

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

FINANCIAL STATEMENTS

DECEMBER 31, 2018



**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## **REPORT OF INDEPENDENT AUDITORS**

To the Council of  
American Association of University Professors

We have audited the accompanying financial statements of the American Association of University Professors (AAUP), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 auditors consider 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 AAUP's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Association of University Professors as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CaliberCPAGroup, PLLC*

Bethesda, MD  
May 23, 2019

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2018 AND 2017

	2018	2017
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash	\$ 1,399,706	\$ 2,034,432
Investments	4,039,929	3,009,553
Account receivable, net	410,306	372,016
Prepaid expenses and deposits	9,951	15,483
Due from AAUP Foundation	207,327	65,106
Property, equipment, and improvements - net	42,246	83,679
Total assets	\$ 6,109,465	\$ 5,580,269
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 389,320	\$ 354,064
Due to AAUP-Collective Bargaining Congress	1,184,389	1,119,654
Deferred membership revenue	450,019	390,121
Deferred rent	131,018	171,656
Postretirement benefit obligation	2,262,822	2,331,466
Total liabilities	4,417,568	4,366,961
NET ASSETS - WITHOUT DONOR RESTRICTIONS	1,691,897	1,213,308
Total liabilities and net assets	\$ 6,109,465	\$ 5,580,269

See accompanying notes to financial statements.

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<b>REVENUE</b>		
Membership dues	\$ 2,686,281	\$ 2,615,328
Net investment income	30,376	9,552
Publications	294,722	266,249
Meeting registration and fees	30,178	32,605
Grants	266,229	146,804
Miscellaneous income	39,807	41,510
Total revenue	3,347,593	3,112,048
<b>EXPENSES</b>		
Program services		
Policy and legal advocacy	269,715	215,816
Member services	561,624	547,365
Communications	535,702	448,062
Research	75,678	61,000
Education	10,496	2,744
Conferences	13,128	10,445
Government relations	287	6,430
Total program services	1,466,630	1,291,862
Supporting services		
Leadership	479,098	336,304
General and administrative	977,269	1,131,436
Total supporting services	1,456,367	1,467,740
Total expenses	2,922,997	2,759,602
<b>EXCESS OF REVENUE OVER EXPENSES</b>	424,596	352,446
<b>POSTRETIREMENT-RELATED CHANGES OTHER THAN PERIODIC POSTRETIREMENT BENEFIT COST</b>	53,993	(20,190)
<b>CHANGE IN NET ASSETS</b>	478,589	332,256
<b>NET ASSETS - WITHOUT DONOR RESTRICTIONS</b>		
Beginning of year	1,213,308	881,052
End of year	\$ 1,691,897	\$ 1,213,308

See accompanying notes to financial statements.

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2018

	Policy and Legal Advocacy	Member Services	Program Services						Supporting Services			Total
			Communications	Research	Education	Conferences	Government Relations	Leadership	General and Administrative			
Salaries and fringe benefits	\$ 239,865	\$ 320,060	\$ 384,617	\$ 57,273	\$ 8,123	\$ 7,743	\$ 287	\$ 230,330	\$ 323,356	\$ 1,571,654		
Contracted services	1,724	16,568	38,426	3,453	-	-	-	118,366	200,622	379,159		
Meetings and travel	26,832	8,842	1,914	554	2,253	4,856	-	128,770	11,980	186,001		
Facilities	-	426	2,797	147	-	135	-	-	137,396	140,901		
Grants	-	158,977	-	-	-	-	-	-	220,428	379,405		
Insurance and business fees	-	10,437	150	11,735	-	-	-	-	34,664	56,986		
Office expenses	944	25,045	107,565	2,155	120	394	-	956	44,706	181,885		
Joint organizing costs	-	20,764	-	-	-	-	-	-	-	20,764		
Other expenses	350	505	233	361	-	-	-	676	4,117	6,242		
	<u>\$ 269,715</u>	<u>\$ 561,624</u>	<u>\$ 535,702</u>	<u>\$ 75,678</u>	<u>\$ 10,496</u>	<u>\$ 13,128</u>	<u>\$ 287</u>	<u>\$ 479,098</u>	<u>\$ 977,269</u>	<u>\$ 2,922,997</u>		

See accompanying notes to financial statements.

