The American Association Of Physics Teachers, Inc.

Financial Report
December 31, 2008

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 sheet of The American Association of Physics Teachers, Inc. (the Association) as of December 31, 2008, and the related statements of activities and cash flows for the year 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 audit. The prior year's summarized comparative information has been derived from the Association's 2007 financial statements and in our report, dated November 10, 2008, we expressed an unqualified opinion on those statements.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2008 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, 2008, and the changes in its net assets and its cash flows for the year 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 report, dated 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 that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

As described in Note 5 to the financial statements, effective January 1, 2007, the Association adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension Plans and Other Postretirement Plans*.

McGladrey & Pullen, LLP

Gaithersburg, Maryland
July 22, 2009

The American Association Of Physics Teachers, Inc.

Balance Sheet
December 31, 2008
(With Comparative Totals For 2007)

Assets		2008		2007
Cash And Cash Equivalents	$	423,124	$	566,529
Investments		3,294,138		5,968,662
Receivables, net				
Grants		188,151		166,086
Due from affiliate		41,044		85,013
Membership		25,309		15,021
Other		9,655		9,655
Inventory		146,094		88,815
Prepaid Expenses		43,969		111,575
Investment In ACP		7,622		-
Property And Equipment, net		120,808		196,214
	$	4,299,914	$	7,207,570

Liabilities And Net Assets				
Liabilities				
Accounts payable and accrued expenses	$	554,670	$	734,581
Accrued payroll and related liabilities		460,233		209,362
Unearned revenue		1,558,914		1,689,089
Capital lease obligation		14,610		21,824
Investment interest in ACP		-		146,758
Deferred compensation obligation		74,986		83,776
Accrued postretirement benefit obligation		359,197		234,773
		3,022,610		3,120,163
Commitments (Note 9)				
Net Assets				
Unrestricted				
Undesignated		719,647		3,370,046
Board designated		125,972		231,615
		845,619		3,601,661
Temporarily restricted		-		54,061
Permanently restricted		431,685		431,685
		1,277,304		4,087,407
	$	4,299,914	$	7,207,570

See Notes To Financial Statements.

The American Association Of Physics Teachers, Inc.

Statement Of Activities
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	Unrestricted					
	Undesignated	Board Designated	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Revenue and support:						
American Journal of Physics	$ 1,251,994	$ -	$ -	$ -	$ 1,251,994	$ 1,186,127
The Physics Teacher	811,584	-	-	-	811,584	773,092
Investment (loss) income	(1,294,488)	(101,001)	(32,806)	-	(1,428,295)	363,786
Other publications	150,929	-	-	-	150,929	312,663
Meetings, workshops and projects	549,215	-	-	-	549,215	774,965
Membership	719,397	-	-	-	719,397	631,514
Federal grants	1,177,761	-	-	-	1,177,761	1,475,830
Contributions	225,200	15,673	2,224	-	243,097	295,439
International Physics Olympiad	139,061	-	-	-	139,061	120,432
Share in earnings of investment in ACP	154,380	-	-	-	154,380	163,960
Miscellaneous income	1,388	-	-	-	1,388	1,647
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	6,099,455
Expenses:						
American Journal of Physics	696,444	-	-	-	696,444	887,263
The Physics Teacher	748,840	-	-	-	748,840	527,694
Other publications	899,667	-	-	-	899,667	1,059,704
Meetings, workshops and projects	1,206,475	-	-	-	1,206,475	1,779,131
Membership	846,187	-	-	-	846,187	552,663
Federal grants	1,456,316	-	-	-	1,456,316	1,522,862
General and administrative	517,680	-	-	-	517,680	917,925
Fundraising	84,581	-	-	-	84,581	2,777
Total expenses	6,456,190	-	-	-	6,456,190	7,250,019
Change in net assets before effect of adoption of SFAS No. 158	(2,525,975)	(105,643)	(54,061)	-	(2,685,679)	(1,150,564)
Effect of adoption of recognition provision of SFAS No. 158/change in minimum liability	(124,424)	-	-	-	(124,424)	(63,947)
Change in net assets	(2,650,399)	(105,643)	(54,061)	-	(2,810,103)	(1,214,511)
Net assets:						
Beginning	3,370,046	231,615	54,061	431,685	4,087,407	5,301,918
Ending	$ 719,647	$ 125,972	$ -	$ 431,685	$ 1,277,304	$ 4,087,407

See Notes To Financial Statements.

