

The American Association Of Physics Teachers, Inc.

Financial Report
December 31, 2009

McGladrey & Pullen
Certified Public Accountants

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying balance sheets of The American Association of Physics Teachers, Inc. (the Association) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The American Association of Physics Teachers, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated August 12, 2010, and July 22, 2009, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

McGladrey & Pullen, LLP

Gaithersburg, Maryland
August 12, 2010

The American Association Of Physics Teachers, Inc.

Balance Sheets

December 31, 2009 And 2008

Assets	2009	2008
Cash And Cash Equivalents	\$ 700,024	\$ 423,124
Investments	3,236,556	3,294,138
Receivables, net		
Grants	158,366	188,151
Due from affiliate	35,000	41,044
Membership	6,026	25,309
Other	9,655	9,655
Inventory	129,033	146,094
Prepaid Expenses	89,272	43,969
Investment In ACP	47,487	7,622
Property And Equipment, net	53,793	120,808
	<u>\$ 4,465,212</u>	<u>\$ 4,299,914</u>
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 372,283	\$ 554,670
Accrued payroll and related liabilities	394,534	460,233
Unearned revenue	2,089,931	1,558,914
Capital lease obligation	6,610	14,610
Deferred compensation obligation	38,896	74,986
Accrued postretirement benefit obligation	347,832	359,197
	<u>3,250,086</u>	<u>3,022,610</u>
Commitments (Note 9)		
Net Assets		
Unrestricted		
Undesignated	424,496	719,647
Board designated	184,415	125,972
	<u>608,911</u>	<u>845,619</u>
Temporarily restricted	174,530	-
Permanently restricted	431,685	431,685
	<u>1,215,126</u>	<u>1,277,304</u>
	<u>\$ 4,465,212</u>	<u>\$ 4,299,914</u>

See Notes To Financial Statements.

The American Association Of Physics Teachers, Inc.

Statement Of Activities
Year Ended December 31, 2009

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated			
Revenue and support:					
American Journal of Physics	\$ 1,419,540	\$ -	\$ -	\$ -	\$ 1,419,540
The Physics Teacher	881,933	-	-	-	881,933
Investment income	513,705	59,026	121,277	-	694,008
Other publications	18,343	-	-	-	18,343
Meetings, workshops and projects	827,845	-	-	-	827,845
Membership	594,735	-	-	-	594,735
Federal grants	951,713	-	-	-	951,713
Contributions	62,882	8,869	-	-	71,751
International Physics Olympiad	30,722	-	-	-	30,722
Share in earnings of investment in ACP	39,865	-	-	-	39,865
Miscellaneous income	21,542	-	-	-	21,542
Net assets released from restrictions	9,452	(9,452)	-	-	-
Total revenue and support	5,372,277	58,443	121,277	-	5,551,997
Expenses:					
Program services:					
American Journal of Physics	796,888	-	-	-	796,888
The Physics Teacher	716,549	-	-	-	716,549
Other publications	658,402	-	-	-	658,402
Meetings, workshops and projects	1,175,040	-	-	-	1,175,040
Membership	849,516	-	-	-	849,516
Federal grants	1,048,712	-	-	-	1,048,712
General and administrative	274,309	-	-	-	274,309
Fundraising	94,759	-	-	-	94,759
Total expenses	5,614,175	-	-	-	5,614,175
Change in net assets	(241,898)	58,443	121,277	-	(62,178)
Net assets:					
Beginning	719,647	125,972	-	431,685	1,277,304
Transfers	(53,253)	-	53,253	-	-
Ending	\$ 424,496	\$ 184,415	\$ 174,530	\$ 431,685	\$ 1,215,126

See Notes To Financial Statements.

The American Association Of Physics Teachers, Inc.