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	Program Services										Supporting Services			Total
	Policy and Legal Advocacy	Member Services	Communications	Research	Education	Conferences	Government Relations	Leadership	Administrative	General and				
Salaries and fringe benefits	\$ 193,740	\$ 298,454	\$ 311,041	\$ 55,860	\$ 2,741	\$ 7,229	\$ 4,855	\$ 180,366	\$ 453,595	\$ 1,507,881				
Contracted services	100	21,085	33,794	3,285	-	-	-	3,619	134,896	196,779				
Meetings and travel	21,379	9,665	539	595	-	2,804	1,559	149,426	10,390	196,357				
Facilities	-	106	3,100	-	-	238	-	50	133,187	136,681				
Grants	-	161,939	-	-	-	-	-	609	293,812	456,360				
Insurance and business fees	-	-	-	-	-	-	-	-	54,515	54,515				
Office expenses	557	9,426	97,205	982	3	174	16	1,802	47,691	157,856				
Joint organizing costs	-	19,499	-	-	-	-	-	-	-	19,499				
Recovery of bad debt expense	-	25,191	1,855	-	-	-	-	-	-	27,046				
Other expenses	40	2,000	528	278	-	-	-	432	3,350	6,628				
<b>Total</b>	<b>\$ 215,816</b>	<b>\$ 547,365</b>	<b>\$ 448,062</b>	<b>\$ 61,000</b>	<b>\$ 2,744</b>	<b>\$ 10,445</b>	<b>\$ 6,430</b>	<b>\$ 336,304</b>	<b>\$ 1,131,436</b>	<b>\$ 2,759,602</b>				



**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 478,589	\$ 332,256
Adjustments to reconcile change in net assets to cash provided by operating activities		
Change in allowance for doubtful accounts	(22,155)	6,985
Net investment losses	2,070	279
Depreciation and amortization	56,220	54,929
Change in assets and liabilities		
Accounts receivable	(16,135)	(54,651)
Prepaid expenses and deposits	5,532	19,359
Due From AAUP Foundation	(142,221)	293,505
Loan receivable	-	10,000
Accounts payable and accrued expenses	35,256	23,809
Due to AAUP-Collective Bargaining Congress	64,735	734,369
Deferred membership revenue	59,898	5,531
Deferred rent	(40,638)	(27,766)
Post-Retirement benefit obligation	(68,644)	125,841
Net cash provided by operating activities	412,507	1,524,446
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, equipment and improvements	(14,787)	(2,949)
Purchase of investments	(1,032,446)	(3,009,831)
Net cash used for investing activities	(1,047,233)	(3,012,780)
<b>NET CHANGE IN CASH</b>	(634,726)	(1,488,334)
<b>CASH</b>		
Beginning of year	2,034,432	3,522,766
End of year	\$ 1,399,706	\$ 2,034,432
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for taxes (refund received)	\$ (1,373)	\$ 9,364

See accompanying notes to financial statements.

# AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

### NOTE 1. ORGANIZATION

The American Association of University Professors (AAUP) is operated exclusively as a not-for-profit professional association generally exempt from Federal income tax under Internal Revenue Code (IRC) Section 501(c)(6). The purpose of the AAUP is to facilitate a more effective cooperation among teachers and research scholars in universities and colleges, and in professional schools of similar grade, for the promotion of the interests of higher education and research, and in general to increase the usefulness and advance the standards, ideals and welfare of the profession.

The predecessor American Association of University Professors was founded in 1915 and operated as a 501(c)(3) organization for the purpose of facilitating a more effective cooperation among teachers and research scholars in universities and colleges, and in professional schools of similar grade, for the promotion of the interests of higher education and research, and in general to increase the usefulness and advance the standards, ideals and welfare of the profession.

