

AAUP FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2018

AAUP FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
AAUP Foundation

We have audited the accompanying financial statements of AAUP Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

CaliberCPAGroup, PLLC

Bethesda, MD
June 3, 2019

AAUP FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018				2017			
	Without Donor Restrictions	With Donor Restrictions		Total	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary	Perpetual			Temporary	Perpetual	
ASSETS								
Cash and cash equivalents	\$ 214,375	\$ 158,488	\$ -	\$ 158,488	\$ 65,106	\$ 179,710	\$ -	\$ 179,710
Investments	-	510,282	40,000	550,282	-	821,003	40,000	861,003
Total assets	<u>\$ 214,375</u>	<u>\$ 668,770</u>	<u>\$ 40,000</u>	<u>\$ 708,770</u>	<u>\$ 65,106</u>	<u>\$ 1,000,713</u>	<u>\$ 40,000</u>	<u>\$ 1,040,713</u>
LIABILITIES								
Due to AAUP	\$ 207,327	-	-	-	\$ 65,106	-	-	\$ 65,106
Due to AAUP-CBC	7,048	-	-	-	-	-	-	-
Total liabilities	<u>\$ 214,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,106</u>
NET ASSETS	<u>-</u>	<u>668,770</u>	<u>40,000</u>	<u>708,770</u>	<u>-</u>	<u>1,000,713</u>	<u>40,000</u>	<u>1,040,713</u>
Total liabilities and net assets	<u>\$ 214,375</u>	<u>\$ 668,770</u>	<u>\$ 40,000</u>	<u>\$ 708,770</u>	<u>\$ 65,106</u>	<u>\$ 1,000,713</u>	<u>\$ 40,000</u>	<u>\$ 1,105,819</u>

See accompanying notes to financial statements.

AAUP FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
	Without Donor Restrictions	With Donor Restrictions		Total	Without Donor Restrictions	With Donor Restrictions		Total
		Temporary	Perpetual			Temporary	Perpetual	
REVENUE								
Contributions	\$ 257,015	\$ 14,997	\$ -	\$ 14,997	\$ -	\$ 22,264	\$ -	\$ 22,264
Net investment income	-	(935)	-	(935)	-	83,795	-	83,795
Other income	-	-	-	-	-	-	-	-
Subtotal	257,015	14,062	-	14,062	-	106,059	-	106,059
Net assets released from restriction	346,005	(346,005)	-	(346,005)	-	(149,804)	-	(149,804)
Total revenue	603,020	(331,943)	-	(331,943)	-	(43,745)	-	(43,745)
EXPENSES								
Program services								
Communication	4,715	-	-	-	-	-	-	36,095
Academic Freedom	289,118	-	-	-	-	-	-	138,569
Legal Defense	26,069	-	-	-	-	-	-	11,235
Glick, Rappaport & Trisman Memorial	13,229	-	-	-	-	-	-	-
Other grants	37,062	-	-	-	-	-	-	43,817
Total program services	370,193	-	-	-	-	-	-	229,716
Supporting services								
Administration	200,396	-	-	-	-	-	-	191,499
Governance	13,808	-	-	-	-	-	-	24,020
Fundraising	18,623	-	-	-	-	-	-	63,854
Total supporting services	232,827	-	-	-	-	-	-	279,373
Total expenses	603,020	-	-	-	-	-	-	509,089
CHANGE IN NET ASSETS	-	(331,943)	-	(331,943)	-	(43,745)	-	(43,745)
NET ASSETS								
Beginning of year	-	1,000,713	40,000	1,040,713	-	1,044,458	40,000	1,084,458
End of year	\$ -	\$ 668,770	\$ 40,000	\$ 708,770	\$ 40,000	\$ 1,000,713	\$ 40,000	\$ 1,040,713

See accompanying notes to financial statements.

