



AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED DECEMBER 31, 2018

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

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FINANCIAL STATEMENTS



**AMERICAN ASSOCIATION OF
PHYSICS TEACHERS, INC.**

**FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Association of Physics Teachers, Inc.
College Park, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the American Association of Physics Teachers, Inc. (the Association), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and change in net assets, 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

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 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 Association as of December 31, 2018, and the change 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.

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Report on Summarized Comparative Information

We have previously audited the Association's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on pages I-(25 - 26), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2019, on our consideration of the Association'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 this report is solely 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 the effectiveness of the Association's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.



September 20, 2019

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

ASSETS		
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and equivalents	\$ 1,264,465	\$ 1,694,145
Investments	894,546	885,926
Accounts receivable	100,315	90,443
Grants receivable	1,176,351	1,004,201
Inventory	5,569	76,462
Prepaid expenses	<u>63,314</u>	<u>113,409</u>
Total current assets	<u>3,504,560</u>	<u>3,864,586</u>
FIXED ASSETS		
Equipment	140,148	136,541
Capital lease	15,000	15,000
Software	<u>159,614</u>	<u>116,815</u>
	314,762	268,356
Less: Accumulated depreciation and amortization	<u>(234,674)</u>	<u>(193,504)</u>
Net fixed assets	<u>80,088</u>	<u>74,852</u>
OTHER ASSETS		
Investments, net of current portion	5,261,790	5,672,087
Investment in ACP	1,244,025	976,738
Deposit	<u>15,833</u>	<u>-</u>
Total other assets	<u>6,521,648</u>	<u>6,648,825</u>
TOTAL ASSETS	<u>\$ 10,106,296</u>	<u>\$ 10,588,263</u>

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Capital lease obligation, current portion	\$ -	\$ 4,053
Accounts payable and accrued liabilities	309,264	264,481
Accrued payroll and related liabilities	163,414	153,262
Unearned revenue	2,326,064	2,356,054
Refundable advance	<u>-</u>	<u>112,908</u>
Total current liabilities	<u>2,798,742</u>	<u>2,890,758</u>
LONG-TERM LIABILITIES		
Accrued postretirement benefit obligation	<u>368,684</u>	<u>359,919</u>
Total liabilities	<u>3,167,426</u>	<u>3,250,677</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	4,639,196	4,778,236
Board designated	<u>1,192,678</u>	<u>1,336,265</u>
Total without donor restrictions	<u>5,831,874</u>	<u>6,114,501</u>
With donor restrictions	<u>1,106,996</u>	<u>1,223,085</u>
Total net assets	<u>6,938,870</u>	<u>7,337,586</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,106,296</u>	<u>\$ 10,588,263</u>

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
American Journal of Physics	\$ 1,556,854	\$ -	\$ 1,556,854	\$ 1,618,644
The Physics Teacher	960,210	-	960,210	963,679
Membership	801,755	-	801,755	821,605
Meetings, Workshops and Projects	904,015	-	904,015	715,669
Grants	1,309,584	-	1,309,584	1,442,381
Investment (loss) income, net	(316,536)	(85,142)	(401,678)	772,049
Other publications	67,868	-	67,868	56,586
International Physics Olympiad	139,375	-	139,375	138,705
Earnings (loss) on investment in ACP	267,287	-	267,287	(41,723)
Contributions	42,952	145	43,097	60,590
Miscellaneous income	43,080	-	43,080	4,793
Net assets released from donor restrictions	<u>31,092</u>	<u>(31,092)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>5,807,536</u>	<u>(116,089)</u>	<u>5,691,447</u>	<u>6,552,978</u>
EXPENSES				
Program Services:				
American Journal of Physics	539,837	-	539,837	591,133
The Physics Teacher	712,237	-	712,237	766,149
Membership	628,112	-	628,112	695,183
Meetings, Workshops and Projects	1,152,474	-	1,152,474	1,180,310
Grants	1,596,045	-	1,596,045	1,430,302
Other publications	<u>857,641</u>	<u>-</u>	<u>857,641</u>	<u>717,603</u>
Total program services	<u>5,486,346</u>	<u>-</u>	<u>5,486,346</u>	<u>5,380,680</u>
Supporting Services:				
General and Administrative	580,006	-	580,006	490,952
Fundraising	<u>1,316</u>	<u>-</u>	<u>1,316</u>	<u>595</u>
Total supporting services	<u>581,322</u>	<u>-</u>	<u>581,322</u>	<u>491,547</u>
Total expenses	<u>6,067,668</u>	<u>-</u>	<u>6,067,668</u>	<u>5,872,227</u>
Change in net assets before other item	(260,132)	(116,089)	(376,221)	680,751
OTHER ITEM				
Change in post-retirement plan obligation	<u>(22,495)</u>	<u>-</u>	<u>(22,495)</u>	<u>(28,231)</u>
Change in net assets	(282,627)	(116,089)	(398,716)	652,520
Net assets at beginning of year	<u>6,114,501</u>	<u>1,223,085</u>	<u>7,337,586</u>	<u>6,685,066</u>
NET ASSETS AT END OF YEAR	\$ <u>5,831,874</u>	\$ <u>1,106,996</u>	\$ <u>6,938,870</u>	\$ <u>7,337,586</u>