Effective January 1, 2013, the predecessor American Association of University Professors (the AAUP Predecessor 501(c)(3) Organization) restructured into three related not-for-profit organizations exempt from income tax under IRC Sections 501(c)(3), 501(c)(5) and 501(c)(6).

The entities include the following:

- American Association of University Professors, a 501(c)(6) professional association;
- American Association of University Professors - Collective Bargaining Congress (AAUP-CBC), a 501(c)(5) labor organization; and
- AAUP Foundation, a 501(c)(3) public charity.

The three entities work in a coordinated manner to continue the mission of the AAUP Predecessor 501(c)(3) Organization. All assets and liabilities of the AAUP Predecessor 501(c)(3) Organization were transferred to the AAUP Foundation effective January 1, 2013 in accordance with a private letter ruling from the Internal Revenue Service (IRS). The AAUP Foundation subsequently transferred some of its assets and liabilities to the AAUP to facilitate the effective operations of the three related entities.

Despite the separation into three entities, it is the intent of the entities to adhere to a shared commitment to academic freedom, shared governance in academic institutions, and related goals including collective bargaining and the building of advocacy chapters and state conferences. The three entities operate through independent boards and manage their operations through a coordinated system of dues collections and fundraising, and through the employment of staff members to aid in the implementation of programs and activities that reflect the entities' shared commitment. The American Association of University Professors (a 501(c)(6) professional

## **NOTE 1. ORGANIZATION (CONTINUED)**

association) serves as the paymaster for the three entities. The allocation of membership dues is discussed in Note 12. Expenses are allocated to the AAUP Foundation based on a percentage of non-direct expenses. Expenses are allocated to the AAUP-CBC based on membership base and a percentage of non-direct expenses. Other expenses are allocated in proportion to the benefit derived by each entity and in accordance with a Memorandum of Understanding (MOU) and Cost-sharing Agreement.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method of Accounting** - The accompanying financial statements are prepared using the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when incurred.

**Financial Statement Presentation** - Financial statement presentation follows the recommendations of U.S. generally accepted accounting principles in accordance with Financial Accounting Standards Board Accounting Standards Codification, *Not-for-Profit Entities - Presentation of Financial Statements*. Under those principles, the AAUP is required to report information regarding its financial position and activities according to two classes of net assets - net assets without donor restrictions and net assets with donor restrictions.

**Net Assets** - Net assets are reported in two distinct classes as follows:

*Net assets without donor restrictions* - These net assets are available to finance the general operations of the AAUP. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the AAUP, the environment in which it operates, and the purposes specified in its organizing documents.

*Net assets with donor restrictions* - These net assets result from contributions and other inflows of assets, the use of which by the AAUP is limited by donor-imposed time or purpose restrictions that are either temporary or permanent.

As of December 31, 2018 and 2017, the AAUP did not have any net assets with donor restrictions.

**Cash** - Demand deposits with financial institutions are classified as cash.

**Investments** - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments in certificates of deposit are recorded at fair market value based on interest rates on the last business day of the year. Investments in money market funds are valued at cost, which approximates fair value. Realized and unrealized gains and losses are included in net investment income on the statements of activities. Purchases and sales of investments are recorded on a trade date basis and dividend income is recognized as of the ex-dividend date. All other income from investments is recognized as earned on the accrual basis. Investment income is reported in the statement of activities net of all external and direct internal investment expenses.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Property, Equipment and Improvements** - Property, equipment and improvements are carried at cost, less accumulated depreciation and amortization. AAUP capitalizes all such assets with cost above \$1,000 and a useful service life greater than one year. Depreciation and amortization are computed on the straight-line basis over estimated useful lives of three to ten years.

**Accounts Receivable** - Accounts receivable is comprised of unpaid invoices for membership dues and other services provided. The allowance for doubtful accounts reflects management's best estimate of probable losses determined principally on the basis of historical experience and specific allowances for known troubled accounts.

