American Association of Physics Teachers, Inc.

Audit Report

Financial and Federal Award Compliance Examination

For the Year Ended December 31, 2017

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

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GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Association of Physics Teachers, Inc.
Washington, D.C.

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, 2017, 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, 2017, 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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Report on Summarized Comparative Information

The prior year summarized comparative information has been derived from the Association's 2016 financial statements, which were audited by other auditors and, in their report dated September 22, 2017, they expressed an unmodified opinion on those statements.

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-(24 - 25), 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 5, 2018, 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.

Gelman Rosenberg & Freedman

September 5, 2018

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and equivalents	$ 1,694,145	$ 1,791,437
Investments	885,926	855,196
Accounts receivable, net of allowance for doubtful accounts of $47,585	90,443	153,953
Grants receivable	1,004,201	730,132
Inventory	76,462	9,713
Prepaid expenses	113,409	57,437
Total current assets	3,864,586	3,597,868
FIXED ASSETS		
Equipment	136,541	115,365
Capital lease	15,000	15,000
Software	116,815	106,736
	268,356	237,101
Less: Accumulated depreciation and amortization	(193,504)	(156,562)
Net fixed assets	74,852	80,539
OTHER ASSETS		
Investments, net of current portion	5,672,087	4,930,280
Investment in ACP	976,738	1,018,479
Total other assets	6,648,825	5,948,759
TOTAL ASSETS	**$ 10,588,263**	**$ 9,627,166**

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Capital lease obligation, current portion	$ 3,478	$ 3,191
Accounts payable and accrued liabilities	264,481	318,769
Accrued payroll and related liabilities	153,262	134,492
Unearned revenue	2,356,054	2,133,870
Refundable advance	112,908	-
Total current liabilities	2,890,183	2,590,322
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	575	4,053
Accrued postretirement benefit obligation	359,919	347,725
Total long-term liabilities	360,494	351,778
Total liabilities	3,250,677	2,942,100
NET ASSETS		
Unrestricted:		
Undesignated	4,778,236	4,400,831
Board-designated	1,336,265	1,210,400
Total unrestricted	6,114,501	5,611,231
Temporarily restricted	734,850	585,600
Permanently restricted	488,235	488,235
Total net assets	7,337,586	6,685,066
TOTAL LIABILITIES AND NET ASSETS	**$ 10,588,263**	**$ 9,627,166**

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
American Journal of Physics	$ 1,618,644	$ -	$ -	$ 1,618,644	$ 1,656,290
The Physics Teacher	963,679	-	-	963,679	946,405
Membership	821,605	-	-	821,605	860,467
Meetings, workshops and projects	727,739	-	-	727,739	925,982
Grants	1,430,310	-	-	1,430,310	763,271
Investment income	620,873	184,662	-	805,535	448,204
Other publications	56,586	-	-	56,586	157,984
International Physics Olympiad	138,705	-	-	138,705	130,107
Loss (Earnings) on investment in ACP	(41,723)	-	-	(41,723)	495,283
Contributions	60,292	298	-	60,590	55,635
Miscellaneous income	4,793	-	-	4,793	9,570
Net assets released from donor restrictions	35,710	(35,710)	-	-	-
Total revenue and support	6,437,213	149,250	-	6,586,463	6,449,198
EXPENSES					
Program Services:					
American Journal of Physics	591,133	-	-	591,133	640,538
The Physics Teacher	766,149	-	-	766,149	755,689
Membership	695,376	-	-	695,376	934,991
Meetings, workshops and projects	1,180,310	-	-	1,180,310	1,281,455
Grants	1,430,302	-	-	1,430,302	807,443
Other publications	750,895	-	-	750,895	439,766
Total program services	5,414,165	-	-	5,414,165	4,859,882
Supporting Services:					
General and administrative	490,952	-	-	490,952	335,421
Fundraising	595	-	-	595	1,013
Total supporting services	491,547	-	-	491,547	336,434
Total expenses	5,905,712	-	-	5,905,712	5,196,316
Change in net assets before other item	531,501	149,250	-	680,751	1,252,882
OTHER ITEM					
Change in post-retirement plan obligation	(28,231)	-	-	(28,231)	(26,516)
Change in net assets	503,270	149,250	-	652,520	1,226,366
Net assets at beginning of year	5,611,231	585,600	488,235	6,685,066	5,458,700
NET ASSETS AT END OF YEAR	$ 6,114,501	$ 734,850	$ 488,235	$ 7,337,586	$ 6,685,066