The American Association Of Physics Teachers, Inc.

Statement Of Cash Flows
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	$ (2,810,103)	$ (1,214,511)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	83,766	61,315
Loss (gain) on investments	1,566,399	(179,019)
Earnings on investment in ACP	(154,380)	(163,960)
Contributions restricted for long-term purposes	-	(208,955)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	11,616	371,449
Inventory and prepaid expenses	10,327	(114,874)
Increase (decrease) in:		
Accounts payable and accrued liabilities	70,960	348,714
Unearned revenue	(130,175)	(196,841)
Deferred compensation obligation	(8,790)	20,179
Accrued postretirement benefit obligation	124,424	105,413
Net cash used in operating activities	(1,235,956)	(1,171,090)
Cash Flows From Investing Activities		
Purchases of investments	(533,234)	(3,054,534)
Proceeds from sale of investments	1,641,359	4,428,049
Purchase of property and equipment	(8,360)	(180,455)
Net cash provided by investing activities	1,099,765	1,193,060
Cash Flows From Financing Activities		
Principal payments on capital lease obligation	(7,214)	(9,898)
Contributions restricted for long-term purposes	-	208,955
Net cash (used in) provided by financing activities	(7,214)	199,057
Net (decrease) increase in cash and cash equivalents	(143,405)	221,027
Cash And Cash Equivalents		
Beginning	566,529	345,502
Ending	$ 423,124	$ 566,529
Supplemental Disclosure Of Cash Flow Information		
Cash paid for interest	$ 107,883	$ 88,468
Supplemental Schedule Of Noncash Investing And Financing Activities		
Acquisition of equipment through capital lease obligation	$ -	$ 27,811

See 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 nonprofit 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 Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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 are 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 statement of activities. Investment income is reported as an increase in unrestricted net assets, unless restricted by donor or by law.

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, 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 are 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 sheet.

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 nonexempt revenue earned is subject to unrelated business income tax. For the year ended December 31, 2008, the Association had no net unrelated business income.

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

Income taxes (continued): In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. The Association presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying SFAS No. 5, *Accounting for Contingencies*. The Association has elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises, such as the Association, included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Association will be required to adopt FIN 48 in its 2009 annual financial statements. Management has not assessed the impact of FIN 48 on its financial position and results of activities, and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

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. Interest related to bonds payable (See Note 3) is allocated to programs based on total direct and allocated indirect costs.

Impairment of long-lived assets: The Association accounts for the valuation of long-lived assets under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 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.

Prior period information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

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

Recent adopted accounting pronouncements: Effective January 1, 2008, the Association adopted SFAS No. 157, *Fair Value Measurements*, issued by FASB. SFAS No. 157 defines fair value of 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, and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS No. 157 as assumptions market participants would use in pricing as asset or liability. The Association has added the required disclosures in Note 10 to the financial statements.

In August 2008, FASB issued FASB Staff Position (FSP) No. FAS 117-1, *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 for All Endowment Funds*. FAS 117-1 addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, 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 permanently restricted cash contributions and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible pledges. The remaining portion of donor-restricted cash contributions are classified as temporarily restricted net assets, until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. The Association has added the required disclosures in Note 6 to the 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 (loss) of $7,622 and $(146,758) for the years ended December 31, 2008 and 2007, respectively.