**Revenue Recognition** - The AAUP recognizes membership dues and subscriptions to *Academe*, its professional journal, as revenue over the applicable membership or subscription period.

**Postretirement Benefits** - Postretirement benefit expense is recognized ratably over employee service periods.

**Functional Allocation of Expenses** - The costs of providing the various programs and supporting activities of the AAUP have been summarized on a functional basis in the statements of activities and functional expenses. Costs that can be specifically identified with a final cost objective are charged directly to that activity. Other costs are allocated among the program and supporting services benefited based on management's best estimates. Salaries and related fringe benefits are allocated based on employee time and effort.

**Use of Estimates** - In preparing financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management is required to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from the reported amounts.

**New Accounting Pronouncement Adopted** - During the year ended December 31, 2018, the AAUP adopted the provisions of Accounting Standards Update 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* (the Update). The Update amends the reporting model for not-for-profit organizations and enhances required disclosures. The major changes include: requiring the presentation of only two classes of net assets - those with donor restrictions and those without donor restrictions; requiring all not-for-profits to present an analysis of expenses by both function and nature in a single location, generally as a separate financial statement or by disclosure in the notes, and to provide additional information about the methods used to allocate costs across functional reporting categories; requiring disclosure of both quantitative and qualitative information about liquidity and the availability of financial resources; requiring the presentation of investment return net of all external and direct internal expenses.

Accordingly, certain amounts previously reported for the year ended December 31, 2017 were reclassified to conform to the 2018 presentation.

**NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES**

As part of the AAUP's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. Cash in excess of monthly requirements is invested in short-term investments, generally certificates of deposit with laddered maturities not exceeding 360 days. In the event of an unforeseen financial expenditure or other immediate liquidity need the AAUP also has access to a revolving line of credit in the amount of \$300,000.

The following table represents the AAUP's financial assets available to meet cash needs for general expenditures within one year of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Total assets at end of year	\$ 6,109,465	\$ 5,580,269
Less nonfinancial assets		
Prepaid expenses and deposits	(9,951)	(15,483)
Property, equipment, and improvements, net	<u>(42,246)</u>	<u>(83,679)</u>
Financial assets available to meet general expenditures coming due in the next year	<u>\$ 6,057,268</u>	<u>\$ 5,481,107</u>

**NOTE 4. UNINSURED CASH**

The AAUP maintains its cash in bank deposit accounts which at times may exceed the federally insured limits per bank. AAUP has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

**NOTE 5. ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Accounts receivable:		
Membership dues	\$ 369,736	\$ 325,135
Other	<u>80,275</u>	<u>108,741</u>
	450,011	433,876
Allowance for doubtful accounts	<u>(39,705)</u>	<u>(61,860)</u>
Accounts receivable, net	<u>\$ 410,306</u>	<u>\$ 372,016</u>

Membership dues are generally payable within one year. AAUP has assumed from the Predecessor 501(c)(3) Organization and entered into arrangements with certain chapters to accept payment over two to ten years for dues in arrears totaling \$340,695 at December 31, 2018. The dues in arrears is allocated between AAUP and AAUP-CBC under the same ratio as indicated in the MOU in Note 12.

**NOTE 5. ACCOUNTS RECEIVABLE (CONTINUED)**

Management believes that the allowance for doubtful accounts is adequate for all membership dues receivable, including those under an extended payment arrangement, as of December 31, 2018 and 2017.

