

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**FINANCIAL STATEMENTS
AND
REPORT UNDER THE UNIFORM GUIDANCE
Years Ended December 31, 2016 and 2015**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The American Association of Physics Teachers, Inc.

We have audited the accompanying financial statements of the American Association of Physics Teachers, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the year ended December 31, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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.

Auditors' 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 the American Association of Physics Teachers, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the year ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Report on the Summarized Comparative Information

We have previously audited the American Association of Physics Teachers, Inc.'s December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017, on our consideration of the American Association of Physics Teachers, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the American Association of Physics Teachers, Inc.'s internal control over financial reporting and compliance.

Bethesda, Maryland
September 22, 2017

A handwritten signature in cursive script that reads "Rubins & Company". The signature is written in dark ink and is positioned to the right of the date and location text.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 1,791,437	\$ 2,150,692
Investments	5,785,476	5,367,177
Receivables	884,085	745,101
Inventory	9,713	107,547
Prepaid expenses	57,437	73,370
Property and equipment, net	80,539	58,782
Investment in ACP	<u>1,018,479</u>	<u>523,196</u>
 Total assets	 <u>\$ 9,627,166</u>	 <u>\$ 9,025,865</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 318,769	\$ 485,119
Accrued payroll and related liabilities	134,492	128,825
Unearned revenue	2,133,870	2,595,922
Capital lease obligation	7,244	10,490
Accrued postretirement benefit obligation	<u>347,725</u>	<u>346,809</u>
 Total liabilities	 2,942,100	 3,567,165
Net assets		
Unrestricted		
Undesignated	4,400,831	3,290,126
Board designated	<u>1,210,400</u>	<u>1,143,965</u>
	5,611,231	4,434,091
Temporarily restricted	585,600	536,374
Permanently restricted	<u>488,235</u>	<u>488,235</u>
 Total net assets	 <u>6,685,066</u>	 <u>5,458,700</u>
 Total liabilities and net assets	 <u>\$ 9,627,166</u>	 <u>\$ 9,025,865</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	Unrestricted		Temporarily	Permanently	2016	2015
	<u>Undesignated</u>	<u>Board Designated</u>	<u>Restricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Total</u>
Revenue and support						
American Journal of Physics	\$ 1,656,290	\$ -	\$ -	\$ -	\$ 1,656,290	\$ 1,700,407
The Physics Teacher	946,405	-	-	-	946,405	962,544
Membership	832,240	28,227	-	-	860,467	898,910
Meetings, workshops, and projects	763,986	161,996	-	-	925,982	981,359
Grants	763,271	-	-	-	763,271	755,256
Investment income	281,302	90,225	76,677	-	448,204	(63,611)
Other publications	157,244	740	-	-	157,984	149,406
International Physics Olympiad	130,107	-	-	-	130,107	136,971
Earnings on investment in ACP	495,283	-	-	-	495,283	89,779
Contributions	32,960	22,062	613	-	55,635	105,338
Miscellaneous income	9,554	16	-	-	9,570	12,732
Net assets released from restrictions	28,064	-	(28,064)	-	-	-
Total revenue and support	<u>6,096,706</u>	<u>303,266</u>	<u>49,226</u>	<u>-</u>	<u>6,449,198</u>	<u>5,729,091</u>
Expenses						
Program services						
American Journal of Physics	398,496	-	-	-	398,496	464,386
The Physics Teacher	470,169	-	-	-	470,169	462,279
Membership	532,718	64,549	-	-	597,267	576,728
Meetings, workshops, and projects	765,072	56,355	-	-	821,427	918,905
Grants	660,529	-	-	-	660,529	624,056
Other publications	280,980	96,704	-	-	377,684	390,531
Support Services						
General and administrative	1,877,407	19,223	-	-	1,896,630	1,825,523
Fundraising	630	-	-	-	630	4,780
Total expenses	<u>4,986,001</u>	<u>236,831</u>	<u>-</u>	<u>-</u>	<u>5,222,832</u>	<u>5,267,188</u>
Change in net assets	1,110,705	66,435	49,226	-	1,226,366	461,903
Net assets, beginning of year	<u>3,290,126</u>	<u>1,143,965</u>	<u>536,374</u>	<u>488,235</u>	<u>5,458,700</u>	<u>4,996,797</u>
Net assets, end of year	<u>\$ 4,400,831</u>	<u>\$ 1,210,400</u>	<u>\$ 585,600</u>	<u>\$ 488,235</u>	<u>\$ 6,685,066</u>	<u>\$ 5,458,700</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016
(With Comparative Totals for 2015)

