

## Finance Committee Annual Report - 2010

The Finance Committee (FC) continued to address the major financial issues facing the Association. Given the economy, the annual budget and overseeing the long-term investment portfolio performance received much of the FC's focus throughout 2010. Some of the highlights from 2010 are discussed below:

### Long-Term Investments

It is the responsibility of the FC, with the help of its Investment Subcommittee, to oversee the performance and management of APA's long-term investments. The APA portfolio recognized an annualized return of approximately 17.5% for 2010 bringing the total value to \$67m as of 12/31/10. The cumulative annualized return of the portfolio since inception in 1988 through 12/31/10 was 11.5%. During 2010, the FC and Investment Subcommittee also devoted substantial efforts on re-structuring the asset allocation to further diversify the portfolio. In order to allow sufficient diversification, the long-term investment policy required modification to expand the asset classes to include non-core fixed income, and commodities/real assets. [A number of other policy changes were made throughout to conform to the Uniform Prudent Management of Institutional Funds Act (UPMIFA).] The long-term investment policy was approved by the Board in December 2010 and will be considered by the Council in February 2011.

### Report on 2010 Operations and 2011 Budget

The FC receives formal reports on the status of APA's financial operations at each meeting (June and December). The December report from the CFO served as an orientation for the consideration of the 2011 Budget. The CFO reported that management continues to maintain discipline in spending, and is particularly conservative with regard to the creation of new staff positions. This reduced spending, combined with unfilled positions and stable revenues, was projected at that time to produce an operating safety margin of approximately \$4.5 million for 2010. Based on this information further supplemented by the 2010 Finance Office forecast, the FC reviewed and ultimately voted unanimously to recommend approval of the Proposed 2011 Budget to the Board of Directors and Council with an operating safety margin of \$300,200 (essentially break-even on a \$114m budget).

### Investment Plan

The FC received a presentation from Tony Habash (CIO) and Gary VandenBos (ED for Publications & Databases) for an exciting new project to fund an "investment plan" for publications and technology at the APA. The presentation highlighted elements from the business plan that included the new products, market enablement, and platform capacity & infrastructure including details describing the elements for penetrating the institutional market globally as well as positioning our products using today's technology standards. The presentation included the anticipated return on investment including the estimated costs and three different assumptions on revenue. The plan calls for an investment totaling \$13m over 5 years with a range of revenues from \$17m to \$26m. The FC enthusiastically supported the proactive steps outlined to preserve and grow the publications revenue stream.

### 10G Building Debt Refinance

With the 10G LLC building debt maturity date approaching (December 2010), the FC received a report on the refinancing plans. The FC was informed that management tested the financial markets in the fall of 2010 for refinancing of the 10G debt and received competitive proposals from John Hancock (the current lender on the property) and from two large commercial banks. Management is not proposing refinancing to governance at this time due to the high prepayment penalty of ~\$3.6 million. Management will continue to monitor the financial markets, will make contacts with several other potential lenders and come back to the FC in June 2011 with recommendations.

### 2011 Focus

The FC's focus for 2011 will continue to monitor the ever-changing investment portfolio and consider next steps in the implementation following Councils consideration of the long-term investment policy statement.

The FC has been tasked with conducting a comprehensive review of the various financial policies throughout the association. The review should encompass the overarching policies that frame our finances/budget (net assets and safety margin goals) as well as the policies relating to processes or procedures. The FC has been asked to develop some options/recommendations to present to the Board at its June 2011 meeting. In order to meet this timeframe, the Treasurer-Elect indicated that she will establish a working group early in 2011 that will work virtually with management on developing some ideas. As part of this review, the FC will consider ways to use its available meeting time to most effectively address the most significant tactical and strategic financial issues facing the Association.

In addition, the FC will be monitoring our 2011 progress versus the 2011 Budget ensuring that we avoid a deficit and providing guidance versus the strategic plan as the 2012 budget is developed later in the year.