**NOTE 6. PROPERTY, EQUIPMENT AND IMPROVEMENTS**

Property, equipment and improvements at December 31, 2018 consist of the following:

	2018		
	Furniture and Equipment	Leasehold Improvements	Total Fixed Assets
Furniture and/or fixtures	\$ 28,399	\$ 207,952	\$ 236,351
Equipment and software	634,769	-	634,769
	663,168	207,952	871,120
Accumulated depreciation/amortization	(622,606)	(206,268)	(828,874)
Fixed assets, net	<u>\$ 40,562</u>	<u>\$ 1,684</u>	<u>\$ 42,246</u>

Property, equipment, and improvements at December 31, 2017 consist of the following:

	2017		
	Furniture and Equipment	Leasehold Improvements	Total Fixed Assets
Furniture and/or fixtures	\$ 28,399	\$ 207,952	\$ 236,351
Equipment and software	619,982	-	619,982
	648,381	207,952	856,333
Accumulated depreciation/amortization	(566,933)	(205,721)	(772,654)
Fixed assets, net	<u>\$ 81,448</u>	<u>\$ 2,231</u>	<u>\$ 83,679</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 totaled \$56,220 and \$54,929, respectively.

**NOTE 7. DUE FROM AAUP FOUNDATION**

At December 31, 2018 and 2017, the AAUP Foundation owed the AAUP \$207,327 and \$65,106, respectively, originating from the following activities.

	<u>2018</u>	<u>2017</u>
<b>FUNDS TO BE PAID BY THE AAUP</b>		
Contributions	\$ 248,711	\$ 339,027
<b>FUNDS OWED BY THE AAUP FOUNDATION</b>		
Beginning balance	65,106	358,611
Staffing expenses	86,633	185,553
Operating expenses	144,700	138,320
Fundraising	10,767	11,586
Legal and auditing	14,400	13,465
Grants	<u>221,760</u>	<u>71,145</u>
Total funds owed by the AAUP Foundation	<u>543,366</u>	<u>778,680</u>
<b>NET FUNDS OWED BY THE AAUP FOUNDATION BEFORE PAYMENTS</b>	294,655	439,653
Payments received by the AAUP	<u>87,328</u>	<u>374,547</u>
Net funds owed by the AAUP Foundation after payments	<u>\$ 207,327</u>	<u>\$ 65,106</u>

In June 2016 the AAUP and AAUP Foundation executed an agreement whereby the AAUP agreed to fund a portion of the Foundation's unrestricted expenses for the fiscal years 2016 through 2018. The total amount funded by the AAUP to the AAUP Foundation for 2018 and 2017 was \$186,678 and \$261,442 respectively, which amounts are reflected as grant expenses. Also, in June 2016 the AAUP and the AAUP-CBC executed an agreement whereby the AAUP-CBC would provide a limited contribution amount to the AAUP to assist the AAUP with its support of the AAUP Foundation for the fiscal years 2017 and 2018. The total amount funded by the AAUP-CBC to the AAUP for 2018 and 2017 was \$43,789 and \$63,045, respectively, and is reflected as grants expenses. The combined total amount funded by the AAUP (and indirectly the AAUP-CBC) to the AAUP Foundation for the years ended December 31, 2018 and 2017 was \$230,467 and \$324,467, respectively.

During the years ended December 31, 2018 and 2017, the AAUP Foundation made grants (assets released from restrictions) to AAUP programs totaling \$265,451 and \$148,146, respectively. These grant amounts were included in the calculation to determine the net amount owed to the AAUP by the AAUP Foundation for fiscal years 2018 and 2017. For the fiscal year ended December 31, 2018, the net amount owed to the AAUP by the AAUP Foundation is \$207,327, which represents accrued grants that have yet to be paid to the AAUP by the AAUP Foundation.

**NOTE 8. DUE TO (FROM) AAUP-CBC**

As of December 31, 2018 and 2017, the AAUP owed the AAUP-CBC \$1,184,389 and \$1,119,654, respectively, originating from the following activities.