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017				
	Program Services				
	American Journal of Physics	**The Physics Teacher**	**Membership**	**Meetings, Workshops, and Projects**	**Grants**
Compensation	$ 1,843	$ 272,737	$ 268,085	$ 371,376	$ 242,890
Editorial office	171,377	-	-	-	-
Travel	3,722	6,612	36,590	66,865	83,123
Publications	79,887	80,013	-	4,928	49
Rent	-	-	-	-	-
Participant support	-	-	-	-	340,501
Online journals	79,573	66,303	-	-	-
Consultants, contracts and temporary	-	-	-	11,270	499,853
Other	2,951	4,078	4,812	13,278	2,778
Conferences, meetings and workshops	-	475	31,847	80,511	11,049
Computer supplies and maintenance	-	2,500	100	13,278	2,402
Postage, packing and shipping	25,985	27,160	6,106	17,773	664
Audio Visual	-	-	7,322	75,546	1,543
Dues and memberships	-	-	64,880	730	-
Exhibit and meeting expenses	-	-	16,789	53,909	-
Photocopying and printing	556	661	4,370	15,837	1,345
Professional fees	-	-	-	-	20,500
Honoraria	6,000	13,750	-	5,600	-
Bank fees	-	-	-	-	-
Subrecipient expenses	-	-	-	-	51,679
Awards	-	-	-	3,712	-
Office services	-	-	-	-	-
Advertising	491	6,521	6,193	-	7,402
Materials and supplies	779	2,836	4,318	9,054	3,659
Investment expenses	-	-	193	-	-
Depreciation and amortization	-	-	-	-	-
Insurance	-	-	-	2,946	-
Total expense per statement of activities	373,164	483,646	451,605	746,613	1,269,437
Allocation of administrative expenses	217,969	282,503	243,771	433,697	160,865
TOTAL	**$ 591,133**	**$ 766,149**	**$ 695,376**	**$ 1,180,310**	**$ 1,430,302**

See accompanying notes to financial statements.

		Supporting Services				2016
Other Publications	**Total Program Services**	**General and Administrative**	**Fundraising**	**Total Supporting Services**	**Total Expenses**	**Total Expenses**
$ 340,721	$ 1,497,652	$ 1,223,907	$ 176	$ 1,224,083	$ 2,721,735	$ 2,472,321
-	171,377	-	-	-	171,377	193,308
41,285	238,197	106,803	-	106,803	345,000	328,802
32,757	197,634	-	-	-	197,634	181,235
-	-	229,069	-	229,069	229,069	206,788
2,400	342,901	-	-	-	342,901	230,369
1,015	146,891	-	-	-	146,891	146,817
-	511,123	24,231	-	24,231	535,354	219,802
2,576	30,473	80,183	-	80,183	110,656	164,777
3,256	127,138	22,790	-	22,790	149,928	219,661
2,816	21,096	85,837	-	85,837	106,933	118,858
1,172	78,860	1,494	200	1,694	80,554	85,927
6,725	91,136	10,021	-	10,021	101,157	77,174
-	65,610	2,889	-	2,889	68,499	78,452
-	70,698	-	-	-	70,698	6,432
193	22,962	7,002	-	7,002	29,964	34,279
-	20,500	59,373	-	59,373	79,873	74,077
41,635	66,985	-	-	-	66,985	95,831
-	-	54,500	-	54,500	54,500	46,797
-	51,679	-	-	-	51,679	-
41,125	44,837	-	-	-	44,837	32,563
-	-	33,967	-	33,967	33,967	37,417
-	20,607	-	-	-	20,607	18,437
31,180	51,826	2,801	-	2,801	54,627	51,609
33,293	33,486	-	-	-	33,486	30,416
-	-	36,942	-	36,942	36,942	41,926
-	2,946	16,913	-	16,913	19,859	2,241
582,149	3,906,614	1,998,722	376	1,999,098	5,905,712	5,196,316
168,746	1,507,551	(1,507,770)	219	(1,507,551)	-	-
$ 750,895	**$ 5,414,165**	**$ 490,952**	**$ 595**	**$ 491,547**	**$ 5,905,712**	**$ 5,196,316**