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018				
	Program Services				
	American Journal of Physics	The Physics Teachers	Membership	Meetings, Workshops, And Projects	Grants
Compensation	\$ 5,475	\$ 460,044	\$ 400,981	\$ 586,079	\$ 588,787
Editorial office	183,299	87	-	-	-
Travel	247	6,700	40,960	95,835	65,483
Publications	85,397	89,913	-	4,923	178
Rent	17,881	21,948	18,763	35,487	52,642
Participant support	-	-	-	-	367,903
Online journals	77,766	66,524	-	57	-
Consultants, contracts and temporary	-	-	-	13,535	379,979
Conferences, meetings and workshops	3,273	1,666	49,179	103,490	28,069
Computer supplies and maintenance	66,158	7,119	11,598	15,995	15,874
Postage, packing and shipping	-	27,987	6,536	13,662	162
Audio/Visual	-	-	13,885	120,073	3,446
Dues and memberships	-	-	48,189	731	-
Exhibit and meeting expenses	-	-	9,381	95,412	-
Photocopying and printing	1,588	161	2,545	5,583	5,360
Professional fees	91,638	5,177	-	-	-
Honoraria	-	10,025	3,208	8,902	-
Bank fees	-	-	-	9,523	-
Subrecipient expenses	-	-	-	-	68,352
Awards	-	-	-	(69)	-
Office services	2,714	3,088	2,640	4,993	7,407
Advertising	1,198	7,330	16,397	703	1,366
Materials and supplies	-	537	489	17,394	1,608
Depreciation and amortization	3,203	3,931	3,361	6,356	9,429
Insurance	-	-	-	13,810	-
Bad debt expense	-	-	-	-	-
TOTAL	\$ 539,837	\$ 712,237	\$ 628,112	\$ 1,152,474	\$ 1,596,045

EXHIBIT C

						2017
Supporting Services						
Other Publications	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
\$ 538,759	\$ 2,580,125	\$ 327,177	\$ -	\$ 327,177	\$ 2,907,302	\$ 2,721,735
-	183,386	-	-	-	183,386	171,377
40,627	249,852	23,743	29	23,772	273,624	345,000
72,791	253,202	-	-	-	253,202	197,634
24,371	171,092	58,711	50	58,761	229,853	229,069
9,392	377,295	4,760	-	4,760	382,055	342,901
211	144,558	-	-	-	144,558	146,891
9,262	402,776	25,255	-	25,255	428,031	535,354
7,676	193,353	5,557	936	6,493	199,846	197,894
2,990	119,734	26,651	-	26,651	146,385	106,933
787	49,134	369	139	508	49,642	80,554
4,726	142,130	2,472	-	2,472	144,602	101,157
-	48,920	737	-	737	49,657	68,499
-	104,793	-	-	-	104,793	70,698
114	15,351	1,226	30	1,256	16,607	29,964
-	96,815	23,609	-	23,609	120,424	79,874
32,947	55,082	7,116	-	7,116	62,198	66,985
36,138	45,661	15,626	-	15,626	61,287	54,500
-	68,352	-	-	-	68,352	51,679
43,391	43,322	1,161	-	1,161	44,483	59,942
3,429	24,271	8,279	7	8,286	32,557	33,967
-	26,994	1,124	-	1,124	28,118	20,607
25,665	45,693	3,629	116	3,745	49,438	54,627
4,365	30,645	10,516	9	10,525	41,170	36,942
-	13,810	4,099	-	4,099	17,909	19,859
-	-	28,189	-	28,189	28,189	47,585
\$ 857,641	\$ 5,486,346	\$ 580,006	\$ 1,316	\$ 581,322	\$ 6,067,668	\$ 5,872,227

