American Psychological Association, Inc.
and Subsidiaries

# Audited Consolidated Financial Statements with Supplementary Information

YEARS ENDED DECEMBER 31, 2017 AND 2016

AMERICAN
PSYCHOLOGICAL
ASSOCIATION

# American Psychological Association, Inc. and Subsidiaries

Audited Consolidated Financial Statements with
Supplementary Information
Years Ended December 31, 2017 and 2016

# American Psychological Association, Inc. and Subsidiaries

## Contents

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

**Independent Auditor's Report**

Board of Directors
American Psychological Association, Inc.
Washington, D.C.

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the American Psychological Association, Inc. and subsidiaries (collectively, referred to as the Association), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and change in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the consolidated 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 Association'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Psychological Association, Inc. and subsidiaries as of December 31, 2017 and 2016, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

McLean, Virginia
June 7, 2018

# Consolidated Financial Statements

# American Psychological Association, Inc. and Subsidiaries

## Consolidated Statements of Financial Position

| *December 31,* | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 41,690,569 | $ 44,224,500 |
| Cash and cash equivalents, divisions | 8,108,084 | 7,599,899 |
| Investments, divisions | 3,127,318 | 2,783,163 |
| Accounts receivable | 22,666,478 | 19,136,471 |
| Publications inventory | 3,660,997 | 3,633,203 |
| Other current assets | 1,820,225 | 1,925,173 |
| **Total current assets** | 81,073,671 | 79,302,409 |
| Investments | 90,642,480 | 57,849,306 |
| Property and equipment, net | 78,778,963 | 81,908,336 |
| Deferred leasing costs, net | 6,054,846 | 4,485,350 |
| Rental abatements | 7,895,695 | 7,651,570 |
| Other assets | 4,034,841 | 3,783,125 |
| **Total assets** | $ 268,480,496 | $ 234,980,096 |
| **Liabilities and net assets** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | $ 16,763,433 | $ 15,427,888 |
| Current portion of long-term debt | 4,429,081 | 3,936,448 |
| Amounts collected/held for divisions and other groups | 11,479,361 | 10,438,780 |
| Deferred revenue | 56,204,370 | 53,882,362 |
| **Total current liabilities** | 88,876,245 | 83,685,478 |
| Post-retirement medical benefit obligation | 1,921,160 | 1,954,259 |
| Interest rate swap liabilities | - | 10,693,233 |
| Deferred compensation | 4,524,310 | 4,264,241 |
| Other liability | 255,000 | 300,500 |
| Long-term debt, net | 113,354,927 | 82,243,383 |
| **Total liabilities** | 208,931,642 | 183,141,094 |
| **Net assets** | | |
| **Unrestricted** | | |
| APA Board Designated | 37,518,913 | 18,071,262 |
| APA Undesignated | 20,100,155 | 31,646,802 |
| APAPO | 1,929,786 | 2,120,938 |
| **Total net assets** | 59,548,854 | 51,839,002 |
| **Total liabilities and net assets** | $ 268,480,496 | $ 234,980,096 |

*See accompanying notes to the consolidated financial statements.*

# American Psychological Association, Inc. and Subsidiaries

## Consolidated Statements of Activities and Change in Net Assets

| *Years Ended December 31,* | 2017 | 2016 |
|---|---|---|
| **Revenues** | | |
| Licensing, royalties, and rights | $ 74,431,096 | $ 70,713,204 |
| Rental income | 16,543,652 | 17,668,323 |
| Member dues and fees | 11,212,393 | 11,361,689 |
| Sales of publications | 10,973,478 | 13,801,594 |
| Journal subscriptions | 9,232,812 | 9,599,033 |
| Service and application fees | 4,496,854 | 4,340,770 |
| Convention and conference fees | 2,986,657 | 2,510,623 |
| Advertising | 2,767,341 | 2,474,807 |
| Grants and contracts | 2,516,785 | 2,264,563 |
| Pass-through expense reimbursements | 737,000 | 1,412,398 |
| Contributions | 253,801 | 248,235 |
| Mailing list rental | 77,902 | 103,220 |
| Interest income | 46,989 | 16,015 |
| Other revenue | 2,155,747 | 2,229,498 |
| **Total revenues** | 138,432,507 | 138,743,972 |
| **Expenses** | | |
| Salaries | 50,830,032 | 50,072,343 |
| Publication production expenses | 17,189,141 | 17,218,048 |
| Benefits | 13,008,430 | 12,542,623 |
| Building operating expenses | 12,212,546 | 12,151,674 |
| Consulting and contractual services | 9,471,301 | 8,868,860 |
| Depreciation and amortization | 8,045,967 | 7,513,384 |
| Equipment and technology | 4,858,159 | 4,533,674 |
| Convention and other meeting expenses | 4,695,341 | 4,872,328 |
| Advertising | 3,808,017 | 3,703,049 |
| Honoraria and contributions | 3,269,392 | 3,029,568 |
| Non-staff travel | 2,446,185 | 2,996,867 |
| Office expenses | 2,117,660 | 2,317,381 |
| Stipends and grants | 1,807,795 | 2,053,775 |
| Business management expenses | 1,636,006 | 1,969,524 |
| Finance related expenses | 1,156,758 | 963,285 |
| Staff travel | 980,093 | 1,089,100 |
| Professional practice grants | 338,000 | 319,094 |
| Space occupancy | 106,263 | 149,119 |
| Expense recoveries | (1,016,415) | (1,558,203) |
| **Total expenses** | 136,960,671 | 134,805,493 |
| Increase in net assets before other income (expense) | 1,471,836 | 3,938,479 |
| **Other income (expense)** | | |
| Investment income: | | |
| Realized and unrealized gains on investments, net of management fees | 9,132,590 | 5,670,587 |
| Interest income | 1,273,839 | 1,428,210 |
| Unrealized gains on interest rate swap liabilities | 888,233 | 1,954,321 |
| Interest expense | (4,097,361) | (4,623,038) |
| Loss on disposal of deferred financing costs | (19,978) | - |
| Loss on disposal of deferred leasing costs | - | (162,515) |
| Other expense, net | (31,242) | 353,503 |
| Provision for income taxes | (908,065) | (799,554) |
| **Total other income** | 6,238,016 | 3,821,514 |
| Change in net assets | 7,709,852 | 7,759,993 |
| Net assets, beginning of the year | 51,839,002 | 44,079,009 |
| **Net assets, end of the year** | $ 59,548,854 | $ 51,839,002 |

*See accompanying notes to the consolidated financial statements.*

# American Psychological Association, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

| *Years Ended December 31,* | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 7,709,852 | $ 7,759,993 |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 8,045,967 | 7,513,384 |
| Loss on disposal of deferred financing costs | 19,978 | - |
| Loss on disposal of deferred leasing costs | - | 162,515 |
| Net realized and unrealized gains on investments | (9,434,830) | (6,048,609) |
| Unrealized gains on interest rate swap liabilities | (888,233) | (1,954,321) |
| Interest on deferred financing costs | 117,222 | 119,804 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,530,007) | (55,040) |
| Publications inventory | (27,794) | 412,111 |
| Other current assets | 104,948 | (10,085) |
| Rental abatements | (244,125) | 74,463 |
| Deferred leasing costs | (2,449,177) | - |
| Other assets | (251,715) | (359,439) |
| Accounts payable and accrued expenses | 1,335,545 | (1,072,519) |
| Amounts collected/held for divisions and other groups | 1,040,581 | 369,558 |
| Deferred revenue | 2,322,008 | (244,145) |
| Post-retirement medical benefit obligation | (33,099) | (42,992) |
| Deferred compensation | 260,069 | 109,492 |
| Other liability | (45,500) | (22,500) |
| Total adjustments | (3,658,162) | (1,048,323) |
| **Net cash provided by operating activities** | 4,051,690 | 6,711,670 |
| **Cash flows from investing activities:** | | |
| Net increase in money market instruments held in investments | (26,549,690) | (274,079) |
| Purchases of investments | (12,193,995) | (29,620,186) |
| Proceeds from sales and maturities of investments | 15,041,186 | 36,337,611 |
| Purchases of property and equipment | (4,036,913) | (4,617,341) |
| **Net cash (used in) provided by investing activities** | (27,739,412) | 1,826,005 |
| **Cash flows from financing activities:** | | |
| Proceeds received under long-term debt | 90,000,000 | - |
| Principal payments under long-term debt | (57,034,704) | (3,875,890) |
| Payments made for loan costs under long-term debt | (1,498,320) | - |
| Repayment of swap liability | (9,805,000) | - |
| **Net cash provided by (used in) financing activities** | 21,661,976 | (3,875,890) |
| Net (decrease) increase in cash and cash equivalents and cash and cash equivalents, divisions | (2,025,746) | 4,661,785 |
| Cash and cash equivalents and cash and cash equivalents, divisions, beginning of the year | 51,824,399 | 47,162,614 |
| **Cash and cash equivalents and cash and cash equivalents, divisions, end of the year** | $ 49,798,653 | $ 51,824,399 |
| **Reconciliation of cash and cash equivalents and cash and cash equivalents, divisions to statements of financial position:** | | |
| Cash and cash equivalents | $ 41,690,569 | $ 44,224,500 |
| Cash and cash equivalents, divisions | 8,108,084 | 7,599,899 |
| | $ 49,798,653 | $ 51,824,399 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid for interest | $ 3,936,273 | $ 4,529,414 |
| Cash paid for income taxes, net of refunds received | $ 918,443 | $ 825,873 |

*See accompanying notes to the consolidated financial statements.*

## 1. Organization and Summary of Significant Accounting Policies

The American Psychological Association, Inc. (APA), a District of Columbia not-for-profit corporation, is a national membership organization created to advance psychology as a science and profession and as a means of promoting health, education and human welfare. APA's operations are supported primarily by membership dues, subscriptions, and other publication revenue.

