

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

FINANCIAL STATEMENTS

DECEMBER 31, 2017

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017 AND 2016**

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## **REPORT OF INDEPENDENT AUDITORS**

To the Council  
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, 2017 and 2016, and the related statements of activities 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, 2017 and 2016, 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.

## **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 18 and 19 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.

*Calibre CPA Group, PLLC*

Bethesda, MD  
May 16, 2018

# AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
ASSETS		
Cash	\$ 2,034,432	\$ 3,522,766
Investments	3,009,553	-
Account receivable, net	372,016	324,350
Prepaid expenses and deposits	15,483	34,842
Due from AAUP Foundation	65,106	358,611
Loan receivable	-	10,000
Property, equipment, and improvements, net	<u>83,679</u>	<u>135,660</u>
Total assets	<u>\$ 5,580,269</u>	<u>\$ 4,386,229</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 354,064	\$ 330,255
Due to AAUP-Collective Bargaining Congress	1,119,654	385,285
Deferred membership revenue	390,121	384,590
Deferred rent	171,656	199,422
Postretirement benefit obligation	<u>2,331,466</u>	<u>2,205,625</u>
Total liabilities	4,366,961	3,505,177
NET ASSETS		
Unrestricted	<u>1,213,308</u>	<u>881,052</u>
Total liabilities and net assets	<u>\$ 5,580,269</u>	<u>\$ 4,386,229</u>

See accompanying notes to financial statements.

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>REVENUE</b>		
Membership dues	\$ 2,615,328	\$ 2,579,249
Net investment income	9,552	-
Publications	266,249	349,813
Meeting registration and fees	32,605	54,424
Grants	146,804	151,623
Miscellaneous income	41,510	49,451
Total revenue	3,112,048	3,184,560
<b>EXPENSES</b>		
Program services		
Policy and legal advocacy	215,816	220,337
Member services	547,365	320,753
Communications	448,062	495,497
Research	61,000	73,195
Education	2,744	5,392
Conferences	10,445	42,679
Government relations	6,430	6,881
Total program services	1,291,862	1,164,734
Supporting services		
Leadership	336,304	325,962
General and administrative	1,131,436	753,116
Total supporting services	1,467,740	1,079,078
Total expenses	2,759,602	2,243,812
<b>EXCESS OF REVENUE OVER EXPENSES</b>	352,446	940,748
<b>POSTRETIREMENT-RELATED CHANGES OTHER THAN PERIODIC POSTRETIREMENT BENEFIT COST</b>	(20,190)	(40,241)
<b>CHANGE IN NET ASSETS</b>	332,256	900,507
<b>NET ASSETS (DEFICIT)</b>		
Beginning of year	881,052	(19,455)
End of year	\$ 1,213,308	\$ 881,052

See accompanying notes to financial statements.

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 332,256	\$ 900,507
Adjustments to reconcile change in net assets to cash provided by operating activities		
Change in allowance for doubtful accounts	6,985	(22,811)
Net investment losses	279	-
Depreciation and amortization	54,929	41,819
Change in assets and liabilities		
Accounts receivable	(54,651)	17,176
Prepaid expenses and deposits	19,359	(2,394)
Due From AAUP Foundation	293,505	53,182
Loan receivable	10,000	-
Accounts payable and accrued expenses	23,809	33,008
Due to AAUP-Collective Bargaining Congress	734,369	(206,938)
Deferred membership revenue	5,531	(11,103)
Deferred rent	(27,766)	(15,299)
Post-Retirement benefit obligation	125,841	150,591
Security deposit	-	(10,000)
Net cash provided by operating activities	1,524,446	927,738
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, equipment and improvements	(2,949)	(105,864)
Purchase of investments	(3,009,831)	-
Net cash used for investing activities	(3,012,780)	(105,864)
<b>NET CHANGE IN CASH</b>	(1,488,334)	821,874
<b>CASH</b>		
Beginning of year	3,522,766	2,700,892
End of year	\$ 2,034,432	\$ 3,522,766
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for taxes	\$ 9,364	\$ 5,542

See accompanying notes to financial statements.

# AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

### 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 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 Internal Revenue Code 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. The AAUP Foundation subsequently transferred some of its assets and liabilities to the AAUP to facilitate the effective operations of the three related entities.



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

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 association) serves as the paymaster for the three entities. The allocation of membership dues is discussed in Note 11. 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.

**Financial Statement Presentation** - The financial statements have been presented in accordance with U.S. generally accepted accounting principles, which require AAUP to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Classification of net assets into these classes is based on the existence or absence of donor-imposed restrictions. For the years ended December 31, 2017 and 2016, all of AAUP's net assets are unrestricted. AAUP's expenses are also required to be classified on a functional basis, which is presented in the supplementary information accompanying the financial statements.