	American Journal of Physics	The Physics Teacher	Membership	Meetings, workshops, and projects	Grants	Other Publications	Total programs	General and administrative	Fundraising	2016 Total	2015 Total
Compensation	\$ 184	\$ 270,356	\$ 392,842	\$ 300,709	\$ 196,922	\$ 175,602	\$ 1,336,615	\$ 1,161,856	\$ 366	\$ 2,498,837	\$ 2,376,976
Editorial office	191,504	1,804	-	-	-	-	193,308	-	-	193,308	238,320
Travel	1,182	7,171	41,006	103,662	47,082	9,228	209,331	119,471	-	328,802	270,627
Publications	86,984	76,799	3,066	480	257	13,649	181,235	-	-	181,235	214,268
Rent	-	-	-	-	-	-	-	206,788	-	206,788	223,328
Participant support	-	-	-	22,072	208,297	-	230,369	-	-	230,369	191,204
Online journals	81,084	64,922	-	223	-	588	146,817	-	-	146,817	155,073
Consultants, contracts and temporary	-	-	-	18,791	153,031	11,750	183,572	36,230	-	219,802	160,139
Other	139	139	8,906	17,073	150	95,407	121,814	23,436	-	145,250	156,408
Conferences meetings and workshops	-	2,273	43,758	147,919	7,115	-	201,065	18,596	-	219,661	264,496
Computer supplies and maintenance	-	1,875	329	-	4,719	380	7,303	111,555	-	118,858	104,092
Postage, packing and shipping	27,750	30,219	9,135	16,249	115	1,304	84,772	891	264	85,927	93,996
Audio visual	-	-	5,807	59,960	3,954	-	69,721	7,453	-	77,174	11,031
Due and memberships	-	-	75,035	645	202	-	75,882	2,570	-	78,452	78,115
Exhibit and meeting expenses	-	715	5,717	-	-	-	6,432	-	-	6,432	6,694
Photocopying and printing	36	-	-	25,011	1,035	-	26,082	8,197	-	34,279	23,021
Professional fees	-	400	-	-	12,033	-	12,433	61,644	-	74,077	87,726
Honoraria	6,000	2,500	2,500	65,331	19,500	-	95,831	-	-	95,831	117,267
Bank fees	-	-	-	-	-	-	-	46,797	-	46,797	52,155
Publishing services	-	-	-	-	-	-	-	-	-	-	15,026
Awards	-	-	653	4,910	-	27,000	32,563	-	-	32,563	21,230
Office services	-	-	-	-	-	-	-	37,417	-	37,417	37,581
Advertising	82	7,606	7,052	3,486	-	-	18,226	211	-	18,437	25,141
Materials and supplies	1,188	1,510	601	29,526	2,993	13,646	49,464	2,145	-	51,609	42,552
Investment expenses	-	-	-	1,286	-	29,130	30,416	-	-	30,416	30,143
Depreciation	-	-	-	5	-	-	5	41,921	-	41,926	41,087
Insurance	-	-	-	2,241	-	-	2,241	-	-	2,241	2,238
Telephone	-	-	60	25	-	-	85	7,041	-	7,126	7,113
Storage	2,363	1,880	-	-	-	-	4,243	837	-	5,080	5,046
Other facility costs	-	-	800	1,823	3,124	-	5,747	1,574	-	7,321	213,095
Security	-	-	-	-	-	-	-	-	-	-	2,000
Total expense per statement of activities	398,496	470,169	597,267	821,427	660,529	377,684	3,325,572	1,896,630	630	5,222,832	5,267,188
Allocation of administrative expenses	242,042	285,520	337,724	460,028	146,914	62,082	1,534,310	(1,534,693)	383	-	-
Total with allocated administrative cost	\$ 640,538	\$ 755,689	\$ 934,991	\$ 1,281,455	\$ 807,443	\$ 439,766	\$ 4,859,882	\$ 361,937	\$ 1,013	\$ 5,222,832	\$ 5,267,188

The accompanying notes are an integral part of these financial statements.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS
STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