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (398,716)	\$ 652,520
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	41,170	36,942
Net depreciation (appreciation) on investments	504,381	(687,244)
(Earnings) loss on investment in ACP	(267,287)	41,741
Change in allowance for doubtful accounts	(47,585)	47,585
Decrease (increase) in:		
Accounts receivable	37,713	15,925
Grants receivable	(172,150)	(274,069)
Inventory	70,893	(66,749)
Prepaid expenses	50,095	(55,972)
Deposit	(15,833)	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	44,783	(54,288)
Accrued payroll and related liabilities	10,152	18,770
Unearned revenue	(29,990)	222,184
Refundable advance	(112,908)	112,908
Accrued postretirement benefit obligation	<u>8,765</u>	<u>12,194</u>
Net cash (used) provided by operating activities	<u>(276,517)</u>	<u>22,447</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(46,406)	(31,255)
Purchases of investments	(2,950,233)	(4,096,203)
Proceeds from sales of investments	<u>2,847,529</u>	<u>4,010,910</u>
Net cash used by investing activities	<u>(149,110)</u>	<u>(116,548)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	<u>(4,053)</u>	<u>(3,191)</u>
Net cash used by financing activities	<u>(4,053)</u>	<u>(3,191)</u>
Net decrease in cash and cash equivalents	(429,680)	(97,292)
Cash and cash equivalents at beginning of year	<u>1,694,145</u>	<u>1,791,437</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,264,465</u>	<u>\$ 1,694,145</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	\$ <u>-</u>	\$ <u>325</u>

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The American Association of Physics Teachers, Inc. (the Association) is a not-for-profit 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 membership dues and programs, publications, meetings, and grants from the U.S. Government.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended December 31, 2018 and applied retrospectively.

The financial statements include certain prior year 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 Association's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Cash and cash equivalents -

The Association considers all cash and other highly liquid investments with maturities of three months or less to be cash equivalents, including overnight repurchase agreements collateralized by obligations issued or guaranteed by the U.S. Government and excluding money market funds held by investment managers in the amount of \$411,533 as of December 31, 2018.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Association maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends and realized and unrealized gains and losses net of investment expenses are included in investment income, net in the accompanying Statement of Activities and Change in Net Assets.

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) as of December 31, 2018.

Grants and accounts receivable -

Grants and accounts receivable are recorded at their net realizable value, which approximates fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Grants and accounts receivable (continued) -

As of December 31, 2018, there was no amount provisioned for an allowance for doubtful accounts.

Inventory -

Inventory consists primarily of publications and periodicals held for resale and is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory in accordance with FASB ASU 2015-11 *Simplifying the Measurement of Inventory*.

Fixed assets -

Fixed assets in excess of \$5,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses as incurred.

Property and equipment purchases relating to federal awards are expensed as contract costs only in case that the contract or grant specifically authorizes such charges. Otherwise, the cost of capital expenditures used in support of federal programs is recovered using the straight-line depreciation method charged indirectly to the specific program.

Depreciation and amortization expense during the year ended December 31, 2018 totaled \$41,170.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to Statement of Activities and Change in Net Assets, to its current fair value.

Income taxes -

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Association is subject to unrelated business income taxes on advertising and other non-exempt revenue, and beginning January 1, 2018, it is also subject to tax on qualified transportation fringe benefits provided to its employees. The Association is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2018, the Association has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than the Association mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions and grants -

Contributions and grants received are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as net assets with donor restriction in the accompanying financial statements.

The Association receives funding under cost-reimbursable grants and cooperative agreements from the U.S. Government and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as income without donor restriction to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Amounts spent on reimbursable grant expenses are reflected as accounts receivable until reimbursed by the grantor. Grant funding received in advance of incurring the related expenses are recorded as a refundable advance.

Membership dues, subscription and meeting revenue -

Membership dues and subscription revenue are recognized ratably over the applicable dues or subscription period. Revenue for 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 earning process and are reported as a liability in the Statement of Financial Position.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Use of estimates -

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

Advertising -

The Association expenses advertising costs as incurred. During the year ended December 31, 2018, advertising expense totaled \$21,005.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Association are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of actual time and effort or other reasonable basis.