Statement Of Activities
Year Ended December 31, 2008

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated			
Revenue and support:					
American Journal of Physics	\$ 1,251,994	\$ -	\$ -	\$ -	\$ 1,251,994
The Physics Teacher	811,584	-	-	-	811,584
Investment loss	(1,294,488)	(101,001)	(32,806)	-	(1,428,295)
Other publications	150,929	-	-	-	150,929
Meetings, workshops and projects	549,215	-	-	-	549,215
Membership	719,397	-	-	-	719,397
Federal grants	1,177,761	-	-	-	1,177,761
Contributions	225,200	15,673	2,224	-	243,097
International Physics Olympiad	139,061	-	-	-	139,061
Share in earnings of investment in ACP	154,380	-	-	-	154,380
Miscellaneous income	1,388	-	-	-	1,388
Net assets released from restrictions	43,794	(20,315)	(23,479)	-	-
Total revenue and support	3,930,215	(105,643)	(54,061)	-	3,770,511
Expenses:					
Program services:					
American Journal of Physics	696,444	-	-	-	696,444
The Physics Teacher	748,840	-	-	-	748,840
Other publications	899,667	-	-	-	899,667
Meetings, workshops and projects	1,206,475	-	-	-	1,206,475
Membership	846,187	-	-	-	846,187
Federal grants	1,456,316	-	-	-	1,456,316
General and administrative	517,680	-	-	-	517,680
Fundraising	84,581	-	-	-	84,581
Total expenses	6,456,190	-	-	-	6,456,190
Change in net assets before effect minimum liability adjustment	(2,525,975)	(105,643)	(54,061)	-	(2,685,679)
Accrued postretirement obligation minimum liability adjustment	(124,424)	-	-	-	(124,424)
Change in net assets	(2,650,399)	(105,643)	(54,061)	-	(2,810,103)
Net assets:					
Beginning	3,370,046	231,615	54,061	431,685	4,087,407
Ending	\$ 719,647	\$ 125,972	\$ -	\$ 431,685	\$ 1,277,304

See Notes To Financial Statements.

The American Association Of Physics Teachers, Inc.

Statements Of Cash Flows
Years Ended December 31, 2009 And 2008

	2009	2008
Cash Flows From Operating Activities		
Change in net assets	\$ (62,178)	\$ (2,810,103)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	84,351	83,766
(Gain) loss on investments	(607,565)	1,566,399
Earnings on investment in ACP	(39,865)	(154,380)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	55,112	11,616
Inventory and prepaid expenses	(28,242)	10,327
Increase (decrease) in:		
Accounts payable and accrued liabilities	(248,086)	70,960
Unearned revenue	531,017	(130,175)
Deferred compensation obligation	(36,090)	(8,790)
Accrued postretirement benefit obligation	(11,365)	124,424
Net cash used in operating activities	(362,911)	(1,235,956)
Cash Flows From Investing Activities		
Purchases of investments	(1,040,151)	(533,234)
Proceeds from sale of investments	1,705,298	1,641,359
Purchase of property and equipment	(17,336)	(8,360)
Net cash provided by investing activities	647,811	1,099,765
Cash Flows From Financing Activities		
Principal payments on capital lease obligation	(8,000)	(7,214)
Net cash used in financing activities	(8,000)	(7,214)
Net increase (decrease) in cash and cash equivalents	276,900	(143,405)
Cash And Cash Equivalents		
Beginning	423,124	566,529
Ending	\$ 700,024	\$ 423,124
Supplemental Disclosure Of Cash Flow Information		
Cash paid for interest	\$ 210,346	\$ 96,908

See Notes To Financial Statements.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: The American Association of Physics Teachers, Inc. (the Association) is a non-profit membership organization, incorporated in the state of New York for the purpose of improving the quality of physics instruction and enhancing the appreciation of the role of physics in our culture. The Association's operations are financed through member dues and programs, publications, meetings, and grants from the federal government.

A summary of the Association's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred. Revenue received, which relates to future periods, is recorded as deferred revenue. Expenses paid, which relate to future periods, are recorded as prepaid expenses.