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 652,520	$ 1,226,366
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	36,942	27,238
Net appreciation on investments	(687,244)	(342,434)
Loss (earnings) on investment in ACP	41,741	(495,283)
Change in allowance for doubtful accounts	47,585	-
Decrease (increase) in:		
Accounts receivable	15,925	(138,984)
Grants receivable	(274,069)	-
Inventory	(66,749)	97,834
Prepaid expenses	(55,972)	15,933
(Increase) decrease in:		
Accounts payable and accrued liabilities	(54,288)	(166,350)
Accrued payroll and related liabilities	18,770	5,667
Unearned revenue	222,184	(462,052)
Refundable advance	112,908	-
Accrued postretirement benefit obligation	12,194	916
Net cash provided (used) by operating activities	22,447	(231,149)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(31,255)	(48,995)
Purchases of investments	(4,096,203)	(106,277)
Proceeds from sales of investments	4,010,910	30,412
Net cash used by investing activities	(116,548)	(124,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(3,191)	(3,246)
Net cash used by financing activities	(3,191)	(3,246)
Net decrease in cash and cash equivalents	(97,292)	(359,255)
Cash and cash equivalents at beginning of year	1,791,437	2,150,692
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,694,145**	**$ 1,791,437**
SUPPLEMENTAL INFORMATION:		
Interest Paid	**$ 325**	**$ 510**

See accompanying notes to financial statements.

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) ASC 958, *Not-for-Profit Entities*.

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, 2016, 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 $491,462 as of December 31, 2017.

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 are included in investment income 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, 2017.

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. As of December 31, 2017, the allowance for doubtful accounts totaled $47,585.

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

Inventory -

Inventory consists primarily of publications and periodicals held for resale. During the year ended December 31, 2017, the Association adopted FASB ASU 2015-11, *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost and net realizable value. The ASU is applied prospectively.

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 are 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, 2017 totaled $36,942.

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. As such, it is exempt from federal income taxes on all but unrelated business income. Under the current Internal Revenue Service regulations, advertising and other non-exempt revenue earned is subject to unrelated business income tax.

For the year ended December 31, 2017, the Association had no net unrelated business income. The Association is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2017, 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.

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

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include revenue received without donor-imposed restrictions. These net assets are available for the operations of the Association, and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue subject to donor-imposed stipulations that will be met by the actions of the Association and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions.

- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in perpetuity by the Association. There are restrictions placed on the use of investment earnings from these endowment funds.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support 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 temporarily restricted net assets 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 unrestricted income 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.

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, 2017, advertising expense totaled $20,607.

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.

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. These reclassifications had no effect on the previously reported changes in net assets.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities.

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

New accounting pronouncements (not yet adopted) (continued) -

The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Association's financial statements, it is not expected to alter the Association's reported financial position.

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 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.

2. INVESTMENTS

Investments consisted of the following as of December 31, 2017:

	Fair Value
Corporate bonds	$ 272,085
Money market funds	491,462
Mutual funds	5,302,580
Mortgage-backed securities	108,487
U.S Treasury notes	383,399
TOTAL INVESTMENTS	**$ 6,558,013**

2. INVESTMENTS (Continued)

Included in investment income are the following:

Interest and dividends	$ 118,291
Net appreciation of investments	687,244
TOTAL INVESTMENT INCOME	**$ 805,535**

3. AMERICAN CENTER FOR PHYSICS INC.

The Associate, 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 $976,738 as of December 31, 2017.

Financial information, in summary, related to the investment in ACP is as follows (in thousands) as of December 31, 2017:

TOTAL ASSETS	**$ 15,519**
Total liabilities	$ 520
Total net assets	14,999
TOTAL LIABILITIES AND NET ASSETS	**$ 15,519**
Total revenue	$ 2,614
Total expenses	3,206
CHANGE IN NET ASSETS	**$ (592)**

In October 1993, the Association entered into a long-term operating lease agreement with ACP. The lease will end on November 1, 2018. 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 $293,256 during the year ended December 31, 2017.

4. CAPITAL LEASE OBLIGATION

In 2014, the Association entered into a capital lease obligation for a copier, which will expire in 2019. As of December 31, 2017, the cost and related accumulated amortization of the leased asset were $15,000 and $10,947, respectively. Amortization of assets held under capital leases is reflected in depreciation expense. Future minimum lease payments as of December 31, 2017 are as follows:

Year Ending December 31,	
2018	$ 3,700
2019	579
	4,279
Less: Imputed interest	(226)
Less: Current portion	(3,478)
NON-CURRENT PORTION	**$ 575**

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31, 2017:

Accumulated earnings from endowment funds not yet authorized for spending:	
Lotze	$ 225,405
Bauder	366,420
Fuller	43,143
Yamani	38,910
Lipton	49,153
TPT Publications Fund	11,819
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 734,850**

The following temporarily restricted net assets 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	$ 14,336
Bauder	15,785
Fuller	5,589
NET ASSETS RELEASED FROM RESTRICTIONS	**$ 35,710**

6. 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.