	<u>2018</u>	<u>2017</u>
FUNDS TO BE PAID BY THE AAUP		
Beginning balance	\$ 1,119,654	\$ 385,285
Dues revenue	4,561,591	4,869,102
Summer Institute registration fees	101,162	86,102
Annual meeting registration fees	50,063	65,750
Publications	101,302	79,886
Grants	33,750	26,843
Total funds to be paid by the AAUP	<u>5,967,522</u>	<u>5,512,968</u>
FUNDS OWED BY THE AAUP-CBC		
Operating expenses	1,748,410	2,018,821
Staffing expenses	1,269,724	1,183,244
Meeting and travel expenses	363,151	315,684
Other expenses	394,728	413,665
Total funds owed by the AAUP-CBC	<u>3,776,013</u>	<u>3,931,414</u>
NET FUNDS DUE FROM THE AAUP BEFORE PAYMENTS AND TRANSFERS	2,191,509	1,581,554
Payments made from the AAUP	(1,119,654)	(385,285)
Transfer of net accounts receivable to the AAUP-CBC	112,534	(76,615)
Net funds due to AAUP-CBC after payments and transfers	<u>\$ 1,184,389</u>	<u>\$ 1,119,654</u>

During the years ended December 31, 2018 and 2017, in accordance with the MOU, the AAUP transferred accounts receivable of \$718,995 and \$809,373 and its related allowance for doubtful accounts of \$163,162 and \$141,007, respectively, to the AAUP-CBC.

**NOTE 9. GRANTS TO AAUP-CBC**

The AAUP provided grants to the AAUP-CBC totaling \$33,750 and \$26,842 in support of the AAUP-CBC Summer Institute during the years ended December 31, 2018 and 2017, respectively.



**NOTE 10. RETIREMENT BENEFITS**

Eligible employees are covered by a 401(k) retirement plan which is funded through the purchase of individual annuity contracts from TIAA-CREF. All employees are eligible to participate at the date of employment.

AAUP automatically contributes 5% of employee compensation to the 401(k) retirement plan. Employees are not required to contribute to the plan to receive the automatic contribution. AAUP will also provide up to an additional 5% matching contribution for those employees that choose to make a contribution to the plan.

The total charges for retirement plan contributions totaled \$281,034 and \$291,368 for the years ended December 31, 2018 and 2017, respectively. All participants are fully vested in their annuities and custodial accounts. Upon retirement or termination of employment for any reason other than death, benefits will be paid to the participant in accordance with plan provisions. Upon death of a participant, benefits are paid to the designated beneficiary. Payment of benefits commence no later than April 1 following the calendar year in which a participant attains age 70½.

**NOTE 11. POSTRETIREMENT BENEFITS**

The AAUP assumed the postretirement benefit plan and related liability of the AAUP Predecessor 501(c)(3) Organization, along with other assets and liabilities, effective January 1, 2013. Retirees may become eligible for continued health benefits if they reach normal retirement age while working for the AAUP.

The accrued postretirement benefit obligation is determined with the assistance of the AAUP's consulting actuary. The accrued postretirement benefit obligation as of December 31, 2018 and 2017 is reported on the statements of financial position and is calculated as follows:

	<u>2018</u>	<u>2017</u>
Retirees	\$ 1,459,729	\$ 1,424,755
Actives fully eligible	313,322	460,789
Actives not yet fully eligible	489,771	445,922
	<u>\$ 2,262,822</u>	<u>\$ 2,331,466</u>

Detailed reconciliation of accumulated benefit obligation for 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Change in Accumulated Benefit Obligation		
Accumulated benefit obligation at beginning of year	\$ 2,331,466	\$ 2,205,625
Service cost	87,824	89,374
Interest cost	82,902	89,573
Gross benefits paid	(102,227)	(112,487)
Actuarial (gain) loss	(137,143)	59,381
Accumulated benefit obligation at end of year	<u>\$ 2,262,822</u>	<u>\$ 2,331,466</u>

**NOTE 11. POSTRETIREMENT BENEFITS (CONTINUED)**

Net periodic postretirement benefit expense for the years ended December 31, 2018 and 2017 includes the following components:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 87,824	\$ 89,374
Interest cost	<u>82,902</u>	<u>89,573</u>
Total postretirement benefit expense	<u>\$ 170,726</u>	<u>\$ 178,947</u>
Total premiums paid by employer	<u>\$ 102,227</u>	<u>\$ 112,487</u>