Basis of presentation: The financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under the Codification, the Association is required to report information according to three classes of net assets:

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or otherwise removed by the Association's actions.

Cash and cash equivalents: Cash equivalents consist of overnight repurchase agreements secured by U.S. Government obligations, but not subject to federal deposit insurance.

Financial risk: The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. The Association believes it is not exposed to any significant financial risk on cash.

Investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Investments: Investments are recorded at estimated fair value based on quoted market prices provided by the custodians or investment managers. Realized and unrealized gains and losses are reported in the statements of activities. Investment income is reported as an increase in unrestricted net assets, unless restricted by donor or by law.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Receivables: Receivables are carried at original invoice amount, less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual receivables and considering a customer's financial condition, credit history, and current economic conditions. Management believes receivables were fully collectible at December 31, 2009 and 2008, and an allowance for doubtful accounts was not necessary. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. The Association does not charge interest on receivables.

Inventory: Inventory consists primarily of publications and periodicals held for resale. Inventory is stated at the lower of cost, using the average cost method or market.

Property and equipment: The Association's property and equipment are stated at cost, except for donated items, which are recorded at fair value at the date of donation. Equipment under capital leases is stated at the lower of the present value of minimum lease payments at the inception of the lease term, or fair value of the property. Expenditures which materially increase in value, change capacities, or extend useful lives are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 19 years. Equipment held under capital leases is amortized on the straight-line bases over the lease term.

Revenue and support: Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Membership dues and subscription revenue are recognized ratably over the applicable dues or subscription period. Revenue from meetings and workshops is recognized in the same period the event is held. Unearned revenue represents dues and a subscription amount received prior to the completion of the earnings process and is reported as a current liability in the balance sheets.

Revenue on government grants is recognized as estimated reimbursable direct and indirect expenses, as incurred. Grants receivable represent such expenses incurred in excess of reimbursements and advances. Grant costs recognized as reimbursable are subject to government audit (See Note 9).

Income taxes: The Association is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Under current Internal Revenue Service (IRS) regulations, advertising and other non-exempt revenue earned is subject to unrelated business income tax. For the years ended December 31, 2009 and 2008, the Association had no net unrelated business income.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Income taxes (continued): On January 1, 2009, the Association adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. The Association had no such positions recorded in the financial statements at December 31, 2009. With few exceptions, the Association is no longer subject to U.S. federal income tax positions by tax authorities for years before 2006.

Functional allocation of expenses: Expenses are charged to each program based on direct expenditures incurred. Expenditures related to administrative activities are allocated to programs based on total direct costs.

Impairment of long-lived assets: The Association accounts for the valuation of long-lived assets under the Property, Plant, and Equipment Topic of the Codification. This Topic requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investment in ACP: The Association's interest in American Center for Physics (ACP) is being accounted for under the equity method. The Association's residual share of ACP was approximately 1% at December 31, 2009. The Association has representation on ACP's Board of Directors.

Subsequent events: The Association evaluated subsequent events for potential required disclosures through August 12, 2010, which is the date the financial statements were available to be issued.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 2. American Center For Physics, Inc.

The Association, together with the American Physical Society (APS) and the American Institute of Physics, Inc. (AIP), established the American Center for Physics, Inc. (ACP) to own and operate one or more buildings to serve the three organizations and the physics community. ACP is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. As an initial member organization, the Association has the right to appoint two individuals to the Board of Directors of ACP. Additionally, should ACP be dissolved, the Association will acquire a percentage of interest in the net assets of ACP.

ACP has constructed a building to serve the physics community and has obtained financing through Maryland Industrial Development Financing Authority Revenue Bonds. These bonds are to be repaid from rental income collected from tenants, including the Association.

The equity interest in the operation and ownership of the project is described in an agreement between ACP and its members (the Agreement). Pursuant to the Agreement, the Association has incurred a cumulative gain of \$47,487 and \$7,622 at December 31, 2009 and 2008, respectively.