Risks and uncertainties -

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The Association adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Association accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Reclassification (continued) -

Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of \$6,114,501 are now classified as "without donor restrictions". Net assets previously classified as temporarily restricted net assets and permanently restricted net assets in the amount of \$734,850 and \$488,235, respectively, are now classified as "net assets with donor restrictions".

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. The Association has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional.

The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Association has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Association plans to adopt the new ASUs at the respective required implementation dates.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. INVESTMENTS

Investments consisted of the following as of December 31, 2018:

	<u>Fair Value</u>
Money market funds	\$ 411,533
Mutual funds	4,824,513
Corporate bonds	381,490
Mortgage-backed securities	90,483
U.S Treasury notes	<u>448,317</u>
TOTAL INVESTMENTS	<u>\$ 6,156,336</u>

Included in investment loss are the following:

Interest and dividends	\$ 138,330
Net depreciation of investments	(504,381)
Management fees	<u>(35,627)</u>
TOTAL INVESTMENT LOSS	<u>\$ (401,678)</u>

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 fore 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 with 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 operating 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 \$1,244,025 as of December 31, 2018.

Financial information, in summary, related to the investment in ACP is as follows (in thousands) as of December 31, 2018:

TOTAL ASSETS	<u>\$ 21,346</u>
Total liabilities	\$ 589
Total net assets	<u>20,757</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,346</u>
Total revenue	\$ 2,622
Total expenses	<u>3,136</u>
CHANGE IN NET ASSETS	<u>\$ (514)</u>

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. AMERICAN CENTER FOR PHYSICS INC. (Continued)

In October 1993, the Association entered into a long-term operating lease agreement with ACP. The lease was renewed on November 1, 2018 and will expire on November 1, 2117. 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 \$262,194 during the year ended December 31, 2018.

4. NET ASSETS WITHOUT DONOR RESTRICTIONS

As of December 31, 2018, net assets without donor restrictions have been designated by the Board of Directors for the following purposes:

Undesignated net assets	\$ 4,639,196
Board designated net assets:	
Venture Fund	161,088
PTRA Continuation Fund	160,796
Excellence In Pre-College Physics Teaching Award	119,961
Dodge Fund	114,868
Klopsteg Award	80,529
Excel In Undergraduate Physics Education Award	79,894
Richtmyer Memorial Fund	75,715
Millikan Award	72,830
Oersted Award	71,236
J.D. Jackson Award	68,510
Jossem Memorial Fund	59,125
Physics Education Research	57,625
Melba Newell Phillips Award	40,688
Memorial Fund	15,279
McBride Travel Scholarship Fund	<u>14,534</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 5,831,874</u>

The Board has designated that a reserve be maintained in the net assets without donor restrictions to provide a predictable stream of funding.

5. NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Accumulated earnings from endowment funds not yet authorized for spending:	
Lotze	\$ 488,963
Bauder	426,606
Fuller	48,634
Yamani	79,568
Lipton	42,846
TPT Publications Fund	<u>20,379</u>
TOTAL NET ASSETS WITH DONOR RESTRICTION	<u>\$ 1,106,996</u>

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

5. NET ASSETS WITH DONOR RESTRICTION (Continued)

The following net assets with restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Accumulated earnings from endowment funds authorized for spending:	
Lotze	\$ 12,288
Bauder	17,860
Fuller	692
Yamani	<u>252</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 31,092</u>

6. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and equivalents	\$ 1,264,465
Investments	894,546
Accounts receivable	100,315
Grants receivable	<u>1,176,351</u>
Subtotal financial assets available within one year	3,435,677
Less: Donor restricted funds	(1,106,996)
Less: Board designated funds	<u>(1,192,678)</u>

FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,136,003</u>
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The Association has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2018, the Association has financial assets equal to approximately two months of operating expenses. The Board designated funds can be available to draw on only if approved by the Board of Directors.

7. EMPLOYEE BENEFIT PLANS

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.

The funding for the payment of these benefits will be derived from the then current operations of the Association.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. EMPLOYEE BENEFIT PLANS (Continued)

The Association is required to accrue the projected future cost of providing postretirement benefits during the period that employees render the services necessary to be eligible for such benefits. While this impacts the Association's reported change in unrestricted net assets, it does not impact the Association's current cash flow because the Association intends to continue its practice of paying the cost of postretirement benefits as incurred.

