

***American Association of University Professors***

*Financial Statements*

*For the Year Ended December 31, 2013*

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**AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS  
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FOR THE YEAR ENDED DECEMBER 31, 2013**

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## REPORT OF INDEPENDENT AUDITORS

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The Council  
American Association of University Professors

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the American Association of University Professors, which comprise the statement of financial position as of December 31, 2013 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

The American Association of University Professors's 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. 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.

## REPORT OF INDEPENDENT AUDITORS

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### *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, 2013, 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 Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses 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.



***A Professional Corporation***

Bethesda, MD

May 20, 2014

**American Association of University Professors  
Statement of Financial Position  
As of December 31, 2013**

**Assets**

Cash	\$ 600,595
Account Receivable, net	1,370,599
Prepaid Expenses and Deposits	6,149
Due From AAUP Foundation	246,824
Loan Receivable	10,000
Property, Equipment and Improvements, net	<u>244,619</u>
<b>Total Assets</b>	<b><u>\$ 2,478,786</u></b>

**Liabilities and Net Assets**

**Liabilities**

Accounts Payable and Accrued Expenses	\$ 577,719
Due To AAUP-Collective Bargaining Congress	74,042
Line of Credit	150,000
Deferred Membership Revenue	380,699
Postretirement Benefit Obligation	<u>1,751,283</u>
<b>Total Liabilities</b>	<b><u>2,933,743</u></b>

**Net Assets**

Unrestricted	<u>(454,957)</u>
<b>Total Net Assets</b>	<b><u>(454,957)</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 2,478,786</u></b>

See notes to financial statements.

**American Association of University Professors  
Statement of Activities  
For the Year Ended December 31, 2013**

**Revenues**

Membership Dues	\$ 2,401,472
Publications	443,811
Meeting Registration and Fees	117,403
Miscellaneous Income	58,589
Contributions	<u>353</u>
<b>Total Revenue</b>	<b><u>3,021,628</u></b>

**Expenses**

**Program Services**

Policy and Legal Advocacy	459,181
Member Services	569,989
Communications	482,014
Research	105,426
Education	66,679
Conferences	11,940
Government Relations	<u>3,400</u>

**Total Program Expenses** **1,698,629**

**Supporting Services**

Leadership	440,040
General and Administrative	<u>1,337,916</u>

**Total Supporting Services** **1,777,956**

**Total Expenses** **3,476,585**

**Change in Net Assets** **(454,957)**

Net Assets - Beginning of Year -

**Net Assets - End of Year** **\$ (454,957)**

See notes to financial statements.

**American Association of University Professors  
Statement of Cash Flows  
For the Year Ended December 31, 2013**

<b>Cash Flows from Operating Activities</b>	
Change in Net Assets	\$ (454,957)
Adjustments to Reconcile Change in Net Assets to Cash Provided By Operating Activities	
Increase in Allowance for Doubtful Accounts	257,252
Depreciation and Amortization	145,867
Change in Assets and Liabilities	
Accounts Receivable	265,215
Prepaid Expenses and Deposits	1,877
Due From AAUP Foundation	(183,540)
Accounts Payable and Accrued Expenses	366,591
Due to AAUP-Collective Bargaining Congress	74,042
Deferred Membership Revenue	(235,847)
Post-Retirement Benefit Obligation	59,281
	<u>295,781</u>
<b>Net Cash Provided By Operating Activities</b>	<b>295,781</b>
 <b>Cash Flows From Investing Activities</b>	
Purchase of Fixed Assets	<u>(22,149)</u>
<b>Net Cash Used For Investing Activities</b>	<b>(22,149)</b>
 <b>Cash Flows From Financing Activities</b>	
Transfer of Cash and Cash Equivalents (see Note 3)	176,963
Draw on Line of Credit	<u>150,000</u>
<b>Net Cash Provided By Financing Activities</b>	<b>326,963</b>
 <b>Net Change in Cash</b>	<b>600,595</b>
Cash - Beginning of Year	<u>-</u>
<b>Cash - End of Year</b>	<b><u>\$ 600,595</u></b>
 <b>Supplemental Cash Flow Information</b>	
Cash Paid for Interest	\$ 949
Cash Paid for Taxes	\$ 11,531

See notes to financial statements.