As there are no plan assets, the excess of postretirement benefit obligation over plan assets equals the value of the postretirement benefit obligation of \$2,262,822 and \$2,331,466 at December 31, 2018 and 2017, respectively. The effect of a 1% increase in the assumed health care cost trend rates would cause the postretirement benefit obligations at December 31, 2018 and 2017 to increase by \$335,976 and \$352,966, respectively. The projected premiums to be paid to the plan for the year ending December 31, 2019 are \$104,788.

Amounts that have not been recognized in the statements of activities as components of net periodic postretirement benefit cost as of December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Cumulative unrecognized net gain	<u>\$ (161,352)</u>	<u>\$ (24,209)</u>

The total of amounts not yet recognized as components of net periodic benefit costs for the year ended December 31, 2018 is a gain of \$137,143, of which \$53,993 is reflected on the statements of activities for the year ended December 31, 2018, and \$71,616 and \$11,534 are allocated to the AAUP-CBC and the AAUP Foundation, respectively. The total of amounts not yet recognized as components of net periodic benefit costs for the year ended December 31, 2017 is a loss of \$59,381, of which \$20,190 is reflected on the statement of activities for the year ended December 31, 2017, and \$35,629 and \$3,562 are allocated to the AAUP-CBC and the AAUP Foundation, respectively.

The weighted average discount rate used to determine net postretirement benefit costs were:

	<u>2018</u>	<u>2017</u>
Beginning of the year	3.50%	4.00%
End of the year	4.15%	3.50%

The assumed trend for 2018 and thereafter is a grading in the rate over 15 years until the ultimate rate of 4.15% is reached. The assumed health care cost trend rate used to measure the expected cost of benefits covered by the Plan was 7.45% and 7.76% for years ended December 31, 2018 and 2017, respectively.

**NOTE 11. POSTRETIREMENT BENEFITS (CONTINUED)**

The accumulated postretirement benefit obligation does not include amounts associated with the Medicare Part D benefit because AAUP is unable to determine whether the Plan's benefits are actuarially equivalent.

Total expected benefit payments for the next 10 years are as follows:

2019	\$ 104,788
2020	111,000
2021	117,000
2022	118,000
2023	118,000
2024-2028	635,000

**NOTE 12. MEMBERSHIP DUES**

Membership dues consist of the following for the years ended December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Membership dues from advocacy chapters	\$ 1,423,777	\$ 1,348,089
Share of joint dues with AAUP-CBC	<u>1,262,504</u>	<u>1,267,239</u>
	<u>\$ 2,686,281</u>	<u>\$ 2,615,328</u>

Consistent with the MOU executed by the three entities in November 2012 and effective January 1, 2013, annual dues earned by collective bargaining members of the AAUP will be shared between the AAUP-CBC and the AAUP. As of June 2016, an amended MOU was executed and the dues sharing percentage was revised for the amounts shared between the AAUP-CBC (74%) and the AAUP (26%) effective January 1, 2017.

**NOTE 13. INVESTMENTS**

The investments consist of the following investment classes as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash equivalents	\$ 533,278	\$ 1,776,832
Certificates of deposit	<u>3,506,651</u>	<u>1,232,721</u>
	<u>\$ 4,039,929</u>	<u>\$ 3,009,553</u>

GAAP provides guidance for using fair value to measure assets and liabilities. Fair value measurements apply whenever standards require (or permit) assets or liabilities to be measured at fair value. Fair value measurements include provisions that require expanded disclosure of the effect on earnings for items measured using unobservable data.

### NOTE 13. INVESTMENTS (CONTINUED)

Accounting standards provides the framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the AAUP has the ability to access.