The components of the net periodic postretirement benefit cost and the projected benefit obligation for the year ended December 31, 2018 are presented below:

Change in Benefit Obligation:	
Benefit obligation at beginning of year	\$ 359,919
Actuarial loss	(2,125)
Interest cost	13,489
Service cost	11,131
Benefit paid	<u>(13,730)</u>
BENEFIT OBLIGATION AT END OF YEAR	<u>\$ 368,684</u>

Information regarding the status of the postretirement health care plan as of December 31, 2018 is presented below:

Change in Plan Assets:	
Employer contributions	\$ 13,730
Participant contributions	5,930
Benefit paid	<u>(19,660)</u>
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	<u>\$ -</u>

The following table presents the funded status at December 31, 2018:

Projected benefit obligation	\$ <u>(368,684)</u>
FUNDED STATUS	<u>\$ (368,684)</u>
ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS:	
Accumulated Benefit Obligations	<u>\$ 368,684</u>

Amounts recognized in unrestricted net assets (not yet recognized as a component of net periodic pension cost) and applied to prepaid pension costs or accrued pension costs due to the effect of FASB ASC 715-30-25, *Compensation-Retirement Benefits – Defined Benefit Plans-Pension – Recognition*:

Service cost	\$ 11,131
Interest cost	13,489
Amortization of prior service costs	(12,267)
Amortization of net income	<u>4,642</u>
	16,995
Other costs	<u>5,500</u>
AMOUNT RECOGNIZED AS OTHER ITEM IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 22,495</u>

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. EMPLOYEE BENEFIT PLANS (Continued)

Other changes in the net postretirement benefit obligation not included in net periodic benefit cost above were \$5,500 in 2018.

Amount recognized in net assets without donor restrictions but not yet recognized in net periodic benefit cost:

Net loss	\$ (1,520)
Prior service cost	<u>12,267</u>
TOTAL	<u>\$ 10,747</u>

Weighted-average assumptions as of December 31, 2018:

Discount rate for year	3.55%
Discount rate at the end year	4.25%

The following is a schedule of benefits expected to be paid in each of the next five years, and in the aggregate for the five fiscal years thereafter as of December 31, 2018.

The expected benefit payments below are based on the same assumptions used to determine the Projected Benefit Obligation as of December 31, 2018 and includes benefits attributable to estimated future employee service.

Year Ending December 31,

2019	\$ 22,094
2020	25,770
2021	24,101
2022	26,704
2023	29,176
2022 - 2026	<u>185,682</u>
	<u>\$ 313,527</u>

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. Contributions to the Plan during the year ended December 31, 2018 totaled \$184,534 and are included in compensation in the accompanying Statement of Functional Expenses.

8. CONTINGENCY

The Association receives grants from various agencies of the U.S. Government. Such grants are subject to audit under the provisions 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)*.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

8. CONTINGENCY (Continued)

The ultimate determination of amounts received under the U.S. Government grants is based upon the allowance of costs reported to and accepted by the U.S. Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2018. Until such audits have been accepted by the U.S. Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

9. COMMITMENTS

The Association has negotiated employment agreements with certain employees. The agreements expire at various dates through December 31, 2019. 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 providing 30 days written notice prior to the effective date of termination.

The Association has contracted with hotels for space for its upcoming meetings through fiscal year 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.

10. RELATED PARTY

In addition to participating with the Association in the ownership of ACP (See Note 3), 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 fees, society membership dues, and other miscellaneous office services. For the year ended December 31, 2018, the amount paid to AIP totaled \$662,371. At December 31, 2018, \$95,834 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, 2018, \$8,122 was included in accounts receivable for these services.

The Association also received approximately \$40,000 for the year ended December 31, 2018, 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, 2018, totaled \$19,257. The amount due from APS at December 31, 2018 was \$6,056.

11. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

11. FAIR VALUE MEASUREMENT (Continued)

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Association has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used as of December 31, 2018.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end funds that are registered with the Securities and Exchange Commission SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Association are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Association are deemed to be actively traded.
- *Corporate bonds, U.S. Treasury notes and mortgage-backed securities* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2018</u>
Asset Class:				
Money market funds	\$ 411,533	\$ -	\$ -	\$ 411,533
Mutual funds	4,824,513	-	-	4,824,513
Corporate bonds	-	381,490	-	381,490
Mortgage-backed securities	-	90,483	-	90,483
U.S. Treasury notes	<u>-</u>	<u>448,317</u>	<u>-</u>	<u>448,317</u>
TOTAL	<u>\$ 5,236,046</u>	<u>\$ 920,290</u>	<u>\$ -</u>	<u>\$ 6,156,336</u>

Investments measured at net asset value (1): Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

11. FAIR VALUE MEASUREMENT (Continued)

There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2018. Transfers between levels are recorded at the end of the reporting period, if applicable.

12. ENDOWMENT

The Association's endowment consists of donor-restricted endowment funds and funds designated by the governing Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures.

Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Association considers a fund to be underwater if the fair value of the fund is less than the sum the (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Association has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Association considers the following factors in making a determination to appropriated or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

As of December 31, 2018 endowment net assets were as follows:

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

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

12. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ 1,192,678	\$ -	\$ 1,192,678
Donor-Restricted Endowment Funds	-	618,761	618,761
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	<u>-</u>	<u>488,235</u>	<u>488,235</u>
TOTAL FUNDS	<u>\$ 1,192,678</u>	<u>\$ 1,106,996</u>	<u>\$ 2,299,674</u>

Changes in endowment net assets for the year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,336,265	\$ 1,223,085	\$ 2,559,350
Investment return (loss), net	70,017	(85,142)	(15,125)
Contributions	7,195	145	7,340
Appropriation of endowment assets for expenditure	<u>(220,799)</u>	<u>(31,092)</u>	<u>(251,891)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 1,192,678</u>	<u>\$ 1,106,996</u>	<u>\$ 2,299,674</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as fund of perpetual duration. There were no deficiencies as of December 31, 2018.

Return Objectives and Risk Parameters -

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 the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in conservative instruments.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Association relies on a total return strategy in which investment returns are achieved through both current yield (interest and dividends) and capital appreciation (capital gains and other income).

Spending Policy -

The Association has a policy of appropriating for distribution each year approximately 4% of its endowment fund's average fair value over the prior 16 quarters preceding and through the calendar year-end in which the distribution is planned.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

13. SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 20, 2019, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	CFDA	Pass-Through Entity	Pass-Through Entity Identifying Number	Pass-Through to Sub- Recipients	Total Expenditures
Research and Development - Cluster					
National Science Foundation					
Collaborative Project Workshop	47.076	-	-	\$ -	\$ 209,648
Joint Task Force JTUBB	47.076	-	-	-	1,110
Computational Physics Faculty Development	47.076	-	-	-	1,207
Mutual Mentoring to Reduce Isolation in Physics - ADVANCE	47.076	-	-	-	76,122
Computational Physics Local Fostering Integration	47.076	-	-	-	93,580
IPLS Portal	47.076	-	-	-	371,050
Stem +C	47.076	-	-	68,352	332,217
Mobilizing Women In Physics	47.076	-	-	-	44,860
Diversify US Physics Com ICWIP	47.076	-	-	-	12,044
Physport's Impact on Teaching	47.076	-	-	-	52,461
Disseminating Instructional Physics Labs Workshops	47.076	-	-	-	38,184
Get the Facts Out: Changing the Conversation around STEM Teacher Recruitment	47.076	-	-	-	14,998
Subtotal 47.076				68,352	1,247,481
Physics Teacher Education Coalition	47.049	American Physical Society	PHY-0808790	-	15,987
Advancing the Integration of Interdisciplinary Computation Thinking in the Physical Sciences and Life Sciences	47.049	American Physical Society	EP3-001-2018	-	3,270
Subtotal 47.049				-	19,257

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	CFDA	Pass-Through Entity	Pass-Through Entity Identifying Number	Pass-Through to Sub- Recipients	Total Expenditures
National Aeronautics and Space Administration Science					
Heliophysics Education Consortium: Through the Eyes of NASA to the Hearts and Minds of the Nation	43.001	Temple University of Higher Education	259867-AAAPT-01	\$ -	\$ 42,846
Total Research and Development - Cluster				68,352	1,309,584
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 68,352	\$ 1,309,584

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of the Association under programs of the Federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations 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 Association, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Association.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit Organizations, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Association has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section I - Summary of Auditor's Results

Financial Statements

- 1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting:

Unmodified

- 2). Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)? ☒ Yes ☐ None Reported

- 3). Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

- 4). Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)? ☒ Yes ☐ None Reported

- 5). Type of auditor's report issued on compliance for major programs:

Unmodified

- 6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☒ Yes ☐ No

- 7). Identification of major federal programs:

<u>Federal Program Title</u>	<u>CFDA Number</u>
Research & Development Cluster	Various

- 8). Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

- 9). Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section II - Financial Statement Findings

Finding 2018-001: Segregation of Duties

Criteria: As noted in 2 CFR 200.303 "The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."

