\$ 393,825
Discount	-	(27,656)	(27,656)
Net	\$ 107,230	\$ 264,905	\$ 366,169

Investments

Investments are stated at fair value as determined by the quoted market prices of publicly traded securities (all Level 1 measurements). 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.

AMERICAN FINANCE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

Revenue Recognition

In general, revenues are recognized when earned. Membership subscriptions are recorded when paid. 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.

Reclassification

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no effect on the operating results as previously reported.

New Accounting Pronouncement

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 reduces the number of net assets from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets for 2018. Additionally, it increases the quantitative and qualitative disclosures regarding liquidity and availability of resources, and requires expenses to be reported by both their natural and functional classification in one location. AFA adopted ASU 2016-14 in 2019, and applied the changes retrospectively.

NOTE 3. NET ASSETS RELEASED FROM RESTRICTIONS

With donor restrictions net 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, \$45,000 from Amundi Pioneer and \$471,175 for Fischer Black Fund. During the year, \$140,000 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, 2019 and 2018

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 2019, investments changed in value:

	Equities	Debt	Total	%
July 1, 2018, Market Value	\$11,820,586	\$ 6,158,493	\$17,979,079	100.00
Interest & Dividends	261,678	203,126	464,804	2.58
Realized losses	0	(3,251)	(3,251)	0.00
Unrealized Gains (Losses)	493,222	359,527	852,749	4.74
Total Return	754,900	559,402	1,314,302	7.32
Net Transfers During the Year	(93,759)	439,148	345,389	1.92
June 30, 2019 Market Value	<u>\$12,481,727</u>	<u>\$ 7,157,043</u>	<u>\$19,638,770</u>	<u>109.24</u>

During 2018, investments changed in value:

	Equities	Debt	Total	%
July 1, 2017, Market Value	\$10,518,867	\$ 6,182,069	\$13,656,074	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>108.00</u>

AMERICAN FINANCE ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019 and 2018

At June 30, 2019, the investment funds were allocated to net asset classes as follows:

	Equities	Debt	Total
With donor restriction - Fischer Black	\$ 0	\$ 752,551	\$ 752,551
Without donor restrictions	12,481,727	6,404,492	18,886,219
Total	<u>\$12,481,727</u>	<u>\$ 7,157,043</u>	<u>\$19,638,770</u>
Percentage	<u>63.56%</u>	<u>36.44%</u>	<u>100.00%</u>

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

	Equities	Debt	Total
With donor restriction - Fischer Black	\$ 96,925	\$ 265,402	\$ 362,327
Without donor restrictions	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>

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, 2019, AFA reflects a \$585,105 (\$493,307 at June 30, 2018) 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)

The Journal of Finance (JOF) is published under an agreement with Wiley effective through January 2020. AFA owns and controls the content of the JOF while Wiley is responsible for publishing the print and on line versions of the JOF. The agreement 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, 2019 and 2018

NOTE 7. COMMITMENTS - OTHER

Contracts

AFA is obligated under terms of agreements to make payments of \$258,850 for 2020 and \$260,850 thereafter for services rendered by its editor, co-editor, and assistant editor.

Scholarly and Intellectual Program Activity

AFA is obligated to make support payment of \$295,768 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:

Year Ending June 30,	Amount
2020	\$ 554,618
2021	556,618
2022	556,618
2023	90,000
2024	90,000
Total	<u>\$ 1,847,854</u>

NOTE 8. SUBSEQUENT EVENT AND MANAGEMENT REVIEW

AFA has evaluated subsequent events after the statement of financial position date of June 30, 2019, through October 29, 2019, which was the date the financial statements were available to be issued.