In addition to the accounts of APA, the consolidated financial statements include the accounts of the following entities:

*American Psychological Association Practice Organization*

The American Psychological Association Practice Organization (APAPO) is a District of Columbia nonprofit corporation that was created by APA to promote the mutual professional interests of practicing psychologists.

The APAPO created the Education Advocacy Trust (EdAT) in 2005, a grantor trust under Sections 671 through 679 of the Internal Revenue Code. The mission of EdAT is to promote the mutual professional interests of psychologists in advancing psychology education and psychology's role in the other areas of education. EdAT is not a separate entity, but is maintained separately from the APAPO. The operations of EdAT commenced in 2006.

The APAPO Political Action Committee (PAC) was created in 2012 to provide the opportunity for individuals interested in the future of the psychology profession to contribute to the support of candidates for federal office who believe in, and have demonstrated their beliefs in, the principles to which the profession is dedicated. The PAC is organized and operates in compliance with the Federal Election Campaign Act of 1971. The PAC is a non-profit, unincorporated political committee that operates as a separate, segregated fund.

*APA 750 LLC and Subsidiary*

APA 750 LLC (APA 750) was formed on November 13, 2002 under the laws of the State of Delaware. The American Psychological Association (APA) is the sole member of the LLC. APA 750 was formed to own and operate a commercial office building containing approximately 361,000 square feet (750 First Street).

APA 750 created a subsidiary named Conference Center LLC (CCLLC or Spire) which was formed on July 28, 2014, under the laws of the State of Delaware. The purpose of CCLLC is to lease space from APA 750 for a conference center facility on the top floor of the building located at 750 First Street, as well as to manage the rental of the conference center to tenants and outside third parties. APA 750 is the sole member of CCLLC.

*APA Ten G LLC*

APA Ten G LLC (APA Ten G), was formed on November 12, 2002, under the laws of the State of Delaware. APA Ten G is 100% owned by APA, a non-profit District of Columbia corporation. APA Ten G was formed to own and operate a commercial office building containing approximately 254,000 square feet (10 G Street).

All intercompany transactions, which consist primarily of contracted services, rent, and intercompany borrowings and advances, are eliminated in consolidation.

The significant accounting policies followed by APA and its consolidated subsidiaries (collectively referred to as the Association) are described below:

*Basis of Accounting*

The consolidated financial statements of the Association have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, upon settlement, actual results could differ from those estimates.

*Revenue Recognition*

Member dues and fees, journal subscriptions and electronic licensing revenue are recorded as revenue in the period of the related membership, subscription or license. Deferred revenue represents unearned fees expected to be earned in the future.

Advertising revenue is recorded as revenue when the advertisement is published. Other publication sales are recorded as revenue when the publication is shipped to the customer.

APA receives grant funding from federal agencies and private foundations. Revenue is recognized only to the extent of expenditures under the terms of the grants. Grant funds not yet received are accrued to the extent that unreimbursed expenses have been incurred for the purposes specified by an approved grant. Excess expenses incurred are borne by APA. Unexpended funds are returned to the grantors if required by the grant agreement. Some grant payments are received in advance of related expenditures. These amounts are reflected in the accompanying consolidated statements of financial position as deferred revenue.

Fees for seminars, conferences, and meetings and sponsorship thereof are recognized as revenue in the period the related events are held. Fee and service revenue received in advance of the related event is reflected as deferred revenue in the accompanying consolidated statements of financial position.

Registration and exhibit fees are recognized upon completion of the related event.

Certain tenant leases contain rental abatement provisions and rental rate escalation clauses. The aggregate rent payments due over the lives of the leases are recognized as rental revenue on a straight-line basis over the full term of the leases. The differences between cash rental revenues received and rental revenues due from tenants over the lives of the leases using a straight-line calculation are recorded as rental abatements with a corresponding offset to current period rental revenue.

Contributions are recognized in the period received or promised. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, which do not state a due date, are presumed to be time-restricted by the donor until received and are reported as temporarily restricted net assets.

Contributions are recorded at fair value, which is net of estimated uncollectible amounts. The Association uses the allowance method to determine uncollectible unconditional contribution receivable. The allowance is based on experience as well as management's analysis of specific contributions made, including such factors as prior collection history, type of contribution, and nature of fundraising activity

Other revenues are recognized when earned.

*Measure of Operations*

APA's income includes all membership, journal subscriptions, publication sales, licensing/royalties, rental income and other revenues and expenses critical to APA's mission. Realized and unrealized investment gains and losses, unrealized gains and losses on interest rate swaps, interest expense related to long-term debt, provisions for income taxes, and certain other non-recurring transactions are considered to be other income (expense).

*Cash Equivalents*

APA considers investments with original maturities of three months or less to be cash equivalents, and excludes cash equivalents held temporarily for long-term investment purposes by investment custodians. Cash equivalents consist primarily of commercial paper and money market funds.

*Accounts Receivable*

Accounts receivable consists of amounts billed to customers for goods and services provided by year-end. Included in these amounts at December 31, 2017 and 2016 are billed invoices totaling $18,280,337 and $13,733,336, respectively, for annual licenses of electronic products for which the service period has commenced. APA provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. APA has determined that no allowance is necessary for 2017 or 2016.

*Publications Inventory*

Inventory consists primarily of books available for sale. APA records inventory at cost at the time of purchase. Annually, inventory value is reviewed and items with net realizable value less than cost are written off.

*Investments*

The Association's investments are recorded at fair value. The Association's noncurrent investments consist of the following at December 31:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Money market funds | $ 30,867,835 | $ 30,867,835 | $ 4,320,529 | $ 4,320,529 |
| Mutual funds | 11,090,837 | 12,948,537 | 11,224,670 | 11,274,673 |
| Common stocks | 38,264,735 | 46,826,108 | 38,283,083 | 42,254,104 |
| | $ 80,223,407 | $ 90,642,480 | $ 53,828,282 | $ 57,849,306 |

Investments held on behalf of APA's divisions consist of the following at December 31:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Mutual funds | $ 2,807,202 | $ 3,127,318 | $ 2,654,582 | $ 2,783,163 |

The interest earned on cash and investments is recorded as interest income or investment income in the accompanying consolidated statements of activities and change in net assets. Investment income on long-term investments is recorded net of management fees in the accompanying consolidated statements of activities and change in net assets. Gains and losses on investments, including changes in market value, are reported in the consolidated statements of activities and change in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation. Realized gains and losses are recorded net of management fees of $426,712 and $394,958 for the years ended December 31, 2017 and 2016, respectively.

*Property and Equipment*

The Association's policy is to capitalize property and equipment purchases in excess of $5,000. Property and equipment is recorded at cost. Expenditures for major additions and improvements are capitalized, and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired, or otherwise disposed of, the cost and accumulated depreciation is removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Buildings and improvements are amortized from the dates that the related buildings and improvements were substantially completed using the straight-line method over estimated useful lives not to exceed forty years. Tenant improvements are amortized over the term of the tenants' leases. Furniture, fixtures, and equipment are depreciated on a straight-line basis over their estimated useful lives, which range from three to ten years. Land is not depreciated or amortized.

*Valuation of Long-Lived Assets*

The Association accounts for the valuation of long-lived assets under authoritative guidance issued by the Financial Accounting Standards Board (the FASB), which requires that long-lived assets be reviewed for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of their carrying amounts to future undiscounted net cash flows they are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which their carrying amounts exceed their estimated fair values.

Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. No indicators of impairment were identified for the years ended December 31, 2017 and 2016.

When assets are sold or retired, the related cost and accumulated amortization and depreciation are removed. Any gains or losses resulting from disposition are credited or charged to operations. Expenditures for repairs and maintenance are expensed as incurred.

*Deferred Leasing Costs*

Deferred leasing costs consist of commissions, fees and costs incurred in the successful negotiation of leases and are deferred and amortized on the straight-line basis over the terms of the respective leases. Deferred leasing costs of $6,054,846 and $4,485,350 are shown net of accumulated amortization of $11,464,075 and $11,763,359 as of December 31, 2017 and 2016, respectively. Amortization expense for the years ended December 31, 2017 and 2016 was $879,681 and $814,115, respectively.

