

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 statement of financial position as of June 30, 2017, 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.

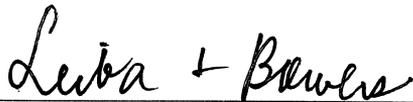
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, 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, 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



LEIBA & BOWERS

Certified Public Accountants

October 20, 2017

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AMERICAN FINANCE ASSOCIATION
Statements of Financial Position
As of June 30, 2017 and Summarized for June 30, 2016

	Unrestricted	Temporarily Restricted	Total 6/30/17	Total 6/30/16
ASSETS				
Cash and cash equivalents	\$ 652,009	\$ 16,065	\$ 668,074	\$ 841,072
Accounts receivable-Wiley	252,599	-	252,599	-
Investments	16,346,946	353,990	16,700,936	15,161,272
Total Assets	\$ 17,251,554	\$ 370,055	\$ 17,621,609	\$ 16,002,344
LIABILITIES AND NET ASSETS				
Liabilities				
Reviewer credits	\$ 397,515	\$ -	\$ 397,515	\$ 421,616
Accrued expenses payable	82,072	-	82,072	154,053
Total Liabilities	479,587	-	479,587	575,669
Net Assets				
Net assets at beginning of period	15,055,028	371,647	15,426,675	14,973,380
Current period change	1,716,939	(1,592)	1,715,347	453,295
Net Assets at End of Period	16,771,967	370,055	17,142,022	15,426,675
Total Liabilities and Net Assets	\$ 17,251,554	\$ 370,055	\$ 17,621,609	\$ 16,002,344

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

AMERICAN FINANCE ASSOCIATION
Statements of Activities
For the Year Ended June 30, 2017 and Summarized for June 30, 2016

	Unrestricted	Temporarily Restricted	Total 6/30/17	Total 6/30/16
REVENUES AND SUPPORT				
Membership and subscription income	\$ 1,227,442	\$ -	\$ 1,227,442	\$ 1,249,389
Article submission fees	154,275	-	154,275	128,850
Job postings	210,750	-	210,750	199,196
Reprints and rights fees	214,929	-	214,929	243,850
Interest and dividends	402,603	8,528	411,131	355,676
Donative grants	-	90,000	90,000	40,000
Wiley guaranteed payments	-	-	-	182,860
Total Revenues and Support	2,209,999	98,528	2,308,527	2,399,821
Net assets released from restriction	90,000	(90,000)	-	-
Net Revenues and Support	2,299,999	8,528	2,308,527	2,399,821
EXPENSES				
Program services	1,564,266	-	1,564,266	1,903,375
Supporting services and administration	167,641	-	167,641	156,670
Total Expenses	1,731,907	-	1,731,907	2,060,045
Change from Operations	568,092	8,528	576,620	339,776
INVESTMENT GAINS				
Realized gains	58,430	-	58,430	20,806
Unrealized gains (losses)	1,090,417	(10,120)	1,080,297	92,713
Total Investment Gains	1,148,847	(10,120)	1,138,727	113,519
Change in Net Assets	1,716,939	(1,592)	1,715,347	453,295
Net Assets at Beginning of Period	15,055,028	371,647	15,426,675	14,973,380
Net Assets at End of Period	\$ 16,771,967	\$ 370,055	\$ 17,142,022	\$ 15,426,675

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

AMERICAN FINANCE ASSOCIATION
 Statements of Functional Expenses
 For the Year Ended June 30, 2017 and Summarized for June 30, 2016

	Program Services	Supporting Services and Administration	Total 6/30/17	Total 6/30/16
Prizes and awards	\$ 105,805	\$ -	\$ 105,805	\$ 41,412
Compensation of officers	155,314	100,000	255,314	212,170
Accounting and legal fees	-	21,113	21,113	20,251
Occupancy	243,614	-	243,614	265,706
Printing and publications	647,740	-	647,740	976,353
Insurance	-	5,664	5,664	5,567
Conferences and meetings	367,892	-	367,892	462,210
Website and computer expenses	16,303	-	16,303	9,259
Women's Initiative expenses	21,993	-	21,993	32,218
Executive Secretary Treasurer Office	5,605	40,864	46,469	34,899
	<u>\$ 1,564,266</u>	<u>\$ 167,641</u>	<u>\$ 1,731,907</u>	<u>\$ 2,060,045</u>
Total Expenses	<u>\$ 1,564,266</u>	<u>\$ 167,641</u>	<u>\$ 1,731,907</u>	<u>\$ 2,060,045</u>

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

AMERICAN FINANCE ASSOCIATION
Statements of Cash Flows
For the Years Ended June 30, 2017 and June 30, 2016

	<u>Total 6/30/17</u>	<u>Total 6/30/16</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,715,347	\$ 453,295
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized market gains	(1,080,297)	(92,713)
(Increase) decrease in accounts receivable	(252,599)	70,917
Increase (decrease) in other liabilities	(71,981)	(34,028)
Increase (decrease) in reviewer credits	(24,101)	56,326
Total Adjustments	<u>(1,428,978)</u>	<u>502</u>
Net cash provided by operating activities	<u>286,369</u>	<u>453,797</u>
CASH FLOWS USED IN INVESTING ACTIVITY		
Net purchase of investments	(459,367)	(366,872)
Net cash used in investing activity	<u>(459,367)</u>	<u>(366,872)</u>
Net change in cash and cash equivalents	(172,998)	86,925
Cash and cash equivalents at beginning of year	<u>841,072</u>	<u>754,147</u>
Cash and cash equivalents at end of year	<u><u>\$ 668,074</u></u>	<u><u>\$ 841,072</u></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, 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, 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, 2016, 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, 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 as of June 30, 2017 was \$252,599 and zero as of June 30, 2016. No allowance for uncollectibles 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, 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 the year, 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	0.39
Unrealized Gains (Losses)	1,344,297	(264,000)	1,080,297	7.13
Total Return	1,546,012	2,142	1,548,154	10.22
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>110.16</u>

At year end, 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, 2017, AFA reflects a \$397,515 liability for reviewer credits which represents the value of credits awarded to the reviewers in lieu of payment.

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

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

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 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 \$285,000 (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 obligations as follows:

Year Ending June 30	Amount
2018	\$ 627,780
2019	627,780
2020	187,780
2021	78,180
2022	78,180
Total	\$ 1,599,700

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

NOTE 8. MANAGEMENT REVIEW

AFA has evaluated subsequent events after the statement of financial position date of June 30, 2017, through October 20, 2017, which was the date the financial statements were available to be issued.

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