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 1. ORGANIZATION AND TAX STATUS**

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 AAUP is to facilitate more effective cooperation among teachers and research scholars in universities and colleges, and in professional schools of similar grade, for the promotion of the interest of higher education and research, and generally 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 newly formed entities include the following:

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

The three newly formed entities will 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 its assets and liabilities to the AAUP to facilitate the effective operations of the three newly formed related entities (see Note 3).

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 newly created 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 newly formed 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 5. Expenses are allocated in proportion to the benefit derived by each entity.



**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

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

**Method of Accounting** – The accompanying financial statements are prepared using the accrual basis of accounting.

**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 year ended December 31, 2013.

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

**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.

**Revenue Recognition** – 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 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.

**Subsequent Events Review** – Subsequent events have been evaluated through May 20, 2014, which is the date the financial statements were available to be issued. This review and evaluation revealed no new material events or transactions that would require additional adjustment to, or disclosure in, the accompanying financial statements.

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 3. TRANSFER OF ASSETS AND LIABILITIES**

As explained in Note 1, the AAUP Predecessor 501(c)(3) Organization restructured into three newly formed entities effective January 1, 2013. Consistent with a private letter ruling received from the Internal Revenue Service, the assets and liabilities of the AAUP Predecessor 501(c)(3) Organization at December 31, 2012 were transferred to the newly formed AAUP Foundation (a 501(c)(3) public charity) on January 1, 2013.

In order to facilitate effective operation of the three newly formed related entities, the AAUP Foundation subsequently approved the transfer of some of its assets and liabilities to the AAUP.

A summary of the assets and liabilities transferred is provided below.

	<b>Balances of Predecessor AAUP 501(c)(3) Organization at 12/31/12</b>	<b>Balances Transferred to AAUP Foundation 01/01/13</b>	<b>Balances Transferred from AAUP Foundation to AAUP 01/01/13</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 176,963	\$ 176,963	\$ 176,963
Investments	1,726,261	1,726,261	-
Receivables	1,903,066	1,903,066	1,903,066
Due From AAUP Foundation	-	-	63,284
Prepaid Expenses	8,026	8,026	8,026
Fixed Assets, Net	368,337	368,337	368,337
Total Assets	<u>\$ 4,182,653</u>	<u>\$ 4,182,653</u>	<u>\$ 2,519,676</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Accounts Payable and Accrued Expenses	279,751	297,751	211,128
Deferred Revenue	616,546	616,546	616,546
Deferred Rent	235,788	-	-
Post-Retirement Benefit Obligation	1,692,002	1,692,002	1,692,002
Total Liabilities	<u>2,824,087</u>	<u>2,588,299</u>	<u>2,519,676</u>
<b>Net Assets</b>			
Unrestricted	269,098	504,886	-
Temporarily Restricted	1,089,468	1,089,468	-
Total Net Assets	<u>1,358,566</u>	<u>1,594,354</u>	<u>-</u>
Total Liabilities and Net Assets	<u>\$ 4,182,653</u>	<u>\$ 4,182,653</u>	<u>\$ 2,519,676</u>

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 4. UNINSURED CASH**

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 and cash equivalents.

**NOTE 5. ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2013 consist of the following:

	<b>Membership Dues Receivable</b>	<b>Other Receivables</b>	<b>Total Receivables</b>
Accounts Receivable	\$ 1,662,888	\$ 65,117	\$ 1,728,005
Allowance for Doubtful Accounts	(353,040)	(4,366)	(357,406)
Accounts Receivable, net	<u>\$ 1,309,848</u>	<u>\$ 60,751</u>	<u>\$ 1,370,599</u>

Membership dues are generally payable within one year. AAUP has assumed from the Predecessor 501(c)(3) Organization arrangements with four chapters to accept payment over 5 to 10 years for dues in arrears totaling \$525,984 at December 31, 2013. 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, 2013.