*Deferred Financing Costs*

Deferred financing costs consist of fees and costs incurred to obtain long-term financing and are amortized over the term of the related financing agreement using the effective interest method. The amortization of these costs is included in interest expense in the accompanying consolidated statements of activities and change in net assets. Deferred financing costs are netted with the long-term debt balance in the accompanying consolidated statements of financial position. Deferred financing costs of $1,695,534 and $334,415 are recorded net of accumulated amortization of $77,509 and $2,265,179 at December 31, 2017 and 2016, respectively. Interest expense was $117,222 and $119,804 for each of the years ended December 31, 2017 and 2016, respectively.

*Classification of Net Assets*

APA groups net assets into the following two classes:

*Unrestricted Net Assets - Undesignated*

APA's net assets are classified as unrestricted. APA's and APAPO's net assets result from revenues derived from providing goods and services, less expenses incurred in providing goods and services, and performing administrative functions.

*Unrestricted Net Assets - Board-Designated*

APA has Board-designated net assets for accreditation stabilization, APAIT business agreement, special purpose fund, intern stimulus plan, investment in APA, investment in APA 2.0, strategic investment, and 750 debt reserve. The accreditation stabilization designation was established to moderate fees charged for accreditation over time. The investment in APA plan designation was established in 2010 to fund the creation of new publication products, enhance IT support to facilitate the delivery of these new products, and expand marketing efforts. The investment in APA 2.0 was established in 2014 to expand the APA family of products. APAIT business agreement was established in 2013 to set aside the revenue received consistent with an agreement with the APA Insurance Trust for future expenditures as determined by the Board of Directors. Intern stimulus plan was established in 2013 to increase the number of APA-accredited internship programs and positions. The special purpose fund was established in 2014 to fund projects of importance to the association with up to three percent of the value of the long-term investment portfolio, averaged over the preceding three years. The strategic investment fund is to provide support for transformational changes in the Association over the next five years. The 750 debt reserve fund is to provide a reserve fund for possible long-term cash shortfalls for APA and APA 750 LLC.

*Functional Expenses*

APA is a national membership organization created to advance psychology as a science and profession and as a means of promoting health, education and human welfare. APAPO promotes the mutual professional interests of practicing psychologists.

In accordance with authoritative guidance issued by the FASB, the disclosure for gross operating expenses related to providing these services on a functional basis, prior to eliminations on a consolidated basis (excluding APA 750 and APA Ten G), is as follows for the years ended December 31:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | APA | APAPO | APA | APAPO |
| Member and program services | $ 91,141,272 | $ 2,598,245 | $ 89,099,286 | $ 2,530,243 |
| Fund-raising | - | 378,419 | - | 349,964 |
| General and administrative | 32,259,941 | 585,028 | 32,788,104 | 578,735 |
| | $ 123,401,213 | $ 3,561,692 | $ 121,887,390 | $ 3,458,942 |

*Derivative Financial Instruments*

APA and APA 750 have entered into interest rate swap agreements to mitigate changes in interest rates on their variable rate borrowings. The notional amounts of these agreements are used to measure the interest to be paid or received and do not represent the amount of exposure to loss. The Association’s policies prohibit the use of derivative financial instruments for speculative purposes.

The Association accounts for derivatives in accordance with authoritative guidance issued by the FASB, which requires not-for-profit entities to recognize all derivatives as either assets or liabilities in the consolidated statements of financial position and measure those instruments at their fair value. The guidance also requires that changes in the derivatives’ fair value be recognized in the consolidated statements of activities and change in net assets. Management formally documents its derivative transactions, including identifying the hedge instruments and hedged items, as well as its risk management objectives, strategies for entering into the hedge transactions, and how the hedging instrument’s effectiveness in hedging exposure to the hedge transaction’s variability in cash flows attributable to the hedged risk will be assessed.

As of November 30, 2017, in conjunction with the refinance and repayment of the existing long term debt (see Note 4), APA and APA 750 paid off the interest rate swaps (see Note 5).

The swaps are recognized as a liability in the accompanying consolidated statement of financial position at fair value at December 31, 2016. Changes in the fair value of the swaps are recorded as unrealized gains or losses in the accompanying consolidated statements of activities and change in net assets. The Association recorded unrealized gains of $888,233 and $1,954,321 on the swaps for the years ended December 31, 2017 and 2016, respectively.

*Income Taxes*

APA is exempt from Federal income tax under Section 501 (c)(3) of the Internal Revenue Code (IRC) and from District of Columbia franchise tax under applicable tax regulations, except for income from activities not related to its tax-exempt purpose, which primarily includes its share of income from APA Ten G and a portion of its income from APA 750. APA is not a private foundation under Section 509(a)(1) of the IRC. APA accounts for unrelated business income taxes in accordance with authoritative guidance issued by the FASB.

APAPO is a nonprofit organization and is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code on income other than unrelated business income. APAPO is subject to income tax in the District of Columbia on its unrelated business income. APAPO had no significant unrelated taxable business income during 2017. The PAC is generally exempt from federal income tax under Section 527 of the IRC. However, investment income earned on PAC funds is subject to federal and District of Columbia income taxes. The PAC generated no taxable income for the year ended December 31, 2017. The EdAT is not a separate entity but is part of APAPO for the purposes of Section 501(c)(6) of the Internal Revenue Code. EdAT did not generate any taxable income for the year ended December 31, 2017.

APA 750, APA Ten G and CCLLC are generally not subject to income taxes due to their tax status as disregarded entities. As such, the income, deductions, credits and other tax attributes of the LLCs flow directly to the member (i.e. APA).

In accordance with authoritative guidance issued by the FASB, APA recognizes tax liabilities when, despite the management's belief that tax return positions are supportable, APA believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense. APA is generally no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ended December 31, 2013 and prior. Management has evaluated APA's tax positions and has concluded that APA has taken no material uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

*Fair Value of Financial Instruments*

The fair value of the Association's cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses, and other accrued liabilities approximate their carrying amounts due to the relatively short maturity of these items.

*Concentrations of Credit Risk*

The Association's assets that are exposed to credit risk consist primarily of cash and cash equivalents, investments and accounts receivables. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Association has never experienced any losses related to these balances. Amounts on deposit in excess of federally insured limits at December 31, 2017 approximate $42.3 million. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments 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 investment balances and the amounts reported in the consolidated statements of financial position. The Association's accounts receivable consists primarily of amounts due from various licensees and institutions of higher education. Historically, the Association has not experienced significant losses related to accounts receivable and, therefore, believes that the credit risk related to accounts receivable is minimal.

*Post-Retirement Medical Benefit Plan*

Under authoritative guidance issued by the FASB, employers are required to fully recognize the overfunded or underfunded positions (the difference between the fair value of plan assets and the benefit obligation) of the postretirement medical benefit in the consolidated statements of financial position. The guidance also requires employers to recognize the actuarial gains and losses and the prior service costs and credits that arise during the period.

*Recently Adopted Authoritative Guidance*

In July 2015, the FASB issued guidance to modify current requirements that an entity measure inventory at the lower of cost or market value. Market value could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The guidance does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. This guidance applies to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017 and should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of this guidance does not have an impact on the Association's consolidated financial statements.

*Accounting Pronouncements Not Yet Adopted*

In May 2014, the FASB issued guidance that supersedes previously issued guidance on revenue recognition and will apply to virtually all industries. The core principle of this new guidance is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies the performance obligation. The new standard will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018. Management is evaluating the potential impact of this new guidance on the Association's consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01. This update requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions (ii) present in other comprehensive income (OCI) the changes in instrument-specific credit risk for financial liabilities measured using the fair value option, (iii) present financial assets and financial liabilities by measurement category and form of financial asset, (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price, and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. The update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. The new standard will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018. Early adoption is only permitted for the provision related to instrument-specific credit risk and the fair value disclosure exemption provided to nonpublic entities. Management is evaluating the potential impact of this new guidance on the Association's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, related to leasing for both lessees and lessors. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for the Association on January 1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is evaluating the potential impact of this new guidance on the Association's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements of Not-for-Profit Entities* related to financial reporting for nonprofit entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The new guidance is effective for the Association's financial statements as of January 1, 2018. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is evaluating the potential impact of this new guidance on the Association's consolidated financial statements.

In March 2017, FASB issued ASU 2017-07. This update applies to any employer that sponsors a defined benefit pension plan, other postretirement benefit plan, or other types of benefits accounted for under Topic 715. The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost, as defined in Topic 715, are required to be presented in the consolidated statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the consolidated statement of activities to present the other components of net benefit cost must be disclosed. The amendments in this ASU also allow only the service cost component to be eligible for capitalization when applicable. The guidance is effective for nonpublic entities for annual periods beginning after December 15, 2018. Early adoption is permitted. Management is evaluating the potential impact of this update on Association's consolidated financial statements.