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

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

	(In Thousands)	
	2008	2007
Total assets	$ 25,610	$ 25,684
Total liabilities	$ 20,044	$ 22,308
Net assets	5,566	3,376
Total liabilities and net assets	$ 25,610	$ 25,684
Total revenue	$ 7,625	$ 6,707
Total expenses	5,435	4,940
Change in net assets	$ 2,190	$ 1,767

During the year ended December 31, 1993, the Association entered into a long-term operating lease agreement with ACP. The lease commended 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 $591,884 and $510,415 for the years ended December 31, 2008 and 2007, respectively. Rental rebates were $41,044 and $85,013 at December 31, 2008 and 2007, respectively.

The following is a schedule of the minimum lease payments due to ACP, covering the Association's share of the annual cost for principal and interest payments and building reserves at December 31, 2008:

Years Ending December 31,	
2009	$ 211,000
2010	211,000
2011	211,000
2012	211,000
2013	211,000
2014 to 2016	616,000
	$ 1,671,000

Note 3. Investments

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

		2008		2007
Short-term investments:				
Money market funds	$	59,685	$	21,386
Mutual funds		179		26,592
		59,864		47,978
Long-term investments:				
Money market funds		152,787		52,420
Mutual funds		3,081,487		5,868,264
		3,234,274		5,920,684
	$	3,294,138	$	5,968,662

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

		Unrestricted		Temporarily Restricted		2008 Total		2007 Total
Dividends and interest	$	128,305	$	9,799	$	138,104	$	184,767
Net realized and unrealized (losses) gains		(1,523,794)		(42,605)		(1,566,399)		179,019
Total investment income	$	(1,395,489)	$	(32,806)	$	(1,428,295)	$	363,786

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Association's investments have likely incurred a significant decline in fair value since December 31, 2008.

Note 4. Property And Equipment

Property and equipment and accumulated depreciation at December 31, 2008, and depreciation expense for the year ended December 31, 2008, consist of the following:

		2008		2007
Office and computer equipment	$	250,825	$	242,465
Equipment under capital lease		27,811		27,811
		278,636		270,276
Less accumulated depreciation and amortization		(157,828)		(74,062)
	$	120,808	$	196,214

Note 4. Property And Equipment (Continued)

For assets acquired under capital leases, amortization expense was approximately $5,500 and $6,000 for the years ended December 31, 2008 and 2007, respectively, and accumulated amortization was approximately $11,500 and $6,000 at December 31, 2008 and 2007, respectively.

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, 2008 and 2007, totaled approximately $124,400 and $138,900, 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 $74,986 and $83,776 for the years ended December 31, 2008 and 2007, respectively. Plan assets, which totaled $74,986 and $83,776 at December 31, 2008 and 2007, respectively, are included with long-term investments in the balance sheet.

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 participant's 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.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of SFAS Nos. 87, 88, 106 and 132(R). SFAS No. 158 applies to employers that sponsor single-employer defined benefit pension and other postretirement plans, including not-for-profit organizations. SFAS No. 158 changes the funded status calculation of its postretirement benefit plan. Funded status is defined as the difference between the fair value of the plan assets and the accumulated postretirement benefit obligation.

The major change for the Association resulting from SFAS No. 158 is that the entire unfunded excess accumulated benefit obligation over plan assets measured at December 31, 2007, will be recognized as a liability in the balance sheet, with a corresponding reduction to unrestricted net assets. Also, SFAS No. 158 requires additional disclosures regarding net periodic benefit costs and plan assets.

SFAS No. 158 is effective for nonpublic entities, including not-for-profit organizations, for fiscal years ending after June 15, 2007. Accordingly, the Association has adopted the provisions of SFAS No. 158 in its financial statements for the year ended December 31, 2007. The effect on financial statements as a result of adopting SFAS No. 158, was a decrease in unrestricted net assets of $63,947 for the year ended December 31, 2007.