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

Property, equipment and improvements at December 31, 2013 consist of the following:

	<b>Furniture and Equipment</b>	<b>Leasehold Improvements</b>	<b>Total Fixed Assets</b>
Furniture and/or Fixtures	\$ 28,399	\$ 161,415	\$ 189,814
Equipment and Software	434,041	-	434,041
Accumulated Depreciation/Amortization	(263,939)	(115,297)	(379,236)
Fixed Assets, net	<u>\$ 198,501</u>	<u>\$ 46,118</u>	<u>\$ 244,619</u>

Depreciation and amortization expense for the year ended December 31, 2013 totaled \$145,867.

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 7. DUE FROM AAUP FOUNDATION**

At December 31, 2013, the AAUP Foundation owes the AAUP \$246,824 originating from the following activities.

<b>Funds to be Received from AAUP</b>	
Contributions	\$ 6,478
Other revenue	5,008
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Total Funds to be Received from AAUP	11,486
 <b>Funds Owed to AAUP</b>	
Accrued expenses of AAUP Predecessor 501(c)(3)	89,777
Net liability transfer from AAUP Predecessor 501(c)(3)	83,474
Staffing expenses	91,692
Operating expenses	87,418
Fundraising	15,186
Legal	14,986
Grants	12,500
Other expenses	23,277
	<hr/>
Total Funds Owed to AAUP	418,310
<b>Net Funds Owed to AAUP Before Payments</b>	406,824
Payments Made to AAUP	160,000
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<b>Net Funds Owed to AAUP After Payments</b>	<b><u>\$ 246,824</u></b>

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

At December 31, 2013, the AAUP owes the AAUP-CBC \$74,042 originating from the following activities.

<b>Fund to be Received from AAUP</b>	
Dues revenue	\$ 3,436,271
Grant funds (see Note 9)	262,984
Summer Institute registration fees	86,697
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Total Funds to be Received from AAUP	3,785,952
 <b>Funds Owed to AAUP</b>	
Operating expenses	2,409,715
Staffing expenses	766,826
Meeting and travel expenses	409,952
Other expenses	125,417
	<hr/>
Total Funds Owed to AAUP	3,711,910
 <b>Net Funds Due From AAUP</b>	 <b><u>\$ 74,042</u></b>

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 9. 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 totals \$199,984 and is to be paid in quarterly payments over two years beginning July 1, 2014.

The AAUP also provided two grants to the AAUP-CBC totaling \$63,000 in support of the AAUP-CBC Summer Institute during the year ended December 31, 2013.

**NOTE 10. LINE OF CREDIT**

AAUP has a revolving line of credit with Bank of America. The line of credit carries a variable interest rate equal to the Wall Street Journal Prime Rate plus 1.5%. The line of credit is due to expire in June 2014. The outstanding balance at December 31, 2013 was \$150,000 and currently carries an interest rate of 4.25%.

**NOTE 11. 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 \$284,825 for the year ended December 31, 2013. 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 12. 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 (see Note 3). Retirees may become eligible for continued health benefits if they reach normal retirement age while working for the AAUP.

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 12. POSTRETIREMENT BENEFITS (continued)**

Postretirement benefit expense for the year ended December 31, 2013 includes the following components.

Service Cost	\$ 60,354
Interest Cost	70,287
Amortization of Transition Obligation	36,686
Amortization of Accumulated Loss (Gain)	<u>(27,156)</u>
Total Postretirement Benefit Expense	<u>\$ 140,171</u>
 Total Premiums Paid by Employer	 <u>\$ 77,162</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 \$1,751,283 at December 31, 2013. The effect of a 1% increase in the assumed health care cost trend rates would cause the postretirement benefit obligations at December 31, 2013 to increase by \$272,918.