**Donor-Imposed Restrictions** - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted support which increases temporarily restricted net assets. When restrictions are fulfilled in the same time period as the contribution is received, the contribution is reported as temporarily restricted support and AAUP recognizes net assets released from restrictions. The AAUP received no contributions with donor-imposed restrictions during the years ended December 31, 2017 and 2016.

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

**Investments** - 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, dividend income is recognized as of the ex-dividend date. All other income from investments is recognized as earned on the accrual basis.

**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.

**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.

**NOTE 3. 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 4. ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivable:		
Membership dues	\$ 325,135	\$ 320,061
Other	<u>108,741</u>	<u>59,164</u>
	433,876	379,225
Allowance for doubtful accounts	<u>(61,860)</u>	<u>(54,875)</u>
Accounts receivable, net	<u>\$ 372,016</u>	<u>\$ 324,350</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 \$337,875 at December 31, 2017. The dues in arrears is allocated between AAUP and AAUP-CBC under the same ratio as indicated in the MOU in Note 11.

**NOTE 4. 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, 2017 and 2016.

**NOTE 5. PROPERTY, EQUIPMENT, AND IMPROVEMENTS**

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

	2017		
	Furniture & 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>

Property, equipment, and improvements at December 31, 2016 consist of the following:

	2016		
	Furniture & Equipment	Leasehold Improvements	Total Fixed Assets
Furniture and/or fixtures	\$ 28,399	\$ 207,952	\$ 236,351
Equipment and software	617,034	-	617,034
	645,433	207,952	853,385
Accumulated depreciation/amortization	(512,550)	(205,175)	(717,725)
Fixed assets, net	<u>\$ 132,883</u>	<u>\$ 2,777</u>	<u>\$ 135,660</u>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 totaled \$54,929 and \$41,819, respectively.

**NOTE 6. DUE FROM AAUP FOUNDATION**

At December 31, 2017 and 2016, the AAUP Foundation owed the AAUP \$65,106 and \$358,611, respectively, originating from the following activities.

	<u>2017</u>	<u>2016</u>
FUNDS TO BE PAID BY THE AAUP		
Contributions	\$ 339,027	\$ 81,280
FUNDS OWED BY THE AAUP FOUNDATION		
Beginning balance	358,611	411,793
Staffing expenses	185,553	110,500
Operating expenses	138,320	147,173
Fundraising	11,586	16,335
Legal and auditing	13,465	30,054
Grants	71,145	138,404
Other expenses	-	2,947
Total funds owed by the AAUP Foundation	<u>778,680</u>	<u>857,206</u>
NET FUNDS OWED BY THE AAUP FOUNDATION BEFORE PAYMENTS		
	439,653	775,926
Payments received by the AAUP	<u>374,547</u>	<u>417,315</u>
Net funds owed by the AAUP Foundation after payments	<u>\$ 65,106</u>	<u>\$ 358,611</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 2017 and 2016 was \$261,442 and \$18,468 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 2017 was \$63,045, and is reflected as grants expenses. The combined total amount funded by the AAUP (and indirectly the AAUP-CBC) to the AAUP Foundation was \$324,467 for year ended December 31, 2017.

During the years ended December 31, 2017 and 2016, the AAUP Foundation made grants (assets released from restrictions) to AAUP programs totaling \$148,146 and \$151,622, 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 2017 and 2016. For the fiscal year ended December 31, 2017, the net amount owed to the AAUP by the AAUP Foundation is \$65,106, which represents accrued grants that have yet to be paid to the AAUP by the AAUP Foundation.

**NOTE 7. DUE TO (FROM) AAUP-CBC**

As of December 31, 2017 and 2016, the AAUP owed the AAUP-CBC \$1,119,654 and \$385,285, respectively, originating from the following activities.

	<u>2017</u>	<u>2016</u>
FUNDS TO BE PAID BY THE AAUP		
Beginning balance	\$ 385,285	\$ 592,223
Dues revenue	4,869,102	4,761,984
Summer Institute registration fees	86,102	99,870
Annual Meeting registration fees	65,750	111,149
Governance Conference registration fees	-	8,084
Publications	79,886	93,244
Grants	26,843	22,021
Total funds to be paid by the AAUP	<u>5,512,968</u>	<u>5,688,575</u>
FUNDS OWED BY THE AAUP-CBC		
Operating expenses	2,018,821	2,271,867
Staffing expenses	1,183,244	1,051,590
Meeting and travel expenses	315,684	301,379
Other expenses	413,665	458,537
Total funds owed by the AAUP-CBC	<u>3,931,414</u>	<u>4,083,373</u>
NET FUNDS DUE FROM THE AAUP BEFORE PAYMENTS AND TRANSFERS	1,581,554	1,605,202
Payments made from the AAUP	(385,285)	(1,242,223)
Transfer of net accounts receivable to the AAUP-CBC	<u>(76,615)</u>	<u>22,306</u>
Net funds due to AAUP-CBC after payments and transfers	<u>\$ 1,119,654</u>	<u>\$ 385,285</u>