*Reclassifications*

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation, with no effect on the change in net assets, as previously reported.

## 2. Property and Equipment

Property and equipment consists of the following at December 31:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 9,705,320 | $ 9,705,320 |
| Buildings and improvements | 133,101,973 | 133,721,034 |
| Furniture, fixtures and equipment | 31,526,162 | 29,634,467 |
| | 174,333,455 | 173,060,821 |
| Less: accumulated depreciation and amortization | (95,554,492) | (91,152,485) |
| | $ 78,778,963 | $ 81,908,336 |

Depreciation and amortization expense on property and equipment totaled $7,166,286 and $6,699,269 for the years ended December 31, 2017 and 2016, respectively.

## 3. Benefit Plans

*401(k) plan*

APA provides a defined contribution retirement plan (the Plan) that is a savings plan operating under Section 401(k) of the IRC. The purpose of the Plan is to provide retirement benefits for participating employees. Under the Plan, APA makes contributions to an insurance company based on a percentage of the payroll of covered employees. The contributions, together with voluntary employee contributions, are used to purchase annuities and other investments, the rights to which immediately vest with the employees. APA recorded contributions to the Plan of $2,450,730 and $2,480,626 for the years ended December 31, 2017 and 2016, respectively.

*Post-Retirement Medical Benefit Plan*

In 2004, APA established a post-retirement medical benefit plan for employees with 15 years of service who retire at or after age 59 1/2. Spouses are eligible for coverage when the retiree obtains coverage. Retiree and spouse coverage ends when each becomes eligible for Medicare. APA accounts for these post-retirement benefits in accordance with authoritative guidance issued by the FASB. Effective January 1, 2007, the post-retirement medical benefit was modified to close this benefit to employees who were not hired prior to January 1, 2008.

APA's post-retirement medical benefit obligation was $1,921,160 and $1,954,259 as of December 31, 2017 and 2016, respectively. These amounts are reflected as a non-current liability in the accompanying consolidated statements of financial position.

The following table presents the change in post-retirement medical benefit obligation in the consolidated statements of financial position for the years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Changes in benefit obligations | | |
| Benefit obligations at the beginning of the year | $ 1,954,259 | $ 1,997,251 |
| Service cost | 86,871 | 93,638 |
| Interest cost | 80,085 | 82,424 |
| Actuarial gain | (121,290) | (157,857) |
| Benefits paid | (78,765) | (61,197) |
| | $ 1,921,160 | $ 1,954,259 |

The post-retirement medical benefit cost is included in benefits expense in the accompanying consolidated statements of activities and change in net assets and is comprised of the following for the years ended December 31:

| | 2017 | 2016 |
|---|---|---|
| Service cost | $ 86,871 | $ 93,638 |
| Interest cost of the projected benefit obligation | 80,085 | 82,424 |
| Appreciation of unrecognized prior service cost | (22,344) | (6,350) |
| | $ 144,612 | $ 169,712 |

For 2017 and 2016, the discount rate used in the calculation of the projected benefit obligation and cost was 3.75%. Assumed health care cost trend rates are as follows for the years ending December 31:

| | 2017 | 2016 |
|---|---|---|
| Healthcare cost trend rate assumed for next year | 8.33% | 8.67% |
| Rate to which the cost trend rate is assumed to decline | 3.75% | 4.00% |
| Year that the rate reaches the ultimate trend rate | 2031 | 2031 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement plan. A one-percentage-point change in assumed health care cost trend rates would have the following effect as of and for the years ended:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Effect on accumulated postretirement benefit obligation | $ 147,015 | $ (132,844) | $ 157,852 | $ (142,089) |
| Effect on total service and interest cost components | $ 26,829 | $ (5,051) | $ 28,836 | $ (6,236) |

As of December 31, 2017, the following post-retirement medical benefit payments are expected to be paid:

| *Years Ending December 31,* | |
|---|---|
| 2018 | $ 88,000 |
| 2019 | 164,000 |
| 2020 | 199,000 |
| 2021 | 178,000 |
| 2022 | 231,000 |
| 2023 – 2028 | 1,699,000 |

*Section 457(b) Plan*

APA provides a defined contribution retirement plan (the 457(b) Plan) under Section 457(b) of the IRC. To be eligible to participate, an employee must have an employment contract with APA and a base annual salary of $110,000 or greater. The 457(b) Plan allows eligible employees to contribute up to 25% of their gross earnings on a pretax basis, subject to Internal Revenue Code limitations. There are no employer matching contributions. Employee contributions are remitted to an insurance company and are used to purchase annuities and other investments. Until paid or made available to the participant or beneficiary, all deferred amounts and investments earnings related to deferral amounts are solely the property and rights of APA and are subject to claims of APA's general creditors. Participants' rights under the 457(b) Plan are equal to those of a general creditor of APA. As of December 31, 2017 and 2016, the 457(b) Plan assets totaled $3,725,313 and $3,458,262, respectively, and are included in other assets and in deferred compensation in the accompanying consolidated statements of financial position.

*Executive Supplemental Compensation*

APA provides an executive supplemental compensation and termination benefit allowance to eligible employees. To be eligible, an employee must be an executive director and have been employed by APA for at least five years. The benefit is forfeited if the employee is terminated with cause, or voluntarily terminates prior to their employment contract expiration date. At December 31, 2017 and 2016, accrued supplemental compensation under this arrangement totaled $798,997 and $805,979, respectively, and are included in deferred compensation in the accompanying consolidated statements of financial position. APA recorded related expense totaling $185,238 and $143,854 in 2017 and 2016, respectively. Additionally, APA recorded payouts related to this benefit totaling $0 and 407,344 in 2017 and 2016, respectively.

## 4. Long-Term Debt and Line-of-Credit

Long-term debt consists of the following at December 31:

| | 2017 | 2016 |
|---|---|---|
| Long-term loan; variable interest rate; collateralized by real property; repaid in November 2017 | $ - | $ 19,659,441 |
| Tax exempt bonds; variable interest rate; collateralized by real property; repaid in November 2017 | - | 12,115,000 |
| Long-term loan; variable interest rate; collateralized by real property; repaid in November 2017 | - | 23,894,179 |
| Note payable; 3.63%; collateralized by real property, improvements and leases; maturing December 2037 | 90,000,000 | - |
| Note payable; 4.60%; collateralized by real property; maturing December 2032 | 29,479,542 | 30,845,626 |
| | 119,479,542 | 86,514,246 |
| Less: current portion of long-term debt | (4,429,081) | (3,936,448) |
| | 115,050,461 | 82,577,798 |
| Less: unamortized deferred financing costs | (1,695,534) | (334,415) |
| | $ 113,354,927 | $ 82,243,383 |

The following schedule shows principal payments due under long-term debt as of December 31, 2017:

| *Years Ending December 31,* | APA | APA 750 | APA Ten G | Total |
|---|---|---|---|---|
| 2018 | $ - | $ 3,120,529 | $ 1,308,552 | $ 4,429,081 |
| 2019 | - | 3,235,708 | 1,491,744 | 4,727,452 |
| 2020 | - | 3,355,138 | 1,561,830 | 4,916,968 |
| 2021 | - | 3,478,977 | 1,635,208 | 5,114,185 |
| 2022 | - | 3,607,386 | 1,712,034 | 5,319,420 |
| Thereafter | - | 73,202,262 | 21,770,174 | 94,972,436 |
| | $ - | $ 90,000,000 | $ 29,479,542 | $ 119,479,542 |

On November 30, 2017, the Association refinanced the property at 750 First Street for a $90,000,000 note payable. The amounts due under tax-exempt bonds and the existing long-term notes were repaid in conjunction with the issuance of new debt.

*APA*

In May 2008, APA entered into a term loan in the amount of $25,501,167 at a rate of one-month LIBOR plus 0.85% and principal amortized over 25 years. The term loan was secured by a deed of trust on the commercial building owned by APA 750. Under the provisions of the term loan, principal and interest payments are due monthly, commencing on June 1, 2008 and continuing until May 21, 2018, the maturity date of the term loan. The debt agreement was subject to separate interest rate swap agreements until June 1, 2028 (see Note 5). Amounts due under this loan were repaid on November 30, 2017.

APA has a revolving line-of-credit, under which it may borrow up to $20,000,000. Interest payments on outstanding borrowings are due monthly at LIBOR index rate plus 1.12% (1.49% at December 31, 2017). The line-of-credit agreement expires, if not renewed, on September 1, 2018. There were no outstanding balances due under the line-of-credit at December 31, 2017 and 2016, respectively.

*APA 750*

On March 27, 2003, APA 750 borrowed $21,100,000 through tax-exempt bonds from the District of Columbia which were backed by a letter of credit. At the same time, an existing long-term note of $25,000,000 was increased to $30,900,000. On May 21, 2008, APA 750 renegotiated the terms of the long-term note and the tax-exempt bonds. The long-term note maturity was extended and the bank loan spread was reduced to LIBOR plus 0.85%. The letter of credit maturity date was also extended and the annual letter of credit fee was reduced from 0.80% to 0.60%. APA 750 borrowed an additional $3,598,833 under the long-term note to cover financing costs (see Note 5).