AAUP FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services						Supporting Services				Total
	Communication	Academic Freedom	Legal Defense	Rappaport & Tristman Memorial	Other Grants		Administration	Governance	Fundraising		
Contracted services	\$ 4,452	\$ -	\$ -	\$ -	\$ 17,864	\$ -	\$ 145,067	\$ 13,799	\$ 10,452	\$ -	\$ 191,634
Facilities	-	-	-	-	-	-	29,350	-	-	-	29,350
Grants	-	289,118	26,069	13,229	17,589	-	-	-	-	-	346,005
Business expenses	-	-	-	-	-	-	15,302	-	8,171	-	23,473
Meeting and travel expenses	-	-	-	-	1,572	-	1,688	-	-	-	3,260
Office expenses	263	-	-	-	37	-	8,574	9	-	-	8,883
Other expenses	-	-	-	-	-	-	415	-	-	-	415
	<u>\$ 4,715</u>	<u>\$ 289,118</u>	<u>\$ 26,069</u>	<u>\$ 13,229</u>	<u>\$ 37,062</u>	<u>\$ -</u>	<u>\$ 200,396</u>	<u>\$ 13,808</u>	<u>\$ 18,623</u>	<u>\$ -</u>	<u>\$ 603,020</u>

See accompanying notes to financial statements.

AAUP FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services			Total
	Communication	Academic Freedom	Legal Defense	Other Grants	Administration	Governance	Fundraising	
Contracted services	\$ 35,893	\$ -	\$ -	42,639	\$ 138,992	\$ 23,952	\$ 53,370	\$ 294,846
Facilities	-	-	-	-	24,892	-	-	24,892
Grants	-	138,569	11,235	-	-	-	-	149,804
Business expenses	-	-	-	882	18,090	-	8,014	26,986
Meeting and travel expenses	-	-	-	296	772	-	-	1,068
Office expenses	202	-	-	-	8,328	68	2,470	11,068
Other expenses	-	-	-	-	425	-	-	425
	<u>\$ 36,095</u>	<u>\$ 138,569</u>	<u>\$ 11,235</u>	<u>\$ 43,817</u>	<u>\$ 191,499</u>	<u>\$ 24,020</u>	<u>\$ 63,854</u>	<u>\$ 509,089</u>

See accompanying notes to financial statements.

AAUP FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (331,943)	\$ (43,745)
Adjustments to reconcile change in net assets to cash used for operating activities		
Net investment losses (gains)	15,924	(70,523)
Change in assets and liabilities		
Accounts receivable	-	2,758
Due to from AAUP-CBC	7,048	140
Due to AAUP	142,221	(293,505)
Net cash used for operating activities	(166,750)	(404,875)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases	(177,117)	(273,397)
Proceeds from sale or redemption of investments	471,914	397,475
Net cash provided by investing activities	294,797	124,078
NET CHANGE IN CASH AND CASH EQUIVALENTS	128,047	(280,797)
CASH AND CASH EQUIVALENTS		
Beginning of year	244,816	525,613
End of year	\$ 372,863	\$ 244,816

See accompanying notes to financial statements.

AAUP FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. ORGANIZATION

The AAUP Foundation is operated exclusively as a not-for-profit public charity generally exempt from federal income tax under Internal Revenue Code Section 501(c)(3). The purpose of the AAUP Foundation is to establish and support the principles of academic freedom and the quality of higher education in a free and democratic society.

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, a 501(c)(5) labor organization.
- 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.

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. Expenses are allocated to the AAUP Foundation based on a percentage of non-direct expenses. Other expenses are allocated in proportion to the benefit derived by each entity and in accordance with a Memorandum of Understanding ("MOU") and Cost-sharing Agreement.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Statement Presentation - Financial statement presentation follows the recommendations of U.S. generally accepted accounting principles in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), *Not-for-Profit Entities - Presentation of Financial Statements*. Under those principles, the AAUP Foundation is required to report information regarding its financial position and activities according to two classes of net assets - net assets without donor restrictions, and net assets with donor restrictions. The AAUP Foundation also distinguishes between donor restrictions that are temporary and those that are perpetual in nature.

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

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

Donor-Imposed Restrictions - All contributions are considered to be available for net assets without donor restrictions use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporary donor restricted support which increases temporary donor restricted net assets. When restrictions are fulfilled in the same time period as the contribution is received, the contribution is reported as temporary donor restricted support and the AAUP Foundation recognizes net assets released from restrictions.

Cash and Cash Equivalents - Demand deposits with financial institutions are classified as cash and cash equivalents.