Condition: The Chief Financial Officer is responsible for reviewing and approving invoices, posting entries into the accounting system without a second level review, obtaining all bank statements unopened while having check signing authority and access to the electronic signature of the Chief Executive Officer.

Cause: Limited staff within the Association's Finance Department made it difficult to segregate accounting duties.

Effect: If any one employee can control all stages of a transaction, defalcations or irregularities could occur and go undetected for an extended period of time.

Context: The basic premise is that no one employee, when possible, should have access to both physical assets and the related accounting records or involved in all phases of a transaction.

Identified as a Repeat Finding, If Applicable: Finding 2017-001 - Segregation of Duties

Recommendation: We recommend the Association review its accounting and reporting processes to determine how incompatible duties could be segregated given its limited size and available resources. Although the small size of the Association's Finance Department limits the extent to which certain accounting duties may be segregated, we believe steps should be taken to separate as many incompatible duties as possible.

Views of Responsible Officials and Planned Corrective Actions: Due to the size of the department and organization, complete separation of duties continues to be a challenge. Management will look into options of using an outside provider to perform services which will solve the segregation of duties issues.

Responsible Officials: Dr. Beth Cunningham, EO and Michael Brosnan, CFO

Anticipated Completion Date: October 18, 2019

Finding 2018-002: Reconciliation of Accounts under Section III "Federal Awarding Findings and Questioned Costs"

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

Finding 2018-002: Reconciliation of Accounts

Federal Programs: Research and Development Cluster: All Grants

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a)) (Continued)

Finding 2018-002: Reconciliation of Accounts (continued)

Criteria: 22 CFR 226 Subpart C Section 21 "Standards for Financial Management Systems" requires recipients of Federal funds to establish financial management systems that will ensure effective control over and accountability for all funds, property and other assets.

Condition: At the commencement of audit fieldwork, we noted that the year-end Schedule of Expenditures of Federal Awards (SEFA) was not properly prepared. In addition, the year-end schedules for a few asset and liabilities accounts were not reconciled and needed to be revised and updated.

Cause: Limited staff within the Association's Finance department causes delays in the performing the reconciliation and the reconciliations are not performed on a monthly basis.

Effect: Without the proper reconciliation of the Schedule of Expenditures of Federal Awards (SEFA) with the program profit and loss statements generated by the accounting system on a monthly basis, as well as the proper review and approval of asset and liability reconciliations, there exists the potential for errors and the misappropriation of funds.

Questioned Costs: None noted.

Context: Our audit procedures consisted of substantive testwork over a sample of the Schedule of Expenditures of Federal Awards (SEFA) that were selected based on a threshold. We consider our sample to be representative of the population. The samples were made using statistical sampling and we believe the condition appeared to be systematic in nature.

Identified as a Repeat Finding, If Applicable: Not applicable

Recommendation: We recommend reconciliations be prepared quarterly to reconcile the internal records to the financial reports that are submitted to the U.S. Government and other donors and that asset and liability accounts be reconciled monthly as part of the financial statement preparation. It is critical that these items be timely completed and that they are reviewed and approved for clerical accuracy.

Views of Responsible Officials and Planned Corrective Actions: The issue with the SEFA not properly prepared was the result of two AAPT granted sub-awards that were accounted for and recorded on a quarterly basis. The process has changed and all awards are accounted for reconciled on a monthly basis. All assets and liabilities accounts will be reconciled on a monthly basis.

Responsible Officials: Dr. Beth Cunningham, EO and Michael Brosnan, CFO

Anticipated Completion Date: September 30, 2019

Finding 2018-003: Procurement

Federal Programs: Research and Development Cluster: All Grants

Criteria: Procedures articulated in 2 CFR 200.317-326, requires that for all procurement of goods and services, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action based on the dollar thresholds sited in the compliance code.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a)) (Continued)

Finding 2018-003: Procurement (continued)

Condition: The Association did not consistently adhere to written policies with respect to the procurement process, as bids/quotes were not obtainable or the conclusion for selection was not documented.