Summarized financial information for ACP as of and for the years ended December 31, 2009 and 2008, consists of the following:

	(In Thousands)	
	2009	2008
Total assets	\$ 24,532	\$ 25,610
Total liabilities	\$ 17,846	\$ 20,044
Net assets	6,686	5,566
Total liabilities and net assets	\$ 24,532	\$ 25,610
Total revenue	\$ 6,639	\$ 7,625
Total expenses	5,519	5,435
Change in net assets	\$ 1,120	\$ 2,190

During the year ended December 31, 1993, the Association entered into a long-term operating lease agreement with ACP. The lease commenced in October 1993 and ends the later of November 1, 2018, or when there are no more bonds outstanding. The bond repayment schedule calls for the final payment to be made on December 15, 2016.

The lease payments are determined based on a percentage of the base costs, including financing and other operating costs. Total payments made to ACP were \$640,778 and \$591,884 for the years ended December 31, 2009 and 2008, respectively. Rental rebates were \$35,000 and \$41,044 for the years ended December 31, 2009 and 2008, respectively.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 2. American Center For Physics, Inc. (Continued)

The following is a schedule of the minimum lease payments due to ACP at December 31, 2009:

Years Ending December 31,

2010	\$	211,000
2011		211,000
2012		211,000
2013		211,000
2014		211,000
2015 to 2016		405,000
	<u>\$</u>	<u>1,460,000</u>

Note 3. Investments

Investments at December 31, 2009 and 2008, consist of the following:

	2009	2008
Short-term investments:		
Money market funds	\$ 59,569	\$ 59,685
Mutual funds	190	179
	<u>59,759</u>	<u>59,864</u>
Long-term investments:		
Money market funds	52,870	152,787
Mutual funds	3,123,927	3,081,487
	<u>3,176,797</u>	<u>3,234,274</u>
	<u>\$ 3,236,556</u>	<u>\$ 3,294,138</u>

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 3. Investments (Continued)

The following schedule summarizes the income in the above investments and other operating fund investments, and the classification in the statements of activities:

	2009		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 86,443	\$ 8,869	\$ 95,312
Net realized and unrealized gains	486,288	112,408	598,696
Total investment income	\$ 572,731	\$ 121,277	\$ 694,008
	2008		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 128,305	\$ 9,799	\$ 138,104
Net realized and unrealized losses	(1,523,794)	(42,605)	(1,566,399)
Total investment loss	\$ (1,395,489)	\$ (32,806)	\$ (1,428,295)

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2009 and 2008, respectively, consist of the following:

	2009	2008
Office and computer equipment	\$ 268,161	\$ 250,825
Equipment under capital lease	27,811	27,811
	295,972	278,636
Less accumulated depreciation and amortization	(242,179)	(157,828)
	\$ 53,793	\$ 120,808

For assets acquired under capital leases, amortization expense was approximately \$5,500 and \$5,500 for the years ended December 31, 2009 and 2008, respectively, and accumulated amortization was approximately \$17,000 and \$11,500 at December 31, 2009 and 2008, respectively.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 5. Employee Benefit Plans

Pension Plan

The Association has established a pension plan under IRS Code Section 403(b), to which it contributes 5% of compensation after the first year of employment and 10% after two years of employment for all eligible employees. Employees may make elective tax deferred contributions. The plan is currently funded, and the Association's contributions for the years ended December 31, 2009 and 2008, totaled approximately \$105,700 and \$137,000, respectively.

Deferred Compensation Plan

The Association sponsors a deferred compensation plan, which covers members of executive management under IRS Code Section 457(b). Under the plan, eligible employees must first participate in the Association's 403(b) plan, and may then make salary deferral contributions to the 457(b) plan, subject to annual IRS limitations. Plan obligations totaled \$38,896 and \$74,986 at December 31, 2009 and 2008, respectively. Plan assets, which totaled \$38,896 and \$74,986 at December 31, 2009 and 2008, respectively, are included with long-term investments in the balance sheets.