The notes payable were collateralized by the property at 750 First Street and were guaranteed by APA. Under the terms of the long-term note payable, principal and interest installments were due monthly. The maturity date of both the tax-exempt debt and the long-term note was May 21, 2018. The debt agreements were subject to separate interest rate swap agreements (see Note 5). On November 30, 2017, amounts due under this loan were repaid.

On November 30, 2017, APA 750 refinanced the property at 750 First Street for a $90,000,000 note and used the proceeds to pay off the tax-exempt bonds and the existing long-term note. The new loan has a 20 year term with a 3.63% fixed interest rate. The note is secured by a deed of trust, assignment of rents, security agreement and fixture filing that encumbers the real property and improvements thereon owned by APA 750 and includes a blanket assignment of all rents and leases of the property.

*APA Ten G*

On November 15, 2002, APA Ten G entered into a note with a third-party lender in the amount of $43,000,000 at 5.66% interest amortized over 30 years. The note is secured by a deed of trust, assignment of leases and rents, and a security agreement and fixture filing that encumbers the real property and improvements thereon owned by APA Ten G and includes a blanket assignment of all rents and leases of the property. Certain agreements, permits, and contracts are also pledged as collateral. On September 4, 2012, this note was refinanced with the same lender in the amount of $36,000,000 at 4.60% interest amortized over 20 years. This note requires monthly payments of principal and interest of $229,702.

In conjunction with the note, APA has guaranteed certain provisions of the note specific to payment of non-recourse carve-out obligations defined as loss, costs, or damage arising out of fraud or misrepresentation. APA is not guaranteeing payment of any portion of the indebtedness or performance of any portion of the obligations under the terms of the note other than the non-recourse carve-out obligations.

In addition, APA Ten G is subject to various debt covenants, primarily related to leasing transactions, including lender approval for all leases over 15,000 square feet, and quarterly and annual certification of tenant and rent occupancy, as well as quarterly unaudited financial statements.

## 5. Interest Rate Swap Agreements

*APA*

APA had entered into an interest rate swap agreement to effectively exchange a variable interest rate to a fixed rate of 4.50% for a term loan through June 1, 2028. On November 15, 2017, APA repaid the interest rate swap liability, in anticipation of the refinance of long-term debt as described in Note 4.

*APA 750*

On April 30, 2008, APA 750 renegotiated the terms of an existing Swap Agreement to effectively exchange the variable interest rate on tax-exempt debt to a fixed rate of 3.60% until March 1, 2028 and to effectively exchange the variable rate on the original taxable term note to 4.96% until June 1, 2028. The interest rate on the additional term loan was effectively fixed at 4.50% until June 1, 2028. The interest rate swap provider had the right to terminate the taxable loan interest rate swaps and the tax-exempt bond interest rate swap beginning on June 1, 2018 and May 1, 2018, respectively.

On December 24, 2008, APA 750 further amended the Swap Agreement to use the deed of trust as collateral for the interest rate swaps. In addition, the effective fixed rate on all of the interest rate swaps was increased by 28 basis points, effective January 1, 2009.

On November 15, 2017, in anticipation of the refinance of the long-term debt as described in Note 4, APA 750 repaid the interest rate swap liabilities.

## 6. Unrestricted Net Assets – Board-Designated

Board-designated unrestricted net assets consist of the following at December 31:

| | 2017 | 2016 |
|---|---|---|
| Strategic Investment | $ 20,005,779 | $ - |
| Investment in APA Plan 2.0 | 6,154,878 | 5,151,729 |
| 750 Debt Reserve | 5,401,560 | - |
| APAIT Business Agreement | 3,377,276 | 4,844,990 |
| Investment in APA Plan | 1,995,436 | 3,163,911 |
| Special Purpose Fund | 313,547 | 4,066,520 |
| Intern Stimulus Plan | - | 88,118 |
| Accreditation Stabilization | 270,437 | 755,994 |
| | $ 37,518,913 | $ 18,071,262 |

## 7. Related Parties

APA is affiliated with 54 divisions that represent major scientific and professional interests. The divisions operate independently from APA. Upon request, APA will act as a collection agent for dues and assessments paid by the divisions' members. Amounts collected and held by APA on behalf of the divisions are included in current assets and current liabilities in the accompanying consolidated statements of financial position. Cash and cash equivalents and investments held on behalf of the divisions totaled $11,235,402 and $10,383,062 as of December 31, 2017 and 2016, respectively.

Consolidated division data is obtained annually upon completion and filing of the division group income tax return. Selected financial data for the divisions for the year ended December 31, 2016, the latest year available, is as follows:

| | Unaudited |
|---|---|
| Assets | $ 26,134,098 |
| Liabilities | 1,439,149 |
| Net assets | 24,694,949 |
| Revenues | 7,428,990 |
| Expenses | 6,261,371 |

The American Psychological Foundation, Inc. (the Foundation), is a nonprofit corporation that provides scholarships, grants, and awards in order to advance psychology as a science and a profession and as a means of understanding behavior and promoting health and human welfare. The Foundation reimburses APA at cost for administrative expenses incurred on behalf of the Foundation. During 2017 and 2016, APA incurred $891,281 and $736,067 of reimbursable expenses, respectively. As of December 31, 2017 and 2016, $503,848 and $450,454, respectively, was due from the Foundation for these expenses.

The Federation of Associations in Behavioral and Brain Sciences, Inc. (FABBS) is a not-for-profit membership organization that promotes behavioral, psychological, and cognitive sciences. While APA maintains its membership with FABBS, it previously provided administrative services that were reimbursed by FABBS at cost. On January 31, 2016, the agreement between APA & FABBS was terminated. During 2017 and 2016, APA incurred $0 and $53,265, respectively, of reimbursable expenses under this arrangement. As of December 31, 2017 and 2016, $0 and $53,265, respectively, was due from FABBS for these expenses.

The accompanying consolidated financial statements exclude the accounts of the above organizations because APA has neither control nor ownership interest in them.

## 8. Tenant Lease Agreements

*APA 750*

At December 31, 2017, 91.0% of the space in APA 750 is rented to tenants under non-cancelable, multi-year leases that provide, in some instances, rental rate escalation clauses based on both the Consumer Price Index and increases in property operating expenses. These leases expire at various dates through December 2029. These increases are generally payable in equal installments throughout the year, based on estimated increases, with any differences adjusted in the succeeding year.

At December 31, 2017, approximate minimum future lease payments to be received are as follows:

| *Years Ending December 31,* | Total | Elimination of APA Rent | Net |
|---|---|---|---|
| 2018 | $ 13,856,000 | $ (8,111,000) | $ 5,745,000 |
| 2019 | 14,485,000 | (8,314,000) | 6,171,000 |
| 2020 | 14,631,000 | (8,523,000) | 6,108,000 |
| 2021 | 14,307,000 | (8,735,000) | 5,572,000 |
| 2022 | 14,378,000 | (8,953,000) | 5,425,000 |
| Thereafter | 68,333,000 | (48,237,000) | 20,096,000 |
| | $ 139,990,000 | $ (90,873,000) | $ 49,117,000 |

Minimum future lease payments are based on existing leases as of December 31, 2017, and do not include amounts that may be received under tenant leases for charges to recover certain operating costs, lease extensions or new tenancies upon expiration of existing leases.

During the years ended December 31, 2017 and 2016, APA 750 had leases with two tenants (one of which is APA) that each comprised 10% or more of APA 750's gross rental receipts. Gross rental receipts from these tenants approximated $9,220,000 and $9,573,000 for the years ended December 31, 2017 and 2016, respectively.

APA leases approximately 190,439 square feet of net rentable space, which represents approximately 53% of total rentable space. APA's lease commenced on January 10, 1992 and extends through December 31, 2027. The existing lease between APA 750 and APA had an expiration date of December 31, 2017. In January 2017, APA 750 and APA signed an amendment to the existing lease to extend the lease term through December 31, 2027. Gross receipts recorded by APA 750 from APA during 2017 and 2016 were $7,471,888 and $7,863,943, respectively. In addition, APA 750 incurred asset management fees of $23,233 and $111,100 for services provided by APA during the years ended December 31, 2017 and 2016, respectively.

During the years ended December 31, 2017 and 2016, Conference Center LLC (subsidiary of APA 750) recorded meeting rental income from APA totaling $288,300 and $249,500, respectively. As of December 31, 2017 and 2016, amounts due from APA related to this income totaled $26,000 and $64,700, respectively.

APA and the District of Columbia entered into a tax abatement agreement effective August 1, 2006, which reduces real estate taxes paid by APA 750. In exchange for the tax abatement, APA is required to host its annual convention in Washington, DC once every three years. Real estate taxes paid to the District of Columbia have been reduced by approximately $1,768,000 and $1,903,000 for the years ended December 31, 2017 and 2016, respectively.