Level 2 - Inputs to the valuation methodology include other significant observable inputs including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As of December 31, 2018 and 2017, assets measured at fair value on a recurring basis are summarized by level within the fair value hierarchy as follows:

	2018			
	Total Fair Value	Level 1	Level 2	Level 3
Cash equivalents	\$ 533,278	\$ -	\$ 533,278	\$ -
Certificates of deposit	3,506,651	-	3,506,651	-
	<u>\$ 4,039,929</u>	<u>\$ -</u>	<u>\$ 4,039,929</u>	<u>\$ -</u>
	2017			
	Total Fair Value	Level 1	Level 2	Level 3
Cash equivalents	1,776,832	\$ -	1,776,832	-
Certificates of deposit	1,232,721	-	1,232,721	-
	<u>\$ 3,009,553</u>	<u>\$ -</u>	<u>\$ 3,009,553</u>	<u>\$ -</u>

For the years ended December 31, 2018 and 2017, there have been no transfers in or out of Levels 1, 2 or 3.

**NOTE 13. INVESTMENTS (CONTINUED)**

Investment income consists of the following components for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 32,446	\$ 9,831
Net investment losses	<u>(2,070)</u>	<u>(279)</u>
Total investment income	<u>\$ 30,376</u>	<u>\$ 9,552</u>

**NOTE 14. RISKS AND UNCERTAINTIES**

The AAUP invests in various investment securities. Investment securities are exposed to various risks such as interest rate, 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 on the statement of financial position.

Financial instruments that subject the AAUP to concentrations of credit risk include cash and investments. While management of the AAUP attempts to limit any financial exposure by maintaining accounts at high quality financial institutions, cash and investment balances may, at times, exceed the federally insured limits. The AAUP has not experienced, nor do they expect to experience any losses on such accounts.

**NOTE 15. COMMITMENTS**

AAUP assumed the lease agreement entered into by the Predecessor 501(c)(3) Organization for office space, including electricity, which was extended until January 30, 2021, by amendment. This amendment provides for a reduction of 2,820 square feet of leased premises at the expiration of the original lease expiration, January 30, 2016. Annual base rent for year ended December 31, 2018 was approximately \$382,026. The lease amendment provides for a 3.5 percent annual escalation, with the abatement of rent for the first seven full calendar months of 2015. Total deferred rent as of December 31, 2018 and 2017 was \$131,018 and \$171,656, respectively.

Office rent expense totaled \$341,387 and \$341,387 for the years ended December 31, 2018 and 2017, respectively. The required future minimum lease payments for years 2019 through 2021 are as follows:

Year ending December 31,	
2019	\$ 395,464
2020	409,305
2021	<u>35,302</u>
Total	<u>\$ 840,071</u>

**NOTE 16. TAX STATUS**

AAUP is exempt from Federal income tax under IRC Section 501(c)(6), except for income taxes on its unrelated business income. AAUP will be liable for income taxes on income derived from advertising in *Academe*, its professional journal and commissions received from certain member benefit programs. AAUP's income tax (refund) expense for 2018 and 2017 was \$(1,373) and \$19,420, respectively.

AAUP adopted the authoritative guidance relating to accounting for uncertainty in income taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken in a tax return. AAUP performed an evaluation of uncertain tax positions for the years ended December 31, 2018 and 2017, and determined that there were no matters that would require recognition in the financial statements. As of December 31, 2018, the statute of limitations for tax years 2015 through 2017 remains open with the local jurisdiction which AAUP files returns. It is AAUP policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

**NOTE 17. LINE OF CREDIT**

AAUP has a revolving line of credit with Bank of America in the amount of \$300,000. The line of credit carried a floating interest rate equal to LIBOR Rate plus 3.01% and is secured by accounts receivable and equipment owned by the organization. The line of credit is due to expire in November 2019. There were no borrowings under this line of credit during the years ended December 31, 2018 and 2017.

**NOTE 18. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 23, 2019, which is the date the financial statements were available to be issued. The review and evaluation revealed no new material event or transaction which would require an adjustment to or disclosure in the accompanying financial statements.