Postretirement Health Care Benefits

During 2004, the Association adopted a postretirement health care plan that covers all employees who retire from the Association after meeting certain age and service requirements. Under the plan, the Association will pay 50% of the participants' premiums for continued coverage through the Association's group health insurance. The plan provides for full coverage until participants reach 65 years of age, and supplemental coverage thereafter. Plan benefits are subject to a lifetime cap of \$100,000 for each retiree.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 5. Employee Benefit Plans (Continued)

Information regarding the status of the postretirement health care plan at December 31, 2009 and 2008, is as follows:

	2009	2008
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 359,197	\$ 234,773
Actuarial (gain) loss	(30,279)	105,369
Interest cost	19,431	20,440
Service cost	10,329	10,540
Benefits paid	(10,846)	(11,925)
Benefit obligation at end of year	<u>\$ 347,832</u>	<u>\$ 359,197</u>
Change in plan assets:		
Employer contributions	\$ 10,846	\$ 11,925
Participant contributions	10,846	11,925
Benefits paid	(21,692)	(23,850)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Unfunded status:	<u>\$ (347,832)</u>	<u>\$ (359,197)</u>
Accrued postretirement health care liability	<u>\$ (347,832)</u>	<u>\$ (359,197)</u>
Accumulated benefit obligation	<u>\$ 347,832</u>	<u>\$ 359,197</u>
Components of net periodic benefit cost:		
Interest cost	\$ 19,431	\$ 20,440
Service cost	10,329	10,540
Amortization of prior service cost	18,955	18,954
Amortization of net gain	-	56
Net periodic benefit cost	<u>\$ 48,715</u>	<u>\$ 49,990</u>

Assumptions: Weighted average assumptions used to determine net periodic pension cost and benefit obligations are as follows:

	2009	2008
Discount rate for year	6.00%	6.50%
Discount rate at end of year	6.00%	6.00%

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 5. Employee Benefit Plans (Continued)

Estimated future benefit payments: The following benefit payments, which reflect expected future service, are expected to be paid as follows:

Years Ending December 31,

2010	\$	11,000
2011	\$	12,000
2012	\$	12,000
2013	\$	13,000

Estimated employer contributions: Employer contributions to the plans are expected to be approximately \$11,000 for the year ending December 31, 2010.

The accumulated benefit obligation measurement date was December 31, 2009 and 2008, respectively, for the 2009 and 2008 actuarial valuations. The health care cost trend rate was assumed to be 9% and 10%, grading to 5% for 2009 and 2008, respectively. Benefit costs totaled \$48,715 and \$49,990 for 2009 and 2008, respectively.

Note 6. Restricted Net Assets

Permanently Restricted

Permanently restricted net assets at December 31, 2009 and 2008, consist of the following:

	2009	2008
Bauder Endowment Fund:		
Investment in perpetuity, the income from which is expendable to support special activities in the area of physics teaching	\$ 110,000	\$ 110,000
Lotze Endowment Fund:		
Investment in perpetuity, the income from which is expendable for the advancement of physics education	311,685	311,685
Fuller Endowment Fund:		
Investment in perpetuity, the income from which is expendable for the advancement of physics education	10,000	10,000
	<u>\$ 431,685</u>	<u>\$ 431,685</u>

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 6. Restricted Net Assets (Continued)

The Board of Directors of the Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditures by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Association and the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Association
- The investment policies of the Association

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain purchasing power of the endowment assets.

All earnings for the endowment are reflected as temporarily restricted net assets, until appropriated for expenditure by the Board of Directors.