	<u>2016</u>
Cash flows from operating activities	
Change in net assets	\$ 1,226,366
Reconciling adjustments	
Depreciation and amortization	27,238
Net realized and unrealized investment gains	(342,434)
Earnings on investment in ACP	(495,283)
Changes in operating assets and liabilities:	
Receivables	(138,984)
Inventory	97,834
Prepaid expenses	15,933
Accounts payable and accrued liabilities	(166,350)
Accrued compensation and related liabilities	5,667
Unearned revenue	(462,052)
Accrued postretirement benefit obligation	<u>916</u>
Net cash used by operating activities	<u>(231,149)</u>
Cash flows from investing activities	
Purchase of investments	(106,277)
Sale of investments	30,412
Purchase of property and equipment	<u>(48,995)</u>
Net cash used by investing activities	<u>(124,860)</u>
Cash flows from financing activities	
Principal payments on capital lease obligation	<u>(3,246)</u>
Net decrease in cash and cash equivalents	(359,255)
Cash and cash equivalents, beginning of year	<u>2,150,692</u>
Cash and cash equivalents, end of year	<u>\$ 1,791,437</u>
Supplemental cash flow information:	
Cash paid for interest:	<u>\$ 510</u>
Cash paid for taxes:	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

1. Organization

The American Association of Physics Teachers, Inc. (the Association) is a nonprofit membership organization, incorporated in the state of New York for the purpose of improving the quality of physics instruction and enhancing the appreciation of the role of physics in our culture. The Association's operations are financed through member dues and programs, publications, meetings, and grants from the federal government.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and support and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents

The Association maintains cash accounts with federally insured financial institutions. Deposits usually exceed federally-insured limits, but management does not consider this to be a significant concentration of credit risk. Cash and cash equivalents excludes money market funds that are part of the investment portfolio, but includes overnight repurchase agreements collateralized by obligations issued or guaranteed by the federal government.

Investments

Investments are recorded at estimated fair value based on quoted market prices provided by the investment custodians. Purchases and sales of securities are recorded on a trade-date basis. Investment income, including unrealized gains or losses, is reported in the statement of activities as increases or decreases in unrestricted net assets, unless otherwise restricted by the donor or by law.

The Association's interest in the American Center for Physics, Inc. (ACP) is being accounted for under the equity method. The Association's share of ACP was approximately 6.5% based on its financial participation factor (as defined in the ACP operating agreement) at December 31, 2016.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Receivables are carried at original amounts less an estimate for doubtful accounts based on an annual review of all outstanding items. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Accordingly, there was no allowance for doubtful accounts balance at December 31, 2016 and 2015.

Inventory

Inventory consists primarily of publications and periodicals held for resale. Inventory is stated at the lower of cost, using the average costing method, or market.

Property and Equipment

Furniture and equipment are stated at cost; with the exception of donated items which are recorded at fair value at the date of donation. Depreciation and amortization are recorded using the straight-line method over estimated useful lives ranging from three to five years. Expenditures for maintenance and repairs are charged to operations as incurred. Major renewals and betterments are capitalized. Any property and equipment purchases relating to federal awards are expensed as contract costs only in the case that the contract or grant specifically authorizes such charges. Otherwise, the cost of capital expenditures used in support of federally awarded programs is recovered using the straight-line depreciation method charged indirectly to the specific contract.

Contributions

Contributions are recorded as support, at fair value, when received. Contributions that are restricted by the donor as to time or purpose are reported as an increase in temporarily restricted net assets. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Membership Dues and Subscription Revenue

Membership dues and subscription revenue are recognized ratably over the applicable dues or subscription period. Revenue from meetings and workshops is recognized in the same period the event is held. Unearned revenue represents dues and subscription amounts received prior to the completion of the earnings process and are reported as a liability in the balance sheet.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Grants

The Association derives revenue from cost-reimbursable grants and cooperative agreements, principally with the U.S. Government, recognized based on reimbursable costs incurred. To the extent advances exceed reimbursable costs, deferred revenue is recorded. To the extent reimbursable costs exceed advances and reimbursements, an account receivable is recorded.

Income Taxes

The Association is generally exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code. As such, it is exempt from federal income taxes on all but unrelated business income. Under the current Internal Revenue Service (IRS) regulations, advertising and other non-exempt revenue earned is subject to unrelated business income tax. For the years ended December 31, 2016 and 2015, the Association had no net unrelated business income.

However, tax years ended December 31, 2013 through 2015 remain open to examination by the taxing jurisdictions to which The Association is subject, and they have not been extended beyond the applicable statute of limitations.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses are allocated among the programs and supporting services based on management's estimates of the proportion of the expenses applicable to each function.

Subsequent Events

Management has evaluated subsequent events through September 22, 2017, the date which the financial statements were available to be issued.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

3. American Center for Physics, Inc.

The Association, together with the American Physical Society (APS) and the American Institute of Physics, Inc. (AIP), established the American Center for Physics, Inc. (ACP), to own and operate one or more buildings to serve the three organizations and the physics community. ACP is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. As an initial member organization, the Association has the right to appoint two individuals to the Board of Directors of ACP. Additionally, should ACP be dissolved, the Association will acquire a percentage of interest in the net assets of ACP.

