Treasurer's Report

APA—A Financially Healthy Organization

APA made significant progress in restoring its net assets during 2003. In fact, APA's net assets increased by $13.3 million, including over $10 million from the outstanding performance of our long-term investment portfolio. This represents a welcome change from the $18 million decrease in net assets we experienced last year, primarily as a result of the make whole provision related to the November 2002 building refinance.

Balance Sheet

During 2003, the association's consolidated net assets increased by $13.3 million (73