Investments - Investments are reported at fair market value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Equities, certificates of deposit and mutual funds are valued based on quoted market prices. Corporate obligations are valued using the closing price reported of like assets, corroborated market data, indices and/or yield curves. Money market funds are valued at cost, which approximates fair value. There have been no changes in methodologies used at December 31, 2018 and 2017. Realized and unrealized gains and losses are included in net investment income on the statements of activities. Purchases and sales of investments are recorded on a trade date basis and dividend income is recognized as of the ex-dividend date. All other income from investments is recognized as earned on the accrual basis. Investment income is reported in the statements of activities net of all external and direct internal investment expenses.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

As part of the AAUP Foundation's liquidity management, it has a practice to structure its financial assets to be available as general expenditures, liabilities, releases of donor restricted funds and other obligations come due. As described in Note 7, the AAUP Foundation and the AAUP executed an agreement whereby the AAUP agreed to fund a portion of the Foundation's without donor restricted expenses for the fiscal years 2016 through 2018.

NOTE 3. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES (CONTINUED)

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

	<u>2018</u>	<u>2017</u>
Total assets at end of year	<u>\$ 923,145</u>	<u>\$ 1,105,819</u>
Less amounts not available to meet general expenditures coming due within one year		
Endowment and donor restricted investments	<u>(708,770)</u>	<u>(1,040,713)</u>
Financial assets available to meet general expenditures coming due in the next year	<u>\$ 214,375</u>	<u>\$ 65,106</u>

NOTE 4. NET ASSETS WITH DONOR RESTRICTIONS

Endowment Funds

The AAUP Foundation adheres to Endowments of Not-for-Profit Organizations: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds*. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of donor-restricted funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, AAUP Foundation classifies the following as net assets with donor restrictions - perpetual:

- a) the original value of gifts donated to a permanent endowment;
- b) the original value of subsequent gifts to a permanent endowment; and
- c) accumulation to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, AAUP Foundation considers the following factors in making a determination to appropriate perpetual donor restricted funds:

- a) Duration and preservation of the fund.
- b) Mission of AAUP Foundation and purpose of the donor-restricted fund.
- c) General economic conditions.
- d) Possible effect of inflation and deflation on the fund.
- e) Expected total return from income and appreciation of investments.
- f) Other AAUP Foundation resources.
- g) The AAUP Foundation investment policies.

NOTE 4. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The AAUP Foundation's investment philosophy is to balance risk and reward in accordance with reasonable and prudent investment practices. The AAUP Foundation intends its investment program to take a long-term perspective and to recognize the spending needs of the AAUP Foundation as reflected in its board approved spending practices. The AAUP Foundation expects its Investment Committee and those with direct responsibility for the management of AAUP Foundation assets to maintain that long-term perspective and to take account of those spending needs in their respective roles.

The AAUP Foundation contemplates annual distribution of a significant portion of investment returns. The AAUP Foundation expects that its net assets will be invested to provide a return greater than annual distributions so that excess returns may cover future inflation, and investment management and related fees, allowing the real value of the fund principal to be preserved.

The AAUP Foundation held the following perpetual donor restricted fund as of December 31, 2018 and 2017:

Moses and Dorothy Passer Legal Defense Fund \$40,000

In the years ended December 31, 2018 and 2017, the AAUP Foundation had the following endowment related activities:

	With Donor Restrictions		
	Temporary	Perpetual	Total
Endowment Net Assets, January 1, 2017	\$ 8,073	\$ 40,000	\$ 48,073
Contributions	-	-	-
Investment income	4,209	-	4,209
Endowment Net Assets, December 31, 2017	12,282	40,000	52,282
Contributions	-	-	-
Investment loss	(666)	-	(666)
Endowment Net Assets, December 31, 2018	<u>\$ 11,616</u>	<u>\$ 40,000</u>	<u>\$ 51,616</u>

Temporary Donor Restricted Funds

The remaining portion of donor-restricted funds that is not classified as net assets with donor restrictions - perpetual is classified as net assets with donor restrictions - temporary until those funds are appropriated for expenditure by AAUP Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the AAUP Foundation considers the following factors in making a determination to appropriate from its temporary donor restricted funds:

- a) General economic conditions;
- b) The possible effect of inflation or deflation;
- c) Expected tax consequences, if any, of investment decisions or strategies;

NOTE 4. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

- d) The role that each investment or course of action plays within the overall investment portfolio of the fund;
- e) The expected total return from income and the appreciation of investments;
- f) Other resources of the AAUP Foundation;
- g) The needs of the AAUP Foundation and the fund to make distributions and to preserve capital; and
- h) An asset's special relationship or special value, if any, to the charitable purposes of the AAUP Foundation.