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, 2017 are presented below:

Change in Benefit Obligation:	
Benefit obligation at beginning of year	$ 347,725
Actuarial loss	3,683
Interest cost	13,139
Service cost	11,392
Benefit paid	(16,020)
BENEFIT OBLIGATION AT END OF YEAR	**$ 359,919**

Information regarding the status of the postretirement health care plan as of December 31, 2017 is presented below:

Change in Plan Assets:	
Employer contributions	$ 16,020
Participant contributions	2,524
Benefit paid	(18,544)
FAIR VALUE OF PLAN ASSETS AT END OF YEAR	**$ -**

The following table presents the funded status at December 31, 2017:

Projected benefit obligation	$ (359,919)
FUNDED STATUS	**$ (359,919)**
ACTUARIAL PRESENT VALUE OF BENEFIT OBLIGATIONS:	
Accumulated Benefit Obligations	**$ 359,919**

6. EMPLOYEE BENEFIT PLANS (Continued)

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	$ 11,392
Interest cost	13,139
Amortization of net loss	(11,272)
	13,259
Other costs	14,972
AMOUNT RECOGNIZED AS OTHER INCOME IN UNRESTRICTED NET ASSETS	**$ 28,231**

Other changes in the net postretirement benefit obligation not included in net periodic benefit cost above were $14,972 in 2017.

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

Net loss	$ (2,052)
Prior service cost	12,267
	$ 10,215

Weighted-average assumptions as of December 31, 2017:

Discount rate for year	4.00%
Discount rate at the end year	3.55%

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, 2017.

The expected benefit payments below are based on the same assumptions used to determine the Projected Benefit Obligation as of December 31, 2017, and includes benefits attributable to estimated future employee service.

Year Ending December 31,	
2018	$ 17,702
2019	20,744
2020	23,880
2021	22,526
2022	24,790
2022 - 2026	156,152
	$ 265,794

6. EMPLOYEE BENEFIT PLANS (Continued)

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, 2017 totaled $168,174, and are included in compensation in the accompanying Statement of Functional Expenses.

7. 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)*. 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 2017. 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.

8. COMMITMENTS

The Association has negotiated employment agreements with certain employees. The agreements expire at various dates through December 31, 2018. 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.

9. 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, 2017, the amount paid to AIP totaled $638,983. At December 31, 2017, $106,899 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, 2017, $12,698 was included in accounts receivable for these services.

The Association also received approximately $40,000 for the year ended December 31, 2017, from AIP to support the International Physics Olympiad.

9. RELATED PARTY (Continued)

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, 2017, totaled $4,714. The amount due from APS at December 31, 2017 was $4,714.

10. 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.

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, 2017.

- *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.

10. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Association's investments as of December 31, 2017:

	Level 1	Level 2	Level 3	Total December 31, 2017
Asset Class:				
Corporate bonds	$ -	$ 272,085	$ -	$ 272,085
Money market funds	491,462	-	-	491,462
Mutual funds	5,302,580	-	-	5,302,580
Mortgage-backed securities	-	108,487	-	108,487
U.S. Treasury notes	-	383,399	-	383,399
TOTAL	**$ 5,794,042**	**$ 763,971**	**$ -**	**$ 6,558,013**

11. ENDOWMENT

The Association's endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors 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 has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Association to appropriate for expenditures or accumulate so much of an endowment fund as the Association determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors.

As a result of this interpretation, the Association has not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classification. The remaining portion of the donor-restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure 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 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.

