

# **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 statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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.

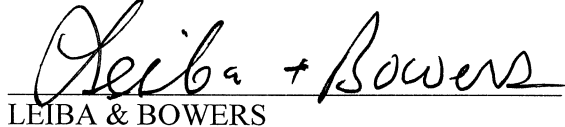
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2016, and the changes in its net assets and its cash flows for the year 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.



LEIBA & BOWERS

Certified Public Accountants

October 20, 2016

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AMERICAN FINANCE ASSOCIATION  
Statement of Financial Position  
As of June 30, 2016 and Summarized for June 30, 2015

	Unrestricted	Temporarily Restricted	Total 6/30/16	Total 6/30/15
<b>ASSETS</b>				
Cash	\$ 818,536	\$ 22,536	\$ 841,072	\$ 754,147
Accounts receivable-Wiley	-	-	-	30,917
Grants receivable	-	-	-	40,000
Investments	14,812,161	349,111	15,161,272	14,701,687
<b>Total Assets</b>	<b>\$ 15,630,697</b>	<b>\$ 371,647</b>	<b>\$ 16,002,344</b>	<b>\$ 15,526,751</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Reviewer credits	\$ 421,616	\$ -	\$ 421,616	\$ 365,290
Accounts payable	154,053	-	154,053	188,081
<b>Total Liabilities</b>	<b>575,669</b>	<b>-</b>	<b>575,669</b>	<b>553,371</b>
<b>Net Assets</b>				
Net assets at beginning of period	14,613,470	359,910	14,973,380	14,339,282
Current period change	441,558	11,737	453,295	634,098
<b>Net Assets at End of Period</b>	<b>15,055,028</b>	<b>371,647</b>	<b>15,426,675</b>	<b>14,973,380</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 15,630,697</b>	<b>\$ 371,647</b>	<b>\$ 16,002,344</b>	<b>\$ 15,526,751</b>

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

AMERICAN FINANCE ASSOCIATION  
Statement of Activities  
For the Year Ended June 30, 2016 and Summarized for the Nine Months Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total 6/30/16	Total 6/30/15
<b>REVENUES AND SUPPORT</b>				
Membership and subscription income	\$ 1,249,389	\$ -	\$ 1,249,389	\$ 849,299
Annual meeting revenues	-	-	-	1,097
Article submission fees	128,850	-	128,850	123,350
Job postings	199,196	-	199,196	144,599
Reprints and rights fees	243,850	-	243,850	181,598
Interest and dividends	347,207	8,469	355,676	269,328
Donative grants	-	40,000	40,000	40,000
Wiley guaranteed payments	182,860	-	182,860	200,000
<b>Total Revenues and Support</b>	<b>2,351,352</b>	<b>48,469</b>	<b>2,399,821</b>	<b>1,809,271</b>
Net assets released from restriction	40,000	(40,000)	-	-
<b>Net Revenues and Support</b>	<b>2,391,352</b>	<b>8,469</b>	<b>2,399,821</b>	<b>1,809,271</b>
<b>EXPENSES</b>				
Program services	1,903,375	-	1,903,375	1,282,734
Supporting services and administration	156,670	-	156,670	110,075
<b>Total Expenses</b>	<b>2,060,045</b>	<b>-</b>	<b>2,060,045</b>	<b>1,392,809</b>
<b>Change from Operations</b>	<b>331,307</b>	<b>8,469</b>	<b>339,776</b>	<b>416,462</b>
<b>INVESTMENT GAINS</b>				
Realized gains	20,806	-	20,806	53,538
Unrealized gains	89,445	3,268	92,713	164,098
<b>Total Investment Gains</b>	<b>110,251</b>	<b>3,268</b>	<b>113,519</b>	<b>217,636</b>
<b>Change in Net Assets</b>	<b>441,558</b>	<b>11,737</b>	<b>453,295</b>	<b>634,098</b>
<b>Net Assets at Beginning of Period</b>	<b>14,613,470</b>	<b>359,910</b>	<b>14,973,380</b>	<b>14,339,282</b>
<b>Net Assets at End of Period</b>	<b>\$ 15,055,028</b>	<b>\$ 371,647</b>	<b>\$ 15,426,675</b>	<b>\$ 14,973,380</b>

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

AMERICAN FINANCE ASSOCIATION  
Statement of Functional Expenses  
For the Year Ended June 30, 2016 and Summarized for the Nine Months Ended June 30, 2015

	Program Services	Supporting Services and Administration	Total 6/30/16	Total 6/30/15
Prizes and awards	\$ 41,412	\$ -	\$ 41,412	\$ 56,249
Compensation of officers	112,170	100,000	212,170	142,455
Accounting and legal fees	-	20,251	20,251	23,861
Occupancy	265,706	-	265,706	195,749
Printing and publications	976,353	-	976,353	608,357
Insurance	-	5,567	5,567	3,654
Conferences and meetings	462,210	-	462,210	330,989
Website and computer expenses	9,259	-	9,259	6,946
Women's Initiative expenses	32,218	-	32,218	-
Executive Secretary Treasurer Office	4,047	30,852	34,899	24,549
	<u>\$ 1,903,375</u>	<u>\$ 156,670</u>	<u>\$ 2,060,045</u>	<u>\$ 1,392,809</u>
Total Expenses	<u>\$ 1,903,375</u>	<u>\$ 156,670</u>	<u>\$ 2,060,045</u>	<u>\$ 1,392,809</u>