The AAUP Foundation holds temporary donor restricted funds as of December 31, 2018 and 2017 as detailed below.

	2018	2017
Academic Freedom Fund	\$ 408,393	\$ 683,832
Legal Defense Fund	206,903	233,590
Glick, Rappaport & Tristman Memorial Fund	15,127	28,488
Burgan Fund	11,041	15,443
Beatrice Konheim Fund	4,486	7,891
Contingent Faculty Fund	11,204	13,305
Moses and Dorothy Passer Legal Defense Fund	11,616	12,282
Industry and the Academy Fund	-	5,882
	<u>\$ 668,770</u>	<u>\$ 1,000,713</u>

The following amounts were released from restriction during the years ended December 31, 2018 and 2017 as purpose restrictions were met.

	2018	2017
Academic Freedom Fund	\$ 289,118	\$ 138,616
Legal Defense Fund	26,069	9,530
Glick, Rappaport & Tristman Memorial Fund	13,229	-
Burgan Fund	4,387	-
Beatrice Konheim Fund	3,422	-
Contingent Faculty Fund	3,804	1,658
Industry and the Academy Fund	5,976	-
	<u>\$ 346,005</u>	<u>\$ 149,804</u>

Included in the amounts released from restriction above are grants made to AAUP programs during the fiscal years ended December 31, 2018 and 2017 of \$265,451 and \$148,146, respectively, and grants made to AAUP-CBC programs during the fiscal years ended December 31, 2018 and 2017 of \$7,048 and \$0-, respectively.

NOTE 5. INVESTMENTS

The investment pool consists of the following investment classes as of December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Cash equivalents	\$ 217,607	\$ 214,823
Certificates of deposit	128,770	125,960
Equities	122,858	281,529
Exchange traded funds - fixed income	198,515	347,381
Corporate obligations	<u>100,139</u>	<u>106,133</u>
	<u>\$ 767,889</u>	<u>\$ 1,075,826</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.

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

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the AAUP Foundation has the ability to access.
- Level 2 Inputs to the valuation methodology include other significant observable inputs including:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability; and
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

NOTE 5. INVESTMENTS (CONTINUED)

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

	2018			
	Total Fair Value	Level 1	Level 2	Level 3
Cash equivalents	\$ 217,607	\$ -	\$ 217,607	\$ -
Certificates of deposit	128,770	-	128,770	-
Equities	122,858	122,858	-	-
Exchange traded funds - fixed income	198,515	198,515	-	-
Corporate obligations	100,139	-	100,139	-
	<u>\$ 767,889</u>	<u>\$ 321,373</u>	<u>\$ 446,516</u>	<u>\$ -</u>

	2017			
	Total Fair Value	Level 1	Level 2	Level 3
Cash equivalents	\$ 214,823	\$ -	\$ 214,823	\$ -
Certificates of deposit	125,960	-	125,960	-
Equities	281,529	281,529	-	-
Exchange traded funds - fixed income	347,381	347,381	-	-
Corporate obligations	106,133	-	106,133	-
	<u>\$ 1,075,826</u>	<u>\$ 628,910</u>	<u>\$ 446,916</u>	<u>\$ -</u>

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

Participants in the pool of invested assets share in the income and losses based on their percentage holdings. Participation percentages are adjusted at the beginning of each month based on the market value of each participant's investment balance.

NOTE 5. INVESTMENTS (CONTINUED)

The following donor restricted funds held positions in the investment pool at December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
<u>Temporary Donor Restricted Funds</u>		
Academic Freedom Fund	\$ 408,393	\$ 683,832
Legal Defense Fund	206,903	233,590
Henry T. Yost Fund	-	-
Glick, Rappaport & Tristman Memorial Fund	15,127	28,488
Burgan Fund	11,041	15,443
Beatrice Konheim Fund	4,486	7,891
Contingent Faculty Fund	11,204	13,305
Moses and Dorothy Passer Legal Defense Fund	11,616	12,282
Industry and the Academy Fund	-	5,882
	<u>668,770</u>	<u>1,000,713</u>
<u>Permanent Donor Restricted Funds</u>		
Moses and Dorothy Passer Legal Defense Fund	<u>40,000</u>	<u>40,000</u>
	<u>\$ 708,770</u>	<u>\$ 1,040,713</u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 19,714	\$ 14,635
Net investment gains	(15,924)	74,351
Investment expenses	<u>(4,725)</u>	<u>(5,191)</u>
	<u>\$ (935)</u>	<u>\$ 83,795</u>

NOTE 6. RISKS AND UNCERTAINTIES

The AAUP Foundation 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.