ACP has constructed a building to serve the physics community and has obtained financing through Maryland Industrial Development Financing Authority Revenue Bonds. These bonds are to be repaid from rental income collected from tenants, including the Association.

The equity interest in the operation and ownership of the project is described in an agreement between ACP and its members (the Agreement). Pursuant to the Agreement, the Association has recognized a cumulative investment gain of \$1,018,479 and \$523,196 at and 2015.

Summarized financial information for ACP as of December 31, 2016 and 2015 and for the year ended December 31, 2016, consists of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Total assets	\$ <u>15,886</u>	\$ <u>19,887</u>
Total liabilities	\$ 295	\$ 3,306
Net assets	<u>15,591</u>	<u>16,581</u>
Total liabilities and net assets	\$ <u>15,886</u>	\$ <u>19,887</u>
Total revenue	\$ 2,628	
Total expenses	<u>3,618</u>	
Change in net assets	\$ <u>(990)</u>	

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

3. American Center for Physics, Inc. (continued)

In October 1993, the Association entered into a long-term operating lease agreement with ACP. The lease ends the later of either November 1, 2018, or when there are no more bonds outstanding. The bond was paid off in January 2016 from the escrow deposit account set up as part of the initial requirements for the bond.

The lease payments are determined based on a percentage of the base costs, including financing and other operating costs. Total payments made to ACP were \$279,264 for the year ended December 31, 2016. Rental rebates were \$21,514 for the year ended December 31, 2016.

4. Investments

Investments consist of the following at December 31, 2016 and 2015:

Short-term investments	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 619,370	\$ 606,796
Money market	<u>257,497</u>	<u>261,041</u>
Total short-term investments	<u>876,867</u>	<u>867,837</u>
Long-term investments		
Mutual funds	4,841,454	4,396,366
Money market	<u>67,155</u>	<u>102,974</u>
Total long-term investments	<u>4,908,609</u>	<u>4,499,340</u>
Total investments	<u>\$ 5,785,476</u>	<u>\$ 5,367,177</u>

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

4. Investments (continued)

Investment return for the year ended December 31, 2016, consists of the following:

Interest and dividends	\$ 105,770
Net realized and unrealized gains (losses)	<u>342,434</u>
	<u>\$ 448,204</u>

Investments are reported at fair values at year-end. See Note 11 for a discussion of fair value measurements. Investments are subject to market risks, and their values fluctuate daily. Due to the level of risk associated with investment securities, changes in the values of investment securities will occur in the near term, and such changes could materially affect the Association's financial position.

5. Accounts Receivable

Accounts receivable as of December 31, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Grants	\$ 730,132	\$ 608,790
Due from affiliate	63,648	35,886
Subscription and other	<u>90,305</u>	<u>100,425</u>
Total accounts receivable	<u>\$ 884,085</u>	<u>\$ 745,101</u>

6. Property and Equipment

Property and equipment as of December 31, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 130,365	113,569
Software	<u>106,736</u>	<u>74,536</u>
	237,101	188,105
Less: accumulated depreciation and amortization	<u>(156,562)</u>	<u>(129,323)</u>
Property and equipment, net	<u>\$ 80,539</u>	<u>\$ 58,782</u>

Equipment includes assets financed under a capital lease arrangement. The net value of the assets acquired under capital leases was \$6,000, net of accumulated amortization of \$9,000 at December 31, 2016.

Depreciation and amortization expense totaled \$27,238 for the year ended December 31, 2016.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

7. Employee Benefit Plans

Pension plan

The Association has established a pension plan under IRS Code Section 403(b), to which it contributes 4.5% of compensation after the first year of employment and 9% after two years of employment for all eligible employees. Employees may make elective tax deferred contributions. The Association's contribution for the year ended December 31, 2016, totaled \$143,672.

Postretirement health care benefits

The Association has adopted a postretirement health care plan that covers all employees who retire from the Association after meeting certain age and service requirements. Under the plan, the Association will pay 50% of the participants' premiums for continued coverage through the Association's group health insurance. The plan provides for full coverage until participants reach 65 years of age and supplemental coverage thereafter. Plan benefits are subject to a lifetime cap of \$100,000 for each retiree.