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

AMERICAN FINANCE ASSOCIATION  
Statement of Cash Flows  
For the Year Ended June 30, 2016 and Summarized for the Nine Months Ended June 30, 2015

	<u>Total 6/30/16</u>	<u>Total 6/30/15</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 453,295	\$ 634,098
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized market gains	(92,713)	(164,098)
Decrease in accounts and grants receivable	70,917	342,183
(Decrease) increase in other liabilities	(34,028)	43,628
Increase in reviewer credits	56,326	45,355
Total Adjustments	<u>502</u>	<u>267,068</u>
Net cash provided by operating activities	<u>453,797</u>	<u>901,166</u>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Net purchase of investments	(366,872)	(1,064,137)
Net cash used in investing activities	<u>(366,872)</u>	<u>(1,064,137)</u>
Net change in cash and cash equivalents	86,925	(162,971)
Cash and cash equivalents at beginning of year	<u>754,147</u>	<u>917,118</u>
Cash and cash equivalents at end of year	<u>\$ 841,072</u>	<u>\$ 754,147</u>

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, 2016

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 January 2015 meeting, the Board voted to change the organization's fiscal year end from September 30 to June 30, to increase work-flow efficiency and AFA's fiscal year would coincide with that of many colleges and universities. Accordingly, AFA prepared financial statements for the nine-month period ending June 30, 2015.

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:

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**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.

**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 nine months ended June 30, 2015, 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,



AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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. 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 as of June 30, 2016 was zero and \$30,917 as of June 30, 2015. No allowance for uncollectibles was established in either year. See Note 5.

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 5.

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.

AMERICAN FINANCE ASSOCIATION  
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June 30, 2016

In the current year, AFA received donations of \$20,000 from the Brattle Group and \$20,000 from Smith-Breeden. During the year, \$40,000 was used to pay prizes awarded for outstanding papers recently published in the Journal of Finance.

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 the year, investments changed in value:

	Equities	Debt	Total	%
July 1, 2015, Market Value	\$ 7,488,567	\$ 7,213,120	\$14,701,687	100.00
Interest & Dividends	152,513	201,992	354,505	1.98
Realized Gains	0	20,806	20,806	0.40
Unrealized Gains (Losses)	(165,830)	258,543	92,713	1.23
Total Return	(13,317)	481,341	468,024	3.61
Net Transfers During the Year	(1,245)	(7,194)	(8,439)	5.50
June 30, 2016 Market Value	<u>\$ 7,474,005</u>	<u>\$ 7,687,267</u>	<u>\$15,161,272</u>	<u>109.11</u>

At year end, the investment funds were allocated to net asset classes as follows:

	Equities	Debt	Total
Temp. Restrict - Fischer Black	\$ 72,855	\$ 276,256	\$ 349,111
Unrestricted	7,401,150	7,411,011	14,812,161
Total	<u>\$7,474,005</u>	<u>\$7,687,267</u>	<u>\$15,161,272</u>
Percentage	<u>49.30%</u>	<u>50.70%</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. COMMITMENTS – Wiley Periodicals, Inc. (Wiley)

In January 2012, the contract was renewed until January 2015. The contract provides for the allocation of profit 78% to AFA and 22% to Wiley. Profit is defined as surplus of revenue over

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

expenditures, where expenditures include fee payments to AFA of 25% of gross revenue and to Wiley, 14.5% of gross revenue. Under terms of the contract effective January 2012, Wiley guaranteed an annual minimum payment to AFA of \$500,000, increased from \$350,000 for prior calendar years. Should the payment be less than the minimum guaranteed payment, AFA has the option to terminate this agreement upon giving appropriate notice.

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. For contract renewal in 2015, AFA received a one-time payment of \$200,000 as re-signing bonus.

NOTE 6. COMMITMENTS - OTHER.

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, 2016, AFA reflects a \$421,616 liability for reviewer credits which represents the value of credits awarded to the reviewers in lieu of payment.

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 one year to make minimum payments of \$5,000 to this company.

AFA is obligated under terms of agreements to make payments of \$336,780 per year 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 \$234,518 (with cost of living adjustment) 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

AMERICAN FINANCE ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

obligations as follows:

Year Ending June 30	Amount
2017	\$ 576,298
2018	571,298
2019	571,298
2020	181,780
2021	78,180
Total	<u>\$ 1,978,854</u>

NOTE 7. SUBSEQUENT EVENTS

AFA has evaluated subsequent events after the statement of financial position date of June 30, 2016, through October 30, 2016, which was the date the financial statements were available to be issued.

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