NOTE 6. RISKS AND UNCERTAINTIES (CONTINUED)

Financial instruments that subject the AAUP Foundation to concentrations of credit risk include cash and investments. While management of the AAUP Foundation 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 Foundation has not experienced, nor do they expect to experience any losses on such accounts.

NOTE 7. DUE TO AAUP

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

	<u>2018</u>	<u>2017</u>
Funds to be received from the AAUP		
Contributions	\$ 248,711	\$ 339,027
Total Funds to be received from the AAUP	<u>248,711</u>	<u>339,027</u>
Funds owed to the AAUP		
Beginning balance	65,106	358,611
Staffing expenses	86,633	185,553
Operating expenses	144,700	138,320
Fundraising	10,767	11,586
Legal and auditing	14,400	13,465
Grants	<u>221,760</u>	<u>71,145</u>
Total Funds owed to the AAUP	<u>543,366</u>	<u>778,680</u>
Net Funds owed to the AAUP Before Payments	294,655	439,653
Payments made to the AAUP	<u>87,328</u>	<u>374,547</u>
Net Funds owed to the AAUP after payments	<u>\$ 207,327</u>	<u>\$ 65,106</u>

In June 2016, the AAUP Foundation and the AAUP executed an agreement whereby the AAUP agreed to fund a portion of the Foundation's expenses for the fiscal years 2016 through 2018. The total amount funded by the AAUP to the AAUP Foundation for 2018 and 2017 was \$186,678 and \$261,442, respectively, which amounts are reflected as contribution revenue without donor restrictions. Also in June 2016, the AAUP and the AAUP-CBC executed an agreement whereby the AAUP-CBC would provide a limited contribution amount to the AAUP to assist the AAUP with its support of the AAUP Foundation for the fiscal years 2017 and 2018. The total amount funded by the AAUP-CBC to the AAUP for 2018 and 2017 was \$43,789 and \$63,045, respectively, and is reflected as contribution revenue without donor restrictions. The combined total amount funded by the AAUP (and indirectly the AAUP-CBC) to the AAUP Foundation was \$230,467 and \$324,467, respectively, for the years ended December 31, 2018 and 2017.

NOTE 7. DUE TO AAUP (CONTINUED)

During the years ended December 31, 2018 and 2017, the AAUP Foundation made grants (assets released from restrictions) to AAUP programs totaling \$265,451 and \$135,554, respectively. These grant amounts were included in the calculation to determine the net amount owed to the AAUP by the AAUP Foundation for fiscal years 2018 and 2017. For the fiscal year ended December 31, 2018, the net amount owed to the AAUP by the AAUP Foundation is \$207,327, which represents accrued grants that have yet to be paid to the AAUP by the AAUP Foundation.

NOTE 8. TAX STATUS

The AAUP Foundation is generally exempt from federal income tax under Internal Revenue Code Section 501(c)(3), except for income taxes on any unrelated business income. The AAUP Foundation had no unrelated business income in 2018 and is not a private foundation.

The AAUP Foundation 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. The AAUP Foundation performed an evaluation of uncertain tax positions for the years ended December 31, 2018 and 2017, and determined that there were no matters that would require recognition in the financial statements. As of December 31, 2018, the statute of limitations for tax for years 2015 and 2017 remain open with the local jurisdiction which AAUP Foundation files returns. It is AAUP Foundation policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income AAUP Foundation tax expense.

NOTE 9. NET ASSETS

Net assets previously reported as of December 31, 2017 were restated to conform to the presentation and disclosure requirements necessitated by the adoption of Accounting Standards Update 2016-14 as described in Note 2. Accordingly, net assets as of December 31, 2017 were restated as follows:

Net Asset Classes	As Previously Presented	After Adoption of ASU 2016-14
Temporarily restricted net assets	\$ 1,000,713	\$ -
Permanently restricted net assets	40,000	-
Net assets with donor restrictions	-	1,040,713
Total net assets	<u>\$ 1,040,713</u>	<u>\$ 1,040,713</u>

NOTE 10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 3, 2019, which is the date the financial statements were available to be issued. The review and evaluation revealed no new material event or transaction which would require an adjustment to or disclosure in the accompanying financial statements.