Cause: The Association's internal policies and procedures governing procurement were not consistently applied.

Effect: Without proper and complete procurement documentation, there is a risk that the Association will not perform proper evaluation of each element of cost to determine reasonableness.

Questioned Costs: None noted.

Context: Our audit procedures consisted of internal control testwork over the cash disbursement cycle over a sample population of expenditures. We consider our sample to be representative of the population. The condition appeared to be systematic in nature.

Identified as a Repeat Finding, If Applicable: Finding 2017-004 - Procurement

Recommendation: We recommend that all procurement records for purchases in excess of the purchase threshold include the following, at a minimum: (a) basis for contractor/goods selection or (b) justification for lack of competition when competitive bids or offers are not obtained. Additionally, the conclusion should be clearly documented and accompanying the procurement documentation.

Views of Responsible Officials and Planned Corrective Actions: Management will require all departments to document all procurements for goods and services with written cost and price analysis based on the Association's dollar thresholds.

Responsible Officials: Dr. Beth Cunningham, EO and Michael Brosnan, CFO

Anticipated Completion Date: September 30, 2019

Finding 2018-004: Subrecipient Monitoring

Federal Programs: Research and Development Cluster: Stem +C

Criteria: As stated in 2 CFR 200.331 part (b), all pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures to prescribe to each individual subrecipient.

Condition: During our audit work over subrecipient expenditures, we were unable to verify that pre-award risk assessment procedures were performed. It is our understanding that the Association has ongoing relationships with these subrecipients and evaluation of these subrecipients' risk is a continual process; however, these procedures were not documented.

Cause: The Association's internal policies and procedures governing risk assessment on subrecipient was not performed.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a)) (Continued)

Finding 2018-004: Subrecipient Monitoring (continued)

Effect: The Association could inadvertently engage in relationships with subrecipients of higher risk without the appropriate level of oversight to ensure subrecipients are expending funds in accordance with the provisions and terms of the subaward.

Questioned Costs: None noted.

Context: Our audit procedures consisted of substantive testwork over a sample of subrecipient expenditures that were selected based on a threshold. We consider our sample to be representative of the population. The samples were made using statistical sampling and we believe the condition appeared to be systematic in nature.

Identified as a Repeat Finding, If Applicable: Finding 2017-005 – Subrecipient Monitoring

Recommendation: We recommend the Association follow their internal policies and procedures surrounding subrecipients and document the risk assessment criteria for the purpose of determining the expected level of oversight during the period of performance.

This evaluation should include a scaling system, such as high, medium or low risk (for example), and the monitoring tools and procedures to be performed at each of these levels (additional training, on-site reviews, types of and frequency of reporting, etc.).

Views of Responsible Officials and Planned Corrective Actions: Management will continue to perform risk assessments procedures and will thoroughly document the processes and evaluations.

Responsible Officials: Michael Brosnan, CFO

Anticipated Completion Date: October 18, 2019



CPAs & ADVISORS

**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**

Independent Auditor's Report

To the Board of Directors
American Association of Physics Teachers, Inc.
College Park, Maryland

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 American Association of Physics Teachers, Inc. (the Association) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated September 20, 2019.

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 as a basis for designing our auditing 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 the 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 Association'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-001 and 2018-002 that we consider to be significant deficiencies.

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2018-001 and 2018-002.

The Association's Responses to the Findings

The Association's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Association's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 result 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 cursive script that reads "Gelman Rosenberg & Freedman".

September 20, 2019



CPAs & ADVISORS

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL
REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST
PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)**

Independent Auditor's Report

To the Board of Directors
American Association of Physics Teachers, Inc.
College Park, Maryland

Report on Compliance for Each Major Federal Program

We have audited the American Association of Physics Teachers, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2018. The Association's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs 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 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 each 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 Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs during the year ended December 31, 2018.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-002, 2018-003 and 2018-004. Our opinion on each major federal program is not modified with respect to these matters.

The Association's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Association's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purposes 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-002, 2018-003 and 2018-004 that we consider to be significant deficiencies.

The Association's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Association's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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.

Gelman Rosenberg & Freedman

September 20, 2019