During the years ended December 31, 2017 and 2016, in accordance with the MOU, the AAUP transferred accounts receivable of \$809,373 and \$779,911 and its related allowance for doubtful accounts of \$141,007 and \$112,290 to the AAUP-CBC, respectively.

**NOTE 8. GRANTS TO AAUP-CBC**

The AAUP and the AAUP-CBC entered into an agreement in November 2012, effective January 1, 2013, that requires the AAUP to grant the AAUP-CBC the value of the CBC Treasury Fund (\$135,008) and CBC Emergency Fund (\$64,976) as reported in the December 31, 2012 audited financial statements of the AAUP Predecessor 501 (c)(3) Organization. The grant totaled \$199,984 and was paid in quarterly payments over two years beginning July 1, 2014. Two final quarterly payments totaling \$49,996 were made during 2016.

**NOTE 8. GRANTS TO AAUP-CBC (CONTINUED)**

The AAUP also provided grants to the AAUP-CBC totaling \$26,842 and \$22,021 in support of the AAUP-CBC Summer Institute during the years ended December 31, 2017 and 2016, respectively.

**NOTE 9. 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 \$291,368 and \$279,999 for the years ended December 31, 2017 and 2016, 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 70 ½.

**NOTE 10. 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, 2017 and 2016 is reported on the statements of financial position and is calculated as follows:

	<u>2017</u>	<u>2016</u>
Retirees	\$ 1,424,755	\$ 1,514,831
Actives fully eligible	460,789	324,967
Actives not yet fully eligible	445,922	365,827
	<u>\$ 2,331,466</u>	<u>\$ 2,205,625</u>

**NOTE 10. POSTRETIREMENT BENEFITS (CONTINUED)**

Detailed reconciliation of accumulated benefit obligation for 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Change in Accumulated Benefit Obligation		
Accumulated benefit obligation at beginning of year	\$ 2,205,625	\$ 2,055,034
Service cost	89,374	62,496
Interest cost	89,573	82,437
Gross benefits paid	(112,487)	(114,356)
Actuarial (gain) loss	59,381	120,014
Accumulated benefit obligation at end of year	<u>\$ 2,331,466</u>	<u>\$ 2,205,625</u>

Net periodic postretirement benefit expense for the years ended December 31, 2017 and 2016 includes the following components:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 89,374	\$ 62,496
Interest cost	89,573	82,437
Total postretirement benefit expense	<u>\$ 178,947</u>	<u>\$ 144,933</u>
Total premiums paid by employer	<u>\$ 112,487</u>	<u>\$ 114,356</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 \$2,331,466 and \$2,205,625 at December 31, 2017 and 2016, respectively. The effect of a 1% increase in the assumed health care cost trend rates would cause the postretirement benefit obligations at December 31, 2017 and 2016 to increase by \$352,966 and \$319,289, respectively. The projected premiums to be paid to the plan for the year ending December 31, 2018 are \$102,227.

Amounts that have not been recognized in the statements of activities as components of net periodic postretirement benefit cost as of December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cumulative unrecognized net gain	<u>\$ (24,209)</u>	<u>\$ (83,590)</u>

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 total of amounts not yet recognized as components of net periodic benefit costs for the year ended December 31, 2016 is a loss of \$120,014, of which \$40,241 is reflected on the statement of activities for the year ended December 31, 2016, and \$71,924 and \$7,849 are allocated to the AAUP-CBC and the AAUP Foundation, respectively.

**NOTE 10. POSTRETIREMENT BENEFITS (CONTINUED)**

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

	<u>2017</u>	<u>2016</u>
Beginning of the year	4.00%	4.00%
End of the year	3.50%	4.00%

The assumed trend for 2017 and thereafter is a grading in the rate over 14 years until the ultimate rate of 3.50% is reached. The assumed health care cost trend rate used to measure the expected cost of benefits covered by the Plan was 7.76% and 8.07% for years ended December 31, 2017 and 2016, respectively.