*APA Ten G*

At December 31, 2017, 88.4% of the space in APA Ten G is rented to tenants under non-cancelable, multi-year leases that provide, in some instances, rental rate escalation clauses based on both the Consumer Price Index and increases in property operating expenses. These leases expire at various dates through December 2031. These increases are generally payable in equal installments throughout the year, based on estimated increases, with any differences adjusted in the succeeding year.

At December 31, 2017, approximate minimum future lease payments to be received are as follows:

| *Years Ending December 31,* | |
|---|---|
| 2018 | $ 8,243,000 |
| 2019 | 7,515,000 |
| 2020 | 9,236,000 |
| 2021 | 9,552,000 |
| 2022 | 9,777,000 |
| Thereafter | 42,069,000 |
| | $ 86,392,000 |

Minimum future lease payments are based on existing leases as of December 31, 2017, and do not include amounts that may be received under tenant leases for charges to recover certain operating costs, lease extensions, or new tenancies upon expiration of existing leases.

During the years ended December 31, 2017 and 2016, APA Ten G had leases with three tenants that each comprised 10% or more of gross rental receipts. Gross rental receipts from these tenants approximated $8,499,000 and $8,647,000 for the years ended December 31, 2017 and 2016, respectively.

APA Ten G incurred expenses related to asset management services provided by APA in amounts totaling $42,800 and $85,400 in 2017 and 2016, respectively. As of December 31, 2017 and 2016, amounts totaling $42,800 and $85,400, respectively, were due to APA for these services.

## 9. Income Taxes

The Association records deferred income tax assets for estimated future tax consequences. Deferred income tax assets are measured by applying enacted statutory rates applicable to the future years in which deferred income tax assets are expected to be settled or realized. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized.

The provision for income taxes totaled $908,065 and $779,554 for the years ended December 31, 2017 and 2016, respectively.

## 10. Fair Value Measurements

Certain assets and liabilities are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the reporting entity should use valuation models.

The Association's assets and liabilities recorded at fair value are categorized based on the priority of the inputs used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.

- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the investment.

- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Association uses to measure its assets and liabilities at fair value.

*Investments*

Investments include money market funds, mutual funds and common stocks.

In general, and where applicable, the Association uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments. If quoted prices in active markets for identical assets are not available to determine fair value, then the Association uses quoted prices for similar assets or inputs other than the quoted prices that are observable either directly or indirectly. These investments are included in Level 2. The Association's Level 3 assets primarily consist of annuities. The Association values the Level 3 investment using internally-developed valuation models, whose inputs include interest rate curves, credit spreads, stock prices, and volatilities. Unobservable inputs used in these models are significant to the fair value of the investment.

*Derivative Instruments*

Derivatives include the Association's interest rate swap liabilities associated with its long-term debt.

Derivative instruments are generally classified within Level 2 of the fair value hierarchy due to the use of dealer quotations, which are model-based calculations based on market-based inputs, including, but not limited to, contractual terms, yield curves, prepayment rates, and the correlation of these inputs (see Note 5).

*Fair Value on a Recurring Basis*

Financial assets measured at fair value on a recurring basis are summarized below:

| | As of December 31, 2017 | | | |
|---|---|---|---|---|
| | Assets Measured At Fair | Fair Value Hierarchy Level | | |
| *Description* | Value | Level 1 | Level 2 | Level 3 |
| Investments | | | | |
| Money Market funds | $ 30,867,835 | $ 30,867,835 | $ - | $ - |
| Common stocks | | | | |
| Consumer industry | 4,430,264 | 4,430,264 | - | - |
| Energy industry | 5,006,319 | 5,006,319 | - | - |
| Finance industry | 10,086,149 | 10,086,149 | - | - |
| Health care industry | 6,485,382 | 6,485,382 | - | - |
| Industrial industry | 10,955,418 | 10,955,418 | - | - |
| IT industry | 8,810,813 | 8,810,813 | - | - |
| Materials industry | 1,051,763 | 1,051,763 | - | - |
| | 46,826,108 | 46,826,108 | - | - |
| Mutual funds | | | | |
| Government bond | 577,181 | 577,181 | - | - |
| Corporate bond | 298,709 | 298,709 | - | - |
| International stock | 4,367,850 | 4,367,850 | - | - |
| Mid cap equity | 7,704,797 | 7,704,797 | - | - |
| | 12,948,537 | 12,948,537 | - | - |
| Investments, divisions (see Note 7) | | | | |
| Mutual funds | | | | |
| Government bond | 249,784 | 249,784 | - | - |
| Corporate bond | 227,036 | 227,036 | - | - |
| Large cap stock | 2,594,446 | 2,594,446 | - | - |
| Mid cap stock | 38,484 | 38,484 | - | - |
| International stock | 17,568 | 17,568 | - | - |
| | 3,127,318 | 3,127,318 | - | - |
| 457(b) Plan assets (see Note 3) | | | | |
| Mutual funds | | | | |
| Money fund | 229,427 | 229,427 | - | - |
| International equity | 86,157 | 86,157 | - | - |
| Large cap equity | 1,575,894 | 1,575,894 | - | - |
| Mid cap equity | 109,432 | 109,432 | - | - |
| Small cap equity | 183,771 | 183,771 | - | - |
| Corporate bond | 423,071 | 423,071 | - | - |
| Target dated funds | 842,833 | 842,833 | - | - |
| Real estate funds | 274,728 | 274,728 | - | - |
| | 3,725,313 | 3,725,313 | - | - |
| Total | $ 97,495,111 | $ 97,495,111 | $ - | $ - |

| | As of December 31, 2016 | | | |
|---|---|---|---|---|
| | Assets Measured At Fair | Fair Value Hierarchy Level | | |
| *Description* | Value | Level 1 | Level 2 | Level 3 |
| Investments | | | | |
| Money Market funds | $ 4,320,529 | $ 4,320,529 | $ - | $ - |
| Common stocks | | | | |
| Consumer industry | 6,255,726 | 6,255,726 | - | - |
| Energy industry | 3,878,834 | 3,878,834 | - | - |
| Finance industry | 9,074,221 | 9,074,221 | - | - |
| Health care industry | 5,332,977 | 5,332,977 | - | - |
| Industrial industry | 9,259,811 | 9,259,811 | - | - |
| IT industry | 7,371,869 | 7,371,869 | - | - |
| Materials industry | 1,080,666 | 1,080,666 | - | - |
| | 42,254,104 | 42,254,104 | - | - |
| Mutual funds | | | | |
| Government bond | 568,154 | 568,154 | - | - |
| Corporate bond | 291,011 | 291,011 | - | - |
| International stock | 3,819,191 | 3,819,191 | - | - |
| Mid cap equity | 6,596,317 | 6,596,317 | - | - |
| | 11,274,673 | 11,274,673 | - | - |
| Investments, divisions (see Note 7) | | | | |
| Mutual funds | | | | |
| Government bond | 235,424 | 235,424 | - | - |
| Corporate bond | 211,936 | 211,936 | - | - |
| Large cap stock | 2,298,529 | 2,298,529 | - | - |
| Mid cap stock | 23,545 | 23,545 | - | - |
| International stock | 13,729 | 13,729 | - | - |
| | 2,783,163 | 2,783,163 | - | - |
| 457(b) Plan assets (see Note 3) | | | | |
| Mutual funds | | | | |
| Money fund | 458,640 | 458,640 | - | - |
| International equity | 94,250 | 94,250 | - | - |
| Large cap equity | 1,451,562 | 1,451,562 | - | - |
| Mid cap equity | 157,802 | 157,802 | - | - |
| Small cap equity | 98,779 | 98,779 | - | - |
| Corporate bond | 304,617 | 304,617 | - | - |
| Target dated funds | 582,415 | 582,415 | - | - |
| Real estate funds | 310,197 | 310,197 | - | - |
| | 3,458,262 | 3,458,262 | - | - |
| Total | $ 64,090,731 | $ 64,090,731 | $ - | $ - |

### *Fair Value on a Nonrecurring Basis*

The Association's financial instruments that are not measured at fair value on a recurring basis as of December 31, 2017 and 2016 consisted of notes payable and tax-exempt bonds. The fair value of the Association's note payable is estimated using a discounted cash flow analysis based on the current rates offered to the Association for a note payable of the same remaining maturities with similar collateral requirements.

| | Level in | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Notes payable - bank - APA | 2 | $ - | $ - | $ 19,659,441 | $ 19,507,237 |
| Tax-exempt bonds - District of Columbia – APA 750 | 2 | - | - | 12,115,000 | 12,000,886 |
| Notes payable - bank - APA 750 | 2 | - | - | 23,894,179 | 23,702,152 |
| Notes payable – bank APA 750 | 2 | 90,000,000 | 90,000,000 | - | - |
| Notes payable - bank - APA Ten G | 2 | 29,479,542 | 30,983,309 | 30,845,626 | 32,170,854 |
| | | $119,479,542 | $120,983,309 | $ 86,514,246 | $ 87,381,129 |

Due to the short maturity of the Association's cash equivalents, their carrying values approximate fair value.