Note 5. Employee Benefit Plans (Continued)

Information regarding the status of the plans at December 31, 2008, is as follows:

	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning of year:	$ 234,773	$ 236,326
Actuarial loss (gain)	105,369	(25,088)
Interest cost	20,440	13,939
Service cost	10,540	13,938
Benefits paid	(11,925)	(4,342)
Benefit obligation at end of year	$ 359,197	$ 234,773
Change in plan assets:		
Employer contributions	$ 11,925	$ 4,342
Participant contributions	11,925	4,342
Benefits paid	(23,850)	(8,684)
Fair value of plan assets at end of year	$ -	$ -
Unfunded status:	$ (359,197)	$ (234,773)
Unrecognized net actuarial loss	-	63,947
Effect of SFAS No. 158	-	(63,947)
Accrued pension liability	$ (359,197)	$ (234,773)
Accumulated benefit obligation	$ 359,197	$ 234,773
Components of net periodic benefit cost:		
Interest cost	$ 20,440	$ 13,939
Service cost	10,540	13,938
Amortization of prior service cost	18,954	18,954
Amortization of net gain (loss)	56	(253)
Net periodic benefit cost	$ 49,990	$ 46,578

Amounts recognized in the financial statements consist of the following:

	2008	2007
Accrued benefit cost	$ (359,197)	$ (234,773)
Effect of SFAS No. 158	$ -	$ 63,947

Note 5. Employee Benefit Plans (Continued)

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

	2008	2007
Discount rate	6.00%	5.75%

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

Years Ending December 31,		
2009	$	12,500
2010	$	22,000
2011	$	24,000
2012	$	25,000
2013	$	28,000
2014 – 2018	$	165,000

Estimated employer contributions: Employer contributions to the plans are expected to be approximately $12,500 for the year ending December 31, 2009.

The accumulated benefit obligation measurement date was January 1, 2008 and 2007, respectively, for the 2008 and 2007 actuarial valuations. The weighted average discount rate used in the actuarial valuation was 6.50% for 2008 and 2007. The health care cost trend rate was assumed to be 10% grading to 5% for 2008 and 2007. Benefit costs totaled $124,424 and $46,578 for 2008 and 2007, respectively.

Note 6. Restricted Net Assets

Permanently Restricted

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

		2008		2007
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
	$	431,685	$	431,685

The state of Maryland adopted UPMIFA on April 14, 2009. Thus, the Association will be subject to this new law with its year ending December 31, 2009. The Association has adopted FAS117-1 for the year ended December 31, 2008. The Board of Directors of the Association has interpreted 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:

a. The duration and preservation of the fund
b. The purposes of the Association and the donor-restricted endowment fund
c. General economic conditions
d. The possible effects of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the Association
g. 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.

Note 6. Restricted Net Assets (Continued)

There were no net asset reclassifications for the Association as a result of adopting the FSP for the year ended December 31, 2008.

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ 336,504	$ -	$ 431,685	$ 768,189
Contributions	-	-	-	-
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 the year	$ 53,253	$ -	$ 431,685	$ 484,938

Temporarily Restricted

Temporarily restricted net assets at December 31, 2008 and 2007, are available for the following purposes:

	2008	2007
Lotze Fund:		
To support the advancement of physics education	$ -	$ 44,092
Other purpose restrictions programs	-	9,969
	$ -	$ 54,061

Note 7. Board Designated Net Assets

Board designated net assets at December 31, 2008 and 2007, with Executive Board approval, are available for the following purposes:

	2008	2007
Bauder Fund:		
To support special activities in the area of physics teaching	$ 91,912	$ 194,653
Fuller Fund:		
To support the advancement of physics education	11,396	20,014
Other purpose restrictions programs	22,664	16,948
	$ 125,972	$ 231,615

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, 2008 and 2007, the amount paid to AIP totaled $614,553 and $630,470, respectively. At December 31, 2008 and 2007, $118,808 and $122,857, 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, 2008 and 2007, program expenses totaled $75,857 and $130,351, respectively. Amounts due from AIP, which are included in grant receivables at December 31, 2008 and 2007, totaled $0 and $130,351, 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, 2008 and 2007, totaled $1,852 and $8,827, respectively. No amounts were due from or to APS at December 31, 2008 and 2007.