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:

2018	\$ 102,227
2019	105,000
2020	112,000
2021	117,000
2022	117,000
2023-2027	617,000

**NOTE 11. MEMBERSHIP DUES**

Membership dues consist of the following for the years ended December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Membership dues from advocacy chapters	\$ 1,348,089	\$ 1,430,865
Share of joint dues with AAUP-CBC	<u>1,267,239</u>	<u>1,148,384</u>
	<u>\$ 2,615,328</u>	<u>\$ 2,579,249</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 (75%) and the AAUP (25%). 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 12. INVESTMENTS

During 2017, the AAUP invested approximately \$3,000,000 consisting of the following investment classes:

Cash equivalents	\$ 1,776,832
Certificates of deposit	<u>1,232,721</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.

GAAP guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy establishes three levels based on the reliability of inputs.

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the AAUP has the ability to access.

Level 2 - Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment is required in determining the fair value assigned to such assets or liabilities.

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

	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents	\$ -	\$ 1,776,832	\$ -	\$ 1,776,832
Certificates of deposit	-	<u>1,232,721</u>	-	<u>1,232,721</u>
	<u>\$ -</u>	<u>\$ 3,009,553</u>	<u>\$ -</u>	<u>\$ 3,009,553</u>

**NOTE 12. INVESTMENTS (CONTINUED)**

For the years ended December 31, 2017 and 2016, there have been no transfers in or out of Levels 1, 2 or 3.

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

Interest and dividends	\$ 9,831
Net investment losses	<u>(279)</u>
Total investment income	<u>\$ 9,552</u>

**NOTE 13. 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 14. 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, 2017 was approximately \$342,485. 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, 2017 and 2016 was \$171,656 and \$199,422, respectively.

**NOTE 14. COMMITMENTS (CONTINUED)**

Office rent expense totaled \$341,387 and \$342,485 for the years ended December 31, 2017 and 2016, respectively. The required future minimum lease payments for years 2017 through 2021 are as follows:

Year ending December 31,	
2018	\$ 382,091
2019	395,464
2020	409,305
2021	<u>35,302</u>
Total	<u>\$ 1,222,162</u>

**NOTE 15. TAX STATUS**

AAUP is exempt from federal income tax under Internal Revenue Code 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 expense for 2017 and 2016 was \$19,420 and \$5,271, 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, 2017 and 2016, and determined that there were no matters that would require recognition in the financial statements. As of December 31, 2017, the statute of limitations for tax years 2014 through 2016 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 16. 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 2018. There were no borrowings under this line of credit during the years ended December 31, 2017 and 2016.

**NOTE 17. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 16, 2018, 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 additional adjustment to or disclosure in the accompanying financial statements.

## **SUPPLEMENTARY INFORMATION**

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**SCHEDULE OF FUNCTIONAL EXPENSES**

FOR THE 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				
	<u>\$ 215,816</u>	<u>\$ 547,365</u>	<u>\$ 448,062</u>	<u>\$ 61,000</u>	<u>\$ 2,744</u>	<u>\$ 10,445</u>	<u>\$ 6,430</u>	<u>\$ 336,304</u>	<u>\$ 1,131,436</u>	<u>\$ 2,759,602</u>				

**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS**

**SCHEDULE OF FUNCTIONAL EXPENSES**

FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services										Supporting Services			Total
	Policy and Legal Advocacy	Member Services	Communications	Research	Education	Conferences	Government Relations	Leadership	General and Administrative					
Salaries and fringe benefits	\$ 187,147	\$ 222,139	\$ 309,270	\$ 60,822	\$ 3,460	\$ 15,629	\$ 5,024	\$ 134,779	\$ 414,877	\$ 1,353,147				
Contracted services	335	17,442	23,828	3,741	-	164	-	55,487	98,566	199,563				
Meetings and travel	30,916	19,105	1,672	2,560	1,921	26,174	1,443	132,447	907	217,145				
Facilities	-	175	2,975	-	-	174	-	-	115,362	118,686				
Grants	-	52,022	-	-	-	-	-	-	43,122	95,144				
Insurance and business fees	-	2,284	105	4,163	-	-	-	-	31,238	37,790				
Office expenses	1,939	4,884	156,689	1,835	11	547	12	3,249	44,947	214,113				
Joint organizing costs	-	13,936	-	-	-	-	-	-	-	13,936				
Recovery of bad debt expense	-	(16,512)	-	-	-	-	-	-	-	(16,512)				
Other expenses	-	5,278	958	74	-	(9)	402	-	4,097	10,800				
	<u>\$ 220,337</u>	<u>\$ 320,753</u>	<u>\$ 495,497</u>	<u>\$ 73,195</u>	<u>\$ 5,392</u>	<u>\$ 42,679</u>	<u>\$ 6,881</u>	<u>\$ 325,962</u>	<u>\$ 753,116</u>	<u>\$ 2,243,812</u>				