11. ENDOWMENT (Continued)

As of December 31, 2017 permanently restricted 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	10,000
PERMANENTLY RESTRICTED NET ASSETS	**$ 488,235**

Endowment net asset composition by type of fund as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ -	$ 734,850	$ 488,235	$ 1,223,085
Board-Designated Endowment Funds	1,336,265	-	-	1,336,265
TOTAL FUNDS	**$ 1,336,265**	**$ 734,850**	**$ 488,235**	**$ 2,559,350**

Changes in endowment net assets during the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,210,400	$ 585,600	$ 488,235	$ 2,284,235
Investment return:				
Interest and dividends	24,918	23,078	-	47,996
Net appreciation of investments	267,063	161,584	-	428,647
Total investment return	291,981	184,662	-	476,643
Contributions	8,963	298	-	9,261
Appropriation of endowment assets for expenditure	(156,715)	(35,710)	-	(192,425)
Other changes:				
Closed accounts	(18,364)	-	-	(18,364)
ENDOWMENT NET ASSETS, END OF YEAR	**$ 1,336,265**	**$ 734,850**	**$ 488,235**	**$ 2,559,350**

11. ENDOWMENT (Continued)

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, 2017.

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.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 5, 2018, 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, 2017

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					
Improving Beyond First Year Physics Laboratory Instruction	47.076	-	-	$ -	$ 199,129
New Faculty TYC Experience	47.076	-	-	-	59,221
Wider - Data Explorer and Assessment Resources for Faculty	47.076	-	-	-	1,659
The 4th International Conference on Women in Physics	47.076	-	-	-	12,690
Computational Physics Survey	47.076	-	-	-	5,640
Collaborative Project Workshop	47.076	-	-	-	220,801
Joint Task Force JTUBB	47.076	-	-	-	9,103
Computational Physics Faculty Development	47.076	-	-	-	41,347
Mutual Mentoring to Reduce Isolation in Physics - ADVANCE	47.076	-	-	-	37,972
Computational Physics Local Fostering Integration	47.076	-	-	-	31,329
IPLS Portal	47.076	-	-	-	473,938
Stem +C	47.076	-	-	51,679	266,807
Mobilizing Women In Physics	47.076	-	-	-	10,105
Diversify US Physics Com ICWIP	47.076	-	-	-	24,760
Physport's Impact on Teaching	47.076	-	-	-	8,351
Subtotal 47.076				51,679	1,402,852
Physics Teacher Education Coalition	47.049	American Physical Society	PHY-0808790	-	4,714
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-AAPT-01	-	22,744
Total Research and Development - Cluster				51,679	1,430,310
TOTAL EXPENDITURES OF FEDERAL AWARDS				**$ 51,679**	**$ 1,430,310**

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017. 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, 2017

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** [x] **No**
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)? [x] **Yes** [ ] **None Reported**

3). Noncompliance material to financial statements noted? [ ] **Yes** [x] **No**

Federal Awards

4). Internal control over major federal programs:

- Material weakness(es) identified? [ ] **Yes** [x] **No**
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)? [x] **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)? [x] **Yes** [ ] **No**

7). Identification of major federal programs:

Federal Program Title	CFDA Number
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** [x] **No**

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Section II - Financial Statement Findings

Finding 2017-001: 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. In addition, we noted several schedules were not properly prepared and reconciled at the commencement of audit fieldwork.

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: This is not a repeat finding.

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: Management will review the accounting and reporting process to determine if additional segregation of duties within the accounting department is possible. Due to the size of the department, complete separation of duties continues to be a challenge.

Responsible Officials: Dr. Cunningham, Executive Officer, and Michael Brosnan, Chief Financial Officer

Anticipated Completion Date: October 30, 2018

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

Finding 2017-002: Cash Management

Federal Programs: Research and Development Cluster: New Faculty TYC Experience, Wider-Data Employer and Assessment Resources for Faculty, Joint Task Force JTUBB

Criteria: As stated in 2 CFR Part 200, §200.305(b), non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance of redemption of checks, warrants, or payment by other means.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

Finding 2017-002: Cash Management (Continued)

Condition: We noted the Association drew down funds in excess of the total donor obligated amount on three Federal awards by approximately $113,000. This resulted in a refundable advance on the Statement of Financial Position.

Cause: The Association had received excess funds on three awards due to human error and the lack of a review and approval process with respect to managing the U.S. Government funds.

Effect: The auditee owes these funds back to the donor due to excessive draw down of cash.

Questioned Costs: None noted.

Context: Federal funds were drawn down in excess of actual, immediate cash requirements of the non-Federal entity. We tested each major program substantively and the condition appeared to be systematic in nature.

Identified as a Repeat Finding, If Applicable: This is not a repeat finding.