Note 9. Commitments

Employment Agreements

The Association has negotiated employment agreements with certain employees. The agreements expire at various dates through December 31, 2011. 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 37% and 24% of its revenue in 2008 and 2007, 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.

Note 9. Commitments (Continued)

Government Contracts

The Association had a commitment under a cooperative agreement with PTRA Rural to fund approximately $1,008,000 of the total project costs with in-kind and cash support. The project expires on May 31, 2009. For the year ended December 31, 2008, the Association has reported approximately $987,000 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, 2008, the Association's future minimum lease payments under the lease agreement totaled $14,610, with $1,336 representing interest.

Note 10. Fair Value Measurement

During the year ended December 31, 2008, the Association adopted SFAS No. 157, *Fair Value Measurements*. This statement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. SFAS No. 157 requires new disclosure that establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. This statement 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 statement 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 SFAS No. 157. 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, 2008.

The table below presents the balances of assets and liabilities measured at fair value 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	-	-
	$ 3,294,138	$ 3,294,138	$ -	$ -

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 audit was made for the purpose of forming an opinion on the basic financial statements for the year ended December 31, 2008, 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 for the year ended December 31, 2008, has been subjected to the auditing procedures applied in the audit 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. The supplementary information for the year ended December 31, 2007, was audited by us and in our report, dated November 10, 2008, we expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Gaithersburg, Maryland
July 22, 2009

The American Association Of Physics Teachers, Inc.

Schedule Of Functional Expenses
Year Ended December 31, 2008
(With Comparative Totals For 2007)

	Program Services	General And Administrative	Fundraising	2008 Total	2007 Total
Compensation expense	$ 1,293,018	$ 1,170,540	$ 52,516	$ 2,516,074	$ 2,484,067
Travel	351,300	133,547	-	484,847	521,063
Consultants, contracts and temporary	204,912	63,253	1,200	269,365	776,974
Editorial office expense	500,253	-	-	500,253	302,655
Participant travel and stipends	323,782	184	-	323,966	275,010
Publication costs	305,721	(300)	-	305,421	588,162
Postage, packaging and shipping	193,401	2,511	-	195,912	231,564
Debt service	-	252,855	-	252,855	259,738
Photocopying and printing	59,794	14,548	150	74,492	156,108
Honoraria	135,173	-	-	135,173	129,463
Rental operating expenses	-	189,637	-	189,637	138,563
Computer supplies and maintenance	1,068	156,879	-	157,947	169,295
Professional fees	30,413	149,104	-	179,517	100,837
Audio/visual	51,627	1,321	-	52,948	61,315
Advertising	78,414	-	106	78,520	111,333
Online journal services	97,977	-	-	97,977	203,171
Depreciation	-	83,766	-	83,766	54,495
Materials and supplies	46,608	6,213	22	52,843	60,783
Conferences, meetings, and workshops	47,147	13,660	-	60,807	51,993
Dues and memberships	61,462	1,961	72	63,495	52,440
Publishing services	55,120	-	-	55,120	126,101
Awards	53,538	2,500	-	56,038	60,990
Other facility costs	13,321	1,275	-	14,596	49,805
Bank fees	14	49,021	-	49,035	36,058
Telephone	11,583	8,850	-	20,433	20,429
Office services	-	45,557	-	45,557	32,656
Exhibit and meeting expenses	21,810	-	-	21,810	12,362
Investment expenses	-	19,241	-	19,241	44,518
Insurance	2,347	23,210	-	25,557	25,715
Storage	17,115	3,552	-	20,667	50,168
Security	4,972	-	-	4,972	2,231
Equipment and maintenance	23	139	-	162	-
Royalty expense	774	1,693	-	2,467	952
Other	1,418	43,302	-	44,720	59,005
Allocation of indirect costs	1,870,700	(1,901,215)	30,515	-	-
Total expenses	$ 5,834,805	$ 536,804	$ 84,581	$ 6,456,190	$ 7,250,019