Information regarding the status of the postretirement health care plan as of December 31, 2016 and 2015, and for the year ended December 31, 2016, is as follows:

	<u>2016</u>	<u>2015</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 346,809	\$ 465,295
Actuarial loss	916	9,237
Interest cost	14,210	17,141
Service cost	11,407	20,401
Plan amendments	-	(140,821)
Benefit paid	<u>(25,617)</u>	<u>(24,444)</u>
Benefit obligation at end of year	<u><u>\$ 347,725</u></u>	<u><u>\$ 346,809</u></u>
Change in plan assets		
Employer contributions	\$ 25,617	\$ 24,444
Participant contributions	25,618	24,444
Benefit paid	<u>(51,235)</u>	<u>(48,888)</u>
Fair value of plan assets at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Funded status	<u><u>\$ (347,725)</u></u>	<u><u>\$ (346,809)</u></u>
Accrued postretirement health care liability	<u><u>\$ (347,725)</u></u>	<u><u>\$ (346,809)</u></u>
Accumulated postretirement benefit obligation	<u><u>\$ 347,725</u></u>	<u><u>\$ 346,809</u></u>

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

7. Employee Benefit Plans (continued)

The components of net periodic benefit cost consist of the following for the year ended December 31, 2016:

Interest cost	\$ 14,210
Service cost	11,390
Amortization of prior service cost	(12,267)
Amortization of net loss	<u>2,420</u>
	15,753
Other costs	<u>10,763</u>
Total recognized in the statement of activities	<u><u>\$ 26,516</u></u>

Other changes in the net postretirement benefit obligation not included in net periodic benefit cost above were \$10,763 in 2016.

Amount recognized in unrestricted net assets but not yet recognized in net periodic benefit cost:

Net loss	\$ (1,910)
Prior service cost	<u>12,267</u>
	<u><u>\$ 10,357</u></u>

The amount expected to be amortized into net periodic benefit cost in 2017 is \$10,357. Weighted average assumptions used to determine net periodic pension cost and benefit obligations are as follows:

Discount rate for year	4.25%
Discount rate at the end year	4.00%

Estimated future benefit payments

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

Year ending December 31, 2017	\$ 14,613
2018	18,068
2019	20,988
2020	24,033
2021	22,690
2022-2026	146,289

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

7. Employee Benefit Plans (continued)

Estimated employer contributions

Employer contributions to the plans are expected to be approximately \$14,600 for the year ending December 31, 2017.

The accumulated benefit obligation measurement date was December 31, 2016, for the 2016 actuarial valuation. The health care cost trend rate was assumed to be 6.9% for 2016, grading down less than 1% per year to 4.5% by 2036.

8. Net Assets

Temporarily restricted net assets

Temporarily restricted net assets at December 31, 2016, are available for the following programs. Net assets during the year ended December 31, 2016, were released from restrictions by incurring expenses satisfying the restricted purpose.

	Balance December 31, <u>2015</u>	Additions <u>Income</u>	Released from <u>Restrictions</u>	Balance December 31, <u>2016</u>
Endowment funds				
Lotze	\$ 149,003	\$ 21,820	\$ 12,288	\$ 158,535
Bauder	285,590	39,150	13,646	311,094
Fuller	36,475	5,109	1,650	39,934
Lipton	37,681	2,727	-	40,408
Yamani	20,791	6,595	480	26,906
TPT Publications Fund	<u>6,834</u>	<u>1,889</u>	<u>-</u>	<u>8,723</u>
	<u>\$ 536,374</u>	<u>\$ 77,290</u>	<u>\$ 28,064</u>	<u>\$ 585,600</u>

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

8. Net Assets (continued)

Permanently Restricted Net Assets

Permanently restricted funds are invested in perpetuity. Income from the investments are expendable to support special activities in the area of physics teaching and for advancement of physics education as stipulated by the donors.

Permanently restricted net assets at December 31, 2016 and 2015, consist of the following:

Bauder Endowment Fund	\$ 110,000
Lotze Endowment Fund	311,685
Fuller Endowment Fund	10,000
Yamani Endowment Fund	46,550
TPT Publication Fund	10,000
	<u>\$ 488,235</u>

The Board of Directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditures by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

8. Net Assets (continued)

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets.