Recommendation: We recommend the Association review their current cash management policies and procedures to ensure compliance with cash management requirements under Uniform Guidance. The policies should include a review and approval process before any funds are drawn to ensure appropriate amounts are received based on actual expenditures.

Views of Responsible Officials and Planned Corrective Actions: Management has designated a new grant to date report through FRX reporting tool. The reports will be current and produced from the Solomon accounting system. Monthly reconciliation of grant requests and receivables will be used to verify the grant drawdown request.

Responsible Officials: Michael Brosnan, Chief Financial Officer

Anticipated Completion Date: July 31, 2018

Finding 2017-003 Suspension and Debarment

Federal Programs: Research and Development Cluster: All grants

Criteria: In accordance with 2 CFR §180 Subpart E, recipients of U.S. Government funds must adhere to specific requirements on screening all potential vendors, employees, suppliers and sub-recipients to ensure the organization is not conducting business with excluded parties (as defined by the U.S. Government); further, such screening should be documented in writing.

Condition: The Association did not perform the screening process for payments made with Federal funds.

Cause: The Association did not have policies and procedures in place to perform the screening process.

Effect: Failure to screen potential vendors, suppliers, employees or other non-contracted federal transactions against the suspended and debarred list increases the possibility that U.S. Federal funds may inadvertently be provided to individuals or organizations deemed to be excluded parties by the U.S. Government

Questioned Costs: None noted.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Finding 2017-003 Suspension and Debarment (Continued)

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

Identification as a Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the Association adopt policies and procedures to ensure compliance with suspension and debarment rules as mandated by U.S. Government regulations. In addition, we recommend that the procedures performed, as well as the results of such procedures, should be clearly documented in writing and be included in all procurement files.

Views of Responsible Officials and Planned Corrective Actions: Management will adopt policies and procedures to ensure compliance with suspension and debarment rules. Management will document the screening of vendors, employees, suppliers and subrecipients for each federal award.

Responsible Officials: Michael Brosnan, Chief Financial Officer

Anticipated Completion Date: August 31, 2018

Finding 2017-004: 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.

Condition: The Association did not document the procurement process in regards to federal purchases as required by 2 CFR 200.317-326 through the year. Payments were made throughout the year to vendors and consultants by the Association without performing a competitive bid analysis of reasonable costs.

Cause: The financial manual did not have documented policies or procedures with respect to procurement to be in compliance with Federal requirements.

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: This is not a repeat finding.

Recommendation: We recommend the Association adopt policies and procedures to ensure compliance with procurement standards under Uniform Guidance. The polices should be well documented and all staff should be trained to ensure compliance.

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

Finding 2017-004: Procurement (Continued)

Views of Responsible Officials and Planned Corrective Actions: Management will update the accounting and grant policies and procedures manual to be in compliance with 2 CFR 200.317-236. Management will document all procurements for goods and services with cost and price analysis based on the Association's dollar thresholds.

Responsible Officials: Michael Brosnan, Chief Financial Officer

Anticipated Completion Date: September 30, 2018

Finding 2017-005: 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. Lastly, we noted that these requirements were not incorporated into the Association's current policies and procedures.

Cause: The financial policies and procedures manual does not have risk assessment procedures over subrecipients.

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.

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.

Questioned Costs: None noted.

Identified as a Repeat Finding, If Applicable: This is not a repeat finding.

Recommendation: We recommend the Association update its policies and procedures surrounding subrecipients to establish criteria to be used in the evaluation of the risk of noncompliance associated with the intended subrecipient 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.).

AMERICAN ASSOCIATION OF PHYSICS TEACHERS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

Finding 2017-005: Subrecipient Monitoring (Continued)

Views of Responsible Officials and Planned Corrective Actions: Management will update the policies and procedures to comply with 2 CFR 200.331 part (b). Management will document all procedures related to pre-award, and include a scaling system for monitoring subrecipients' activities on a continual basis.

Responsible Officials: Michael Brosnan, Chief Financial Officer

Anticipated Completion Date: September 30, 2018

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, 2017, 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 5, 2018.

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 2017-001 that we consider to be a significant deficiency.

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 2017-001.

The Association's Response to the Finding

The Association's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Gelman Rozenberg & Freedman

September 5, 2018

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, 2017. 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, 2017.

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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 2017-002, 2017-003, 2017-004 and 2017-005. 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 2017-002, 2017-003, 2017-004 and 2017-005 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 Rozenberg & Freedman

September 5, 2018