The endowment net asset composition by type of fund as of December 31, 2009, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 174,530	\$ 431,685	\$ 606,215

The endowment net asset composition by type of fund as of December 31, 2008, was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 53,253	\$ -	\$ 431,685	\$ 484,938

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 6. Restricted Net Assets (Continued)

The changes in the endowment net assets for the year ended December 31, 2009, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 53,253	\$ -	\$ 431,685	\$ 484,938
Transfers*	(53,253)	53,253	-	-
Investment return:				
Interest and dividends	-	15,101	-	15,101
Realized and unrealized gains	-	106,176	-	106,176
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 174,530</u>	<u>\$ 431,685</u>	<u>\$ 606,215</u>

*Maryland-enacted UPMIFA during the year ended December 31, 2009. As a result, the unrestricted portion of the endowment funds is now considered temporarily restricted by time, until those funds are appropriated by management.

The changes in the endowment net assets for the year ended December 31, 2008, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 336,504	\$ -	\$ 431,685	\$ 768,189
Withdrawals	(80,697)	-	-	(80,697)
Investment return:				
Interest and dividends	19,461	-	-	19,461
Realized and unrealized losses	(222,015)	-	-	(222,015)
Endowment net assets, end of year	<u>\$ 53,253</u>	<u>\$ -</u>	<u>\$ 431,685</u>	<u>\$ 484,938</u>

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 7. Board Designated Net Assets

Board designated net assets at December 31, 2009 and 2008, with Executive Board approval, are available for the following purposes:

	2009	2008
Bauder Fund:		
To support special activities in the area of physics teaching	\$ 142,067	\$ 91,912
Fuller Fund:		
To support the advancement of physics education	17,493	11,396
Other purpose restriction programs	24,855	22,664
	<u>\$ 184,415</u>	<u>\$ 125,972</u>

Note 8. Related Party Transactions

In addition to participating with the Association in the ownership of ACP (See Note 2), AIP provides printing and fulfillment services for the Association's publications and processes the Association's health insurance payments. The Association also paid AIP for the human resources management fee, society membership dues, and other miscellaneous office services. For the years ended December 31, 2009 and 2008, the amount paid to AIP totaled \$640,778 and \$614,553, respectively. At December 31, 2009 and 2008, \$169,857 and \$118,808, respectively, was included in accounts payable for these services.

The Association also receives funding from AIP to support the International Physics Olympiad on an annual basis. For the years ended December 31, 2009 and 2008, program expenses totaled \$59,278 and \$75,857, respectively.

In addition to participating in the ownership of ACP with APS, the Association also receives an annual grant from APS to support the Phystec program. Revenue for the years ended December 31, 2009 and 2008, totaled \$11,248 and \$1,852, respectively. No amounts were due from or to APS at December 31, 2009 and 2008.

Note 9. Commitments

Employment Agreements

The Association has negotiated employment agreements with certain employees. The agreements expire at various dates through December 31, 2010. Compensation under these agreements aggregates to an amount which is considered by the Executive Board to be reasonable for the services to be performed.

Government Audits

The Association recognized approximately 16% and 37% of its revenue in 2009 and 2008, respectively, from grants with the National Science Foundation. These grants are subject to audit by the federal government. Audits have been performed through the year ended December 31, 2000, and disallowances recorded. Until such audits for subsequent periods are completed, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that future disallowances, if any, will not be material to the financial statements.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 9. Commitments (Continued)

Government Contracts

The Association had a commitment under a cooperative agreement with PTRR Rural to fund approximately \$1,008,000 of the total project costs with in-kind and cash support. The project expires on May 31, 2010. As of December 31, 2009, the Association has reported approximately \$1,010,000 toward this requirement.

Capital Lease

In addition to the long-term operating lease for the office space discussed in Note 2, the Association also leases certain equipment under capital lease. At December 31, 2009 and 2008, the Association's future minimum lease payments under the lease agreement totaled \$6,610 and 14,610, respectively, with \$192 and 1,336, respectively, representing interest.

Note 10. Fair Value Measurement

During the year ended December 31, 2008, the Association adopted the Fair Value Measurements and Disclosures Topic of the Codification. This Topic establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. The Topic applies to all assets and liabilities that are being measured and reported on a fair value basis. The Topic requires new disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This Topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Association performs a detailed analysis of the assets and liabilities that are subject to the Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 3 inputs for any assets held by the Association at December 31, 2009 and 2008.