Amounts that have not been recognized as components of net periodic benefit cost as of December 31, 2013 consist of the following:

Net Actuarial (Gain) Loss	\$ 32,958
Net Transition Obligation	<u>36,679</u>
	<u>\$ 69,637</u>

The impact reflected on the statements of activities for amounts not yet recognized as components of net periodic benefit costs is \$3,728 for the year ended December 31, 2013. The amount expected to be amortized into net periodic benefit cost during 2014 is approximately \$36,000. The transition obligation will be fully amortized during the year ended December 31, 2014.

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

Beginning of the Year	4.25%
End of the Year	4.50%

The assumed trend for 2013 and thereafter is a grading in the rate over 15 years until the ultimate rate of 4.50% is reached. The assumed health care cost trend rate used to measure the expected cost of benefits covered by the Plan was 9.00% for year ended December 31, 2013.

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 12. 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:

<u>Year Ending December 31,</u>		
2014	\$	91,545
2015		86,000
2016		86,000
2017		87,000
2018		87,000
2019 - 2023		513,000

**NOTE 13. MEMBERSHIP DUES**

Membership dues consist of the following for the year ended December 31, 2013.

Membership dues from advocacy chapters	\$	1,425,804
Share of joint dues with AAUP-CBC		<u>975,668</u>
Total Membership Dues	\$	<u>2,401,472</u>

Consistent with the Memorandum of Understanding executed by the three newly formed 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%).

**NOTE 14. COMMITMENTS**

AAUP assumed the lease agreement entered into by the Predecessor 501(c)(3) Organization for office space, including electricity, which expires January 30, 2016. Base annual rent is \$441,009, with increases based on rising real estate taxes, building operating expenses, and the Consumer Price Index. Office rent expense totaled \$441,009 for the year ended December 31, 2013. The required future minimum lease payments for years 2014 through 2016 are as follows:

<u>Year Ending December 31,</u>		
2014	\$	498,684
2015		517,032
2016		44,538

**American Association of University Professors**  
**Notes to Financial Statements**  
**December 31, 2013**

**NOTE 15. INCOME TAXES**

AAUP is generally 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 from advertising in *Academe*, its professional journal and commissions received from certain member benefit programs.

Accounting principles generally accepted in the United States of America require management to evaluate income tax positions taken and accrue an income tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated the income tax positions taken and concluded that as of December 31, 2013 there are no uncertain positions taken or expected to be taken that would require accrual of a liability in the financial statements. The AAUP is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods.



**American Association of University Professors  
Schedule of Functional Expenses  
For the Year Ended December 31, 2013**

	<u>Program Services</u>						<u>Supporting Services</u>			<u>Total</u>
	<u>Policy and Legal Advocacy</u>	<u>Member Services</u>	<u>Communication</u>	<u>Research</u>	<u>Education</u>	<u>Conferences</u>	<u>Government Relations</u>	<u>Leadership</u>	<u>General and Admin</u>	
Salaries and Fringe Benefits	\$ 449,345	\$ 215,521	\$ 194,067	\$ 99,223	\$ 5,759	\$ 11,328	\$ 2,350	\$ 160,517	\$ 480,449	\$ 1,618,559
Contracted Services	-	25,801	35,414	3,491	-	-	-	61,310	143,839	269,855
Meetings and Travel	7,838	32,502	691	457	777	315	1,050	215,471	7,424	266,525
Facilities	24	130	2,779	934	-	-	-	-	234,273	238,140
Grants	-	293,375	-	-	60,000	-	-	-	50	353,425
Insurance and Business Fees	-	-	150	-	-	-	-	-	388,109	388,259
Office Expenses	1,806	2,654	248,682	1,321	143	297	-	2,692	69,239	326,834
Other Expenses	168	6	231	-	-	-	-	50	14,533	14,988
	<u>\$ 459,181</u>	<u>\$ 569,989</u>	<u>\$ 482,014</u>	<u>\$ 105,426</u>	<u>\$ 66,679</u>	<u>\$ 11,940</u>	<u>\$ 3,400</u>	<u>\$ 440,040</u>	<u>\$ 1,337,916</u>	<u>\$ 3,476,585</u>

See Report of Independent Auditor