## 11. Contingencies

Along with an international law firm, the Association is a defendant in a defamation lawsuit brought by five individuals. Although it cannot be concluded that an unfavorable outcome is either probable or remote, the Association's legal counsel does not expect it to result in a judgement against the Association which would have a material adverse effect on the Association's consolidated financial statements.

## 12. Subsequent Events

The Association has evaluated its December 31, 2017 consolidated financial statements for subsequent events through June 7, 2018, the date the consolidated financial statements were available to be issued. The Association is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

# Supplementary Information

Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

## Independent Auditor's Report on Supplementary Information

Board of Directors
American Psychological Association, Inc.
Washington, D.C.

Our audits of the consolidated financial statements of the American Psychological Association included in the preceding section of this report were conducted for the purpose of forming an opinion on those consolidated statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subject to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

BDO USA, LLP

McLean, Virginia
June 7, 2018

## American Psychological Association, Inc. and Subsidiaries

### Consolidating Statement of Financial Position

*December 31, 2017*

| | APA | APAPO | APA 750 | APA Ten G | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Current assets:** | | | | | | |
| Cash and cash equivalents | $ 22,019,194 | $ 904,218 | $ 10,768,798 | $ 7,998,359 | $ - | $ 41,690,569 |
| Cash and cash equivalents, divisions | 8,108,084 | - | - | - | - | 8,108,084 |
| Investments, divisions | 3,127,318 | - | - | - | - | 3,127,318 |
| Accounts receivable | 22,251,304 | 104,730 | 131,876 | 122,096 | 56,472 | 22,666,478 |
| Publications inventory | 3,660,997 | - | - | - | - | 3,660,997 |
| Other current assets | 1,773,609 | 46,616 | - | - | - | 1,820,225 |
| **Total current assets** | 60,940,506 | 1,055,564 | 10,900,674 | 8,120,455 | 56,472 | 81,073,671 |
| Investments | 88,393,691 | 2,248,789 | - | - | - | 90,642,480 |
| Property and equipment, net | 9,350,860 | - | 41,966,025 | 27,462,078 | - | 78,778,963 |
| Investment in APA 750 | (31,066,858) | - | - | - | 31,066,858 | - |
| Investment in APA TenG | 15,203,698 | - | - | - | (15,203,698) | - |
| Deferred leasing costs, net | - | - | 1,506,943 | 4,547,903 | - | 6,054,846 |
| Rental abatements | - | - | 4,452,104 | 5,621,697 | (2,178,106) | 7,895,695 |
| Other assets | 3,725,313 | - | 263,824 | 45,704 | - | 4,034,841 |
| **Total assets** | $ 146,547,210 | $ 3,304,353 | $ 59,089,570 | $ 45,797,837 | $ 13,741,526 | $ 268,480,496 |

*See independent auditor's report on supplementary information.*

# American Psychological Association, Inc. and Subsidiaries

## Consolidating Statement of Financial Position (Continued)

*December 31, 2017*

| | APA | APAPO | APA 750 | APA Ten G | Eliminations | Total |
|---|---|---|---|---|---|---|
| **Liabilities, member's equity, and net assets** | | | | | | |
| **Current liabilities:** | | | | | | |
| Accounts payable and accrued expenses | $ 13,871,085 | $ 93,703 | $ 1,494,920 | $ 1,303,725 | $ - | $ 16,763,433 |
| Current portion of long-term debt | - | - | 3,120,529 | 1,308,552 | - | 4,429,081 |
| Amounts collected/held for divisions and other groups | 11,422,889 | - | - | - | 56,472 | 11,479,361 |
| Deferred revenue | 54,755,592 | 1,280,864 | 153,585 | 14,329 | - | 56,204,370 |
| **Total current liabilities** | 80,049,566 | 1,374,567 | 4,769,034 | 2,626,606 | 56,472 | 88,876,245 |
| Deferred rent liability | 2,178,106 | - | - | - | (2,178,106) | - |
| Post-retirement medical benefit obligation | 1,921,160 | - | - | - | - | 1,921,160 |
| Deferred compensation | 4,524,310 | - | - | - | - | 4,524,310 |
| Other liability | 255,000 | - | - | - | - | 255,000 |
| Long-term debt, net | - | - | 85,387,394 | 27,967,533 | - | 113,354,927 |
| **Total liabilities** | 88,928,142 | 1,374,567 | 90,156,428 | 30,594,139 | (2,121,634) | 208,931,642 |
| **Member's equity** | - | - | (31,066,858) | 15,203,698 | 15,863,160 | - |
| **Net assets:** | | | | | | |
| **Unrestricted** | | | | | | |
| APA Board Designated | 37,518,913 | - | - | - | - | 37,518,913 |
| APA Undesignated | 20,100,155 | - | - | - | - | 20,100,155 |
| APAPO | - | 1,929,786 | - | - | - | 1,929,786 |
| **Total net assets** | 57,619,068 | 1,929,786 | - | - | - | 59,548,854 |
| **Total member's equity and net assets** | 57,619,068 | 1,929,786 | (31,066,858) | 15,203,698 | 15,863,160 | 59,548,854 |
| **Total liabilities, member's equity, and net assets** | $ 146,547,210 | $ 3,304,353 | $ 59,089,570 | $ 45,797,837 | $ 13,741,526 | $ 268,480,496 |

*See independent auditor's report on supplementary information.*

# American Psychological Association, Inc. and Subsidiaries

## Consolidating Statement of Activities and Change in Net Assets

*Year Ended December 31, 2017*

| | APA | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Undesignated | Designated | Total APA | APAPO | APA 750 | APA Ten G | Elimination | Total |
| **Revenues** | | | | | | | | |
| Licensing, royalties, and rights | $ 74,431,078 | $ - | $ 74,431,078 | $ 18 | $ - | $ - | $ - | $ 74,431,096 |
| Rental income | - | - | - | - | 15,711,399 | 10,502,197 | (9,669,944) | 16,543,652 |
| Member dues and fees | 9,478,157 | - | 9,478,157 | 1,734,236 | - | - | - | 11,212,393 |
| Sales of publications | 10,848,477 | - | 10,848,477 | 125,001 | - | - | - | 10,973,478 |
| Journal subscriptions | 9,232,812 | - | 9,232,812 | - | - | - | - | 9,232,812 |
| Service and application fees | 534,810 | 3,962,044 | 4,496,854 | - | - | - | - | 4,496,854 |
| Convention and conference fees | 2,981,207 | (2,650) | 2,978,557 | 8,100 | - | - | - | 2,986,657 |
| Advertising | 2,652,081 | - | 2,652,081 | 115,260 | - | - | - | 2,767,341 |
| Grants and contracts | 2,516,785 | - | 2,516,785 | - | - | - | - | 2,516,785 |
| Pass-through expense reimbursements | - | - | - | - | 286,658 | 450,342 | - | 737,000 |
| Contributions | - | - | - | 253,801 | - | - | - | 253,801 |
| Mailing list rental | 58,338 | - | 58,338 | 19,564 | - | - | - | 77,902 |
| Interest income | 36,767 | 7,339 | 44,106 | 2,883 | - | - | - | 46,989 |
| Other revenue | 516,092 | 2,076 | 518,168 | 905,890 | 389,615 | 342,074 | - | 2,155,747 |
| **Total revenues** | $ 113,286,604 | $ 3,968,809 | $ 117,255,413 | $ 3,164,753 | $ 16,387,672 | $ 11,294,613 | $ (9,669,944) | $ 138,432,507 |