The endowment net asset composition by type of fund as of December 31, 2016, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 1,210,400	\$ -	\$ -	\$ 1,210,400
Donor-restricted endowment funds	<u>-</u>	<u>585,600</u>	<u>488,235</u>	<u>1,073,835</u>
	<u>\$ 1,210,400</u>	<u>\$ 585,600</u>	<u>\$ 488,235</u>	<u>\$ 2,284,235</u>

The endowment net asset composition by type of fund as of December 31, 2015, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 1,143,965	\$ -	\$ -	\$ 1,143,965
Donor-restricted endowment funds	<u>-</u>	<u>536,374</u>	<u>488,235</u>	<u>1,024,609</u>
	<u>\$ 1,143,965</u>	<u>\$ 536,374</u>	<u>\$ 488,235</u>	<u>\$ 2,168,574</u>

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

8. Net Assets (continued)

The changes in the endowment net assets for the year ended December 31, 2016, are as follows:

	Board Designated <u>Endowment</u>	Temporarily Restricted	Permanently Restricted	<u>Total</u>
Endowment net assets,				
December 31, 2015	\$ 1,143,965	\$ 536,374	\$ 488,235	\$ 2,168,574
Amount appropriated for expenditure	(236,831)	(28,064)	-	(264,895)
Contributions	22,062	613	-	22,675
Other income	190,979	-	-	190,979
Investment return:				-
Realized and unrealized gains	67,823	53,248	-	121,071
Interest and dividends	<u>22,402</u>	<u>23,429</u>	<u>-</u>	<u>45,831</u>
December 31, 2016	<u>\$ 1,210,400</u>	<u>\$ 585,600</u>	<u>\$ 488,235</u>	<u>\$ 2,284,235</u>

9. Related Party Transactions

In addition to participating with the Association in the ownership of ACP (See Note 2), AIP provides printing and fulfillment services for the Association's publications and processes the Association's health insurance payments. The Association also shares costs incurred by AIP for human resources management fee, society membership dues, and other miscellaneous office services. For the year ended December 31, 2016, the amount paid to AIP totaled \$636,741. At December 31, 2016 and 2015, \$125,899 and \$151,174, respectively, was included in accounts payable for these services. AIP also collects amounts on behalf of the Association for non-member journal subscriptions and exhibit sales. At December 31, 2016 and 2015, \$246,832 and \$53,994, respectively, was included in accounts receivable for these services.

The Association also received approximately \$42,750 for the year ended December 31, 2016 from AIP to support the International Physics Olympiad.

In addition to participating in the ownership of ACP with APS, the Association also receives an annual grant from APS to support the PhysTEC program. Revenue for the year ended December 31, 2016, totaled \$21,421. The amount due from APS at December 31, 2016 and 2015, totaled \$3,636 and \$18,114, respectively. The amount due to APS at December 31, 2016 and 2015 is \$149 and \$0.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

10. Commitments and Contingencies

Employment agreements

The Association has negotiated employment agreements with certain employees. The agreements expire at various dates through December 2017. Compensation under these agreements aggregates to an amount which is considered by the Board of Directors to be reasonable for the services to be performed. The Board of Directors has the right to terminate the agreements at any time by providing 30 days written notice prior to the effective date of termination.

Government audits

The Association recognized approximately 12% of its revenue in 2016 from grants with the National Science Foundation (NSF). These grants are subject to financial and compliance audit by NSF. Management does not anticipate any significant adverse adjustments as a result of such an audit.

Capital lease

In addition to the long-term operating lease for the office space discussed in Note 2, the Association also leases certain equipment under a capital lease.

Future minimum lease payments are as follows:

Year ending December 31, 2017	\$ 3,925
2018	3,485
2019	<u>289</u>
Total minimum lease payments	7,699
Less: amount representing interest	<u>(455)</u>
Present value of minimum lease payments	<u><u>\$ 7,244</u></u>

Hotel contracts

The Association has contracted with a hotel for space for its upcoming meetings through 2020. In the event the Association cancels or reduces its contracted room nights, the Association may be liable for cancellation fees for all rooms that the hotel will not be able to resell.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

11. Fair Value Measurements

The Association records its investments based on fair value on a recurring basis. Financial accounting and reporting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The standards emphasize that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

As a basis for considering market participant assumptions in fair value measurements, the standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent from the reporting entity (observable inputs that are classified within level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

The fair value levels are as follows:

- Level 1: Inputs that utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Inputs that are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. The Association's assessment of the significance of the particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets or liabilities.

Investments in *money market funds and mutual funds* (Note 4) are valued at the market value of shares held by the Association at year-end reported in the listing of the applicable major exchanges.

THE AMERICAN ASSOCIATION FOR PHYSICS TEACHERS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

11. Fair Value Measurements (continued)

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the year ended December 31, 2016, there were no significant transfers in or out of levels 1, 2 or 3.

The following summarizes information about the fair value measurements used as of December 31, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 324,652	\$ 324,652	\$ -	\$ -
Mutual funds	<u>5,460,824</u>	<u>5,460,824</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 5,785,476</u>	<u>\$ 5,785,476</u>	<u>\$ -</u>	<u>\$ -</u>

The following summarizes information about the fair value measurements used as of December 31, 2015:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 364,015	\$ 364,015	\$ -	\$ -
Mutual funds	<u>5,003,162</u>	<u>5,003,162</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 5,367,177</u>	<u>\$ 5,367,177</u>	<u>\$ -</u>	<u>\$ -</u>

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Award #	Pass-Through Entity Identifying Number	Total Federal Expenditure	Passed Through to Subrecipients
Research and Development Cluster					
National Science Foundation (NSF)					
Education and Human Resources	47.076				
Improving Beyond First Year Physics Laboratory Instruction		DUE-1122993		\$ 64,570	\$ -
New Faculty Experience for Two-Year College Physics Instructors		DUE-1225603		78,093	-
PER User's Guide: A Web Resource for Physics Educators		DUE-1245490		18,241	-
Wider-Data Explorer and Assessment Resources for Faculty		DUE-1347728		122,642	-
IUPAP International Conference on Women in Physics 2014		DUE-1419453		6,512	-
Surveying the state and implications of computational physics in courses for physics majors		DUE-1432363		36,406	-
Workshops and Learning Communities for Physics and Astronomy Faculty		DUE-1431638		240,578	-
Joint Task Force on Undergraduate Physics Programs		DUE-1540574		15,421	-
Fostering integration of computational practices into physics courses		DUE-1505278		69,092	-
Mutual Mentoring to Combat Isolation in Physics		DUE-1500529		36,272	-
Integrating Computation into Undergraduate Physics - Building a Sustainable Community Through Faculty Development		DUE-1524963		31,583	-
Community Sourcing of Introductory Physics for the Life Sciences		DUE-1624185		72,985	-
IE: CS for All and Physics for All in Secondary Education		DUE-1640791		420	-
Mathematical and Physical Sciences	47.049				
Pass-through American Physical Society - Physics Teacher Education Coalition			PHY-0808790	21,421	-
Total National Science Foundation (NSF)				814,236	-
National Aeronautics and Space Administration					
Science	43.001				
Pass-through Temple University of the Commonwealth System of Higher Education			259867-AAPT-01	10,378	-
Total Expenditures of Federal Awards				\$ 824,614	\$ -

The accompanying notes are an integral part of this schedule.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2016

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the American Association of Physics Teachers, Inc. under programs of the federal government for the year ended December 31, 2016. The preparation of this schedule is in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the American Association of Physics Teachers, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the American Association of Physics Teachers, Inc.

B. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The principal estimates and assumptions used in the preparation of the schedule relate to cost allowability and allocability (see Note D). Actual results could differ from these estimates.

C. Indirect Cost Rate

The American Association of Physics Teachers, Inc. has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

D. Federal Audits

The allowability of certain costs under government grants and contracts is subject to audit by the contracting agency. Certain indirect costs charged to grants and contracts are subject to revisions based on government audits of those costs. Management believes that contract costs are consistent with applicable government cost principles, and that costs subsequently disallowed, if any, upon audit by the government, beyond amounts already reserved by management, would not be material.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
The American Association of Physics Teachers, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of (the Association), which comprise the statement of financial position as of December 31, 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, and have issued our report thereon dated September 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rubins & Company". The signature is written in a cursive, flowing style.

Bethesda, Maryland
September 22, 2017



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
The American Association of Physics Teachers, Inc.

Report on Compliance for the Major Federal Program

We have audited the American Association of Physics Teachers, Inc. (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Association's major federal program for the year ended December 31, 2016. The Association's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance on the Association's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the American Association of Physics Teachers, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance which are described in the accompanying schedule of findings and questioned costs as item C 2016-001. Our opinion on the major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A deficiency in *internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item C 2016-001 that we consider to be a material weakness.