The table below presents the balances of assets and liabilities measured at fair value at December 31, 2009, on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Money market funds	\$ 112,439	\$ 112,439	\$ -	\$ -
Mutual funds	3,124,117	3,124,117	-	-
	<u>\$ 3,236,556</u>	<u>\$ 3,236,556</u>	<u>\$ -</u>	<u>\$ -</u>

The Association's money market funds and mutual funds are publicly traded on the New York Stock Exchange and are considered Level 1 items.

The American Association Of Physics Teachers, Inc.

Notes To Financial Statements

Note 10. Fair Value Measurement (Continued)

The table below presents the balances of assets and liabilities measured at fair value at December 31, 2008, on a recurring basis by level within the hierarchy:

	Total	Level 1	Level 2	Level 3
Money market funds	\$ 212,472	\$ 212,472	\$ -	\$ -
Mutual funds	3,081,666	3,081,666	-	-
	<u>\$ 3,294,138</u>	<u>\$ 3,294,138</u>	<u>\$ -</u>	<u>\$ -</u>

The Association's money market funds and mutual funds are publicly traded on the New York Stock Exchange and are considered Level 1 items.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

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

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information which follows is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Gaithersburg, Maryland
August 12, 2010

The American Association Of Physics Teachers, Inc.

Schedule Of Functional Expenses
 Year Ended December 31, 2009
 (With Comparative Totals For 2008)

	2009				2008 Total
	Program Services	General And Administrative	Fundraising	Total	
Compensation expense	\$ 1,273,623	\$ 803,188	\$ 58,878	\$ 2,135,689	\$ 2,516,074
Editorial office expense	367,510	-	-	367,510	500,253
Travel	288,797	-	-	288,797	484,847
Publication costs	274,720	-	-	274,720	305,421
Debt service	170,914	100,633	453	272,000	252,855
Participant travel and stipends	-	251,355	-	251,355	323,966
Consultants, contracts and temporary	189,330	2,256	2,811	194,397	269,365
Postage, packaging and shipping	188,036	5,827	-	193,863	195,912
Computer supplies and maintenance	7,519	180,599	-	188,118	157,947
Rental operating expenses	-	174,594	-	174,594	189,637
Audio/visual	159,599	2,709	-	162,308	52,948
Online journal services	146,580	-	-	146,580	97,977
Professional fees	33,912	68,967	-	102,879	179,517
Conferences, meetings, and workshops	91,097	3,508	-	94,605	60,807
Depreciation	-	84,351	-	84,351	83,766
Exhibit and meeting expenses	80,385	-	-	80,385	21,810
Honoraria	67,840	7,745	737	76,322	135,173
Photocopying and printing	74,936	-	-	74,936	74,492
Publishing services	54,318	1	-	54,319	55,120
Bank fees	287	53,746	-	54,033	49,035
Dues and memberships	52,164	1,171	72	53,407	63,495
Advertising	52,217	-	186	52,403	78,520
Office services	-	45,822	-	45,822	45,557
Materials and supplies	39,901	553	-	40,454	52,843
Awards	36,506	2,969	80	39,555	56,038
Other facility costs	27,752	2,780	-	30,532	14,596
Insurance	310	19,602	-	19,912	25,557
Investment expenses	-	15,394	-	15,394	19,241
Telephone	3,381	10,393	-	13,774	20,433
Storage	8,794	-	-	8,794	20,667
Equipment and maintenance	6,712	145	-	6,857	162
Security	-	4,050	-	4,050	4,972
Royalty expense	-	813	-	813	2,467
Other	2,527	8,113	7	10,647	44,720
Allocation of indirect costs	1,545,440	(1,576,975)	31,535	-	-
Total expenses	\$ 5,245,107	\$ 274,309	\$ 94,759	\$ 5,614,175	\$ 6,456,190