*See independent auditor's report on supplementary information.*

# American Psychological Association, Inc. and Subsidiaries

## Consolidating Statement of Activities and Change in Net Assets (Continued)

*Year Ended December 31, 2017*

| | APA | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Undesignated | Designated | Total APA | APAPO | APA 750 | APA Ten G | Elimination | Total |
| **Expenses** | | | | | | | | |
| Salaries | $ 48,677,710 | $ 2,152,322 | $ 50,830,032 | $ 1,177,434 | $ - | $ - | $ (1,177,434) | $ 50,830,032 |
| Publication production expenses | 17,094,441 | 94,700 | 17,189,141 | - | - | - | - | 17,189,141 |
| Benefits | 12,997,039 | 11,406 | 13,008,445 | - | - | - | (15) | 13,008,430 |
| Building operating expenses | - | - | - | - | 6,696,842 | 5,612,804 | (97,100) | 12,212,546 |
| Consulting and contractual services | 8,002,371 | 812,676 | 8,815,047 | 669,864 | - | - | (13,610) | 9,471,301 |
| Depreciation and amortization | 1,186,179 | 1,213,684 | 2,399,863 | - | 3,061,385 | 2,584,719 | - | 8,045,967 |
| Equipment and technology | 4,198,471 | 647,548 | 4,846,019 | 15,883 | - | - | (3,743) | 4,858,159 |
| Convention and other meeting expenses | 4,173,833 | 395,123 | 4,568,956 | 139,303 | - | - | (12,918) | 4,695,341 |
| Advertising | 3,286,001 | 508,423 | 3,794,424 | 13,782 | - | - | (189) | 3,808,017 |
| Honoraria and contributions | 3,267,172 | 2,446 | 3,269,618 | - | - | - | (226) | 3,269,392 |
| Non-staff travel | 1,922,488 | 389,062 | 2,311,550 | 137,138 | - | - | (2,503) | 2,446,185 |
| Office expenses | 1,999,094 | 41,693 | 2,040,787 | 80,282 | - | - | (3,409) | 2,117,660 |
| Stipends and grants | 1,590,665 | 217,130 | 1,807,795 | - | - | - | - | 1,807,795 |
| Business management expenses | 1,567,815 | 28,220 | 1,596,035 | 39,971 | - | - | - | 1,636,006 |
| Finance related expenses | 1,099,315 | - | 1,099,315 | 57,443 | - | - | - | 1,156,758 |
| Staff travel | 862,765 | 99,155 | 961,920 | 24,191 | - | - | (6,018) | 980,093 |
| Professional practice grants | - | - | - | 338,000 | - | - | - | 338,000 |
| Space occupancy | 8,064,247 | - | 8,064,247 | - | - | - | (7,957,984) | 106,263 |
| Expense recoveries | (5,090,620) | 1,888,639 | (3,201,981) | 868,401 | - | - | 1,317,165 | (1,016,415) |
| **Total expenses** | 114,898,986 | 8,502,227 | 123,401,213 | 3,561,692 | 9,758,227 | 8,197,523 | (7,957,984) | 136,960,671 |
| Change in net assets before other income (expense) | $ (1,612,382) | $ (4,533,418) | $ (6,145,800) | $ (396,939) | $ 6,629,445 | $ 3,097,090 | $ (1,711,960) | $ 1,471,836 |

*See independent auditor's report on supplementary information.*

## American Psychological Association, Inc. and Subsidiaries

### Consolidating Statement of Activities and Change in Net Assets (Continued)

*Year Ended December 31, 2017*

| | APA | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Undesignated | Designated | Total APA | APAPO | APA 750 | APA Ten G | Elimination | Total |
| **Other income (expense)** | | | | | | | | |
| Investment income: | | | | | | | | |
| Realized and unrealized gains on investments, net of management fees | $ 8,980,826 | $ - | $ 8,980,826 | $ 151,764 | $ - | $ - | $ - | $ 9,132,590 |
| Interest income | 1,219,816 | - | 1,219,816 | 54,023 | - | - | - | 1,273,839 |
| Unrealized gains on interest rate swap liabilities | 302,141 | - | 302,141 | - | 586,092 | - | - | 888,233 |
| Interest in LLCs | 7,022,870 | - | 7,022,870 | - | - | - | (7,022,870) | - |
| Interest expense | (827,582) | - | (827,582) | - | (1,865,649) | (1,404,130) | - | (4,097,361) |
| Deferred rent expense | (1,711,960) | - | (1,711,960) | - | - | - | 1,711,960 | - |
| Provision for income taxes | (908,065) | - | (908,065) | - | - | - | - | (908,065) |
| Loss on disposal of deferred financing costs | - | - | - | - | (19,978) | - | - | (19,978) |
| Other expense, net | (31,242) | - | (31,242) | - | - | - | - | (31,242) |
| **Total other income (expense)** | 14,046,804 | - | 14,046,804 | 205,787 | (1,299,535) | (1,404,130) | (5,310,910) | 6,238,016 |
| Change in net assets and member's equity | 12,434,422 | (4,533,418) | 7,901,004 | (191,152) | 5,329,910 | 1,692,960 | (7,022,870) | 7,709,852 |
| Transfer of funds | (23,981,069) | 23,981,069 | - | - | - | - | - | - |
| Contribution from member | - | - | - | - | 3,500,000 | - | (3,500,000) | - |
| Distribution to member | - | - | - | - | (51,341,179) | (3,500,000) | 54,841,179 | - |
| Change in net assets and member's equity | (11,546,647) | 19,447,651 | 7,901,004 | (191,152) | (42,511,269) | (1,807,040) | 44,318,309 | 7,709,852 |
| Net assets and member's equity beginning of the year | 31,646,802 | 18,071,262 | 49,718,064 | 2,120,938 | 11,444,411 | 17,010,738 | (28,455,149) | 51,839,002 |
| **Net assets and member's equity (deficit), end of the year** | $ 20,100,155 | $ 37,518,913 | $ 57,619,068 | $ 1,929,786 | $ (31,066,858) | $ 15,203,698 | $ 15,863,160 | $ 59,548,854 |

*See independent auditor's report on supplementary information.*

# American Psychological Association, Inc. and Subsidiaries

## Schedule of Board-Designated Net Assets

*Year Ended December 31, 2017*

| | APA | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Accreditation Stabilization | Inv in APA Plan | Inv in APA Plan 2.0 | APAIT Business Agreement | Strategic Investment | 750 Debt Reserve | Special Purpose Fund | Intern Stimulus Plan | Total Designated |
| **Revenues** | | | | | | | | | |
| Convention and conference fees | $ 3,962,044 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 3,962,044 |
| Advertising, net | (2,650) | - | - | - | - | - | - | - | (2,650) |
| Interest income | - | - | - | - | 5,779 | 1,560 | - | - | 7,339 |
| Other revenue | 2,076 | - | - | - | - | - | - | - | 2,076 |
| **Total revenues** | 3,961,470 | - | - | - | 5,779 | 1,560 | - | - | 3,968,809 |
| **Expenses** | | | | | | | | | |
| Salaries | 1,200,991 | - | 137,384 | 800,307 | - | - | 13,640 | - | 2,152,322 |
| Consulting and contractual services | 502,463 | - | 30,250 | 244,287 | - | - | 35,676 | - | 812,676 |
| Benefits | 1,372 | - | 25 | 6,916 | - | - | 3,093 | - | 11,406 |
| Publication production expenses | - | - | 94,400 | - | - | - | 300 | - | 94,700 |
| Depreciation and amortization | - | 665,145 | 548,539 | - | - | - | - | - | 1,213,684 |
| Convention and other meeting expenses | 190,601 | - | 25,303 | 54,534 | - | - | 124,685 | - | 395,123 |
| Office expenses | 27,301 | - | 1,721 | 11,688 | - | - | 983 | - | 41,693 |
| Equipment and technology | 552,798 | - | 1,623 | 93,127 | - | - | - | - | 647,548 |
| Honoraria and contributions | - | - | 1,800 | 646 | - | - | - | - | 2,446 |
| Non-staff travel | 284,544 | - | 809 | - | - | - | 103,709 | - | 389,062 |
| Stipends and grants | - | - | - | - | - | - | 217,130 | - | 217,130 |
| Staff travel | 35,683 | - | 23,384 | 32,811 | - | - | 7,277 | - | 99,155 |
| Advertising | - | - | 492,495 | 15,928 | - | - | - | - | 508,423 |
| Business management expenses | 8,700 | - | 3,500 | - | - | - | 16,020 | - | 28,220 |
| Expense recoveries | 1,642,574 | - | 35,618 | 207,470 | - | - | 2,977 | - | 1,888,639 |
| **Total expenses** | $ 4,447,027 | $ 665,145 | $ 1,396,851 | $ 1,467,714 | $ - | $ - | $ 525,490 | $ - | $ 8,502,227 |

*See independent auditor's report on supplementary information.*

## American Psychological Association, Inc. and Subsidiaries

### Schedule of Board-Designated Net Assets (Continued)

*Year Ended December 31, 2017*

| | APA | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Accreditation Stabilization | Inv in APA Plan | Inv in APA Plan 2.0 | APAIT Business Agreement | Strategic Investment | 750 Debt Reserve | Special Purpose Fund | Intern Stimulus Plan | Total Designated |
| Change in net assets and member's equity | $ (485,557) | $ (665,145) | $ (1,396,851) | $ (1,467,714) | $ 5,779 | $ 1,560 | $ (525,490) | $ - | $ (4,533,418) |
| Transfer of funds | - | (503,330) | 2,400,000 | - | 20,000,000 | 5,400,000 | (3,227,483) | (88,118) | 23,981,069 |
| Change in net assets and member's equity | (485,557) | (1,168,475) | 1,003,149 | (1,467,714) | 20,005,779 | 5,401,560 | (3,752,973) | (88,118) | 19,447,651 |
| Net assets and member's equity, beginning of the year | 755,994 | 3,163,911 | 5,151,729 | 4,844,990 | - | - | 4,066,520 | 88,118 | 18,071,262 |
| **Net assets and member's equity, end of the year** | $ 270,437 | $ 1,995,436 | $ 6,154,878 | $ 3,377,276 | $ 20,005,779 | $ 5,401,560 | $ 313,547 | $ - | $ 37,518,913 |

*See independent auditor's report on supplementary information.*