The American Association of Physics Teachers, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The American Association of Physics Teachers, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the American Association of Physics Teachers, Inc. as of and for the year ended December 31, 2016, and have issued our report thereon dated September 22, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Bethesda, Maryland
September 22, 2017

A handwritten signature in cursive script that reads "Rubins & Company". The signature is written in black ink and is positioned to the right of the date and location text.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016

SECTION A – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Identification of major programs:

<u>Description</u>	<u>CFDA No.</u>	<u>Expenditures</u>
R&D Cluster	Various	\$824,614
Dollar threshold used to distinguish between Type A and type B programs	\$750,000	
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No	

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016

SECTION B – FINANCIAL STATEMENT FINDINGS

None

SECTION C – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

MATERIAL WEAKNESSES AND NONCOMPLIANCE

C 2016-001 Schedule of Expenditure of Federal Awards and Program Income

Federal Program: R&D Cluster

Criteria: According to the Uniform Guidance §200.508, the auditee must prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 Financial statements. According to the National Science Foundation (NSF) policy, unless otherwise specified in the grant, program income received or accruing to the grantee during the period of the grant is to be retained by the grantee, added to the funds committed to the project by NSF, and thus used to further project objectives. Program income earned during the project period should be expended prior to requesting reimbursement against the award. On an annual basis, awardee institutions will be required to submit a Program Income Reporting Worksheet to NSF in order to report program income earned/expended for any of their awards during the previous twelve months or to validate that they did not earn/expend program income for any of their awards during the applicable period.

Condition: The Schedule of Expenditures of Federal Awards initially prepared for the year ended December 31, 2016 was inaccurate because it was not prepared in accordance with Uniform Guidance §200.502 *Basis for determining Federal awards expended*.

Cause: The grantee omitted the use of program income and federal grants received from a pass-through entity from the Schedule of Federal Expenditures initially prepared.

Effect: The total expenditure was less than the threshold of \$750,000 for Single Audit requirement before the error was identified by auditors and corrected by the grantee.

Questioned Cost: None.

Recommendation: We recommend that finance personnel receive training regarding grant compliance requirements including preparation of Schedule of Expenditures of Federal Awards and program income reporting.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016

C 2016-001 Schedule of Expenditure of Federal Awards and Program Income (continued)

Views of Responsible Officials and Planned Corrective Actions:

A review of Uniform Guidance §200.502 *Basis for determining Federal awards expended* will be completed by Michael Brosnan, CFO, by September 30, 2017.

The finance personnel to include the CFO and the senior accountant will receive training for grant compliance requirements and grant management. The training will be provided through workshops, webinars, NSF provided education and reviewing the current government grant guidelines. The training will be completed by December 31, 2017.

The association will look into retaining an outside consultant who will provide a source of accurate and timely information related to current and future grant regulations, policies and procedures.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2016

SECTION B – FINANCIAL STATEMENT FINDINGS

B 2015-001 Timely Closing of Books

Condition: American Association of Physics Teachers Inc.'s accounting records were not closed within a reasonable period of time.

Recommendation: We recommend that the Executive Office require that all departments submit invoices on a timely basis for reimbursement. We also recommend that the Executive office require documented prior approval of budgeted expenditures and the period of performance for any event or activity expected to be reimbursed by American Association of Physics Teachers, Inc.

Current Status: The recommendation was adopted during 2016. No similar findings were noted in 2016 audit.

SECTION C – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

C 2015-001 Timely Closing of Books

Condition: American Association of Physics Teachers Inc.'s accounting records were not closed within a reasonable period of time.

Recommendation: We recommend that the Executive Office require that all departments submit invoices on a timely basis for reimbursement. We also recommend that the Executive office require documented prior approval of budgeted expenditures and the period of performance for any event or activity expected to be reimbursed by American Association of Physics Teachers, Inc.

Current Status: The recommendation was adopted during 2016. No similar findings were noted in 2016 audit.

C 2015-002 Schedule of Expenditure of Federal Awards and Program Income

Federal Program: R&D Cluster

Condition: The Schedule of Expenditures of Federal Awards prepared for the year ended December 31, 2015 was inaccurate because it was not prepared in accordance with Uniform Guidance §200.502 *Basis for determining Federal awards expended*, and program income reported during 2015 was not prepared in accordance with the NSF policy.

Recommendation: We recommend that finance personnel receive training regarding grant compliance requirements including preparation of Schedule of Expenditures of Federal Awards and program income reporting.

THE AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2016

C 2015-002 (continued)

Current Status: Similar issues were noted during 2016 audit. Therefore, the finding will be repeated in the 2016 Schedule of Findings and Questioned Costs.

C 2015-003 Single Audit Report Submission

Federal Program: R&D Cluster

Condition: Single Audit for the year ended December 31, 2015 was not completed and submitted within the required time.

Recommendation: We recommend that finance personnel receive training regarding grant compliance requirements including preparation of Schedule of Expenditures of Federal Awards, and Single Audit reporting deadline.

Current Status: The recommendation was adopted during 2016. No similar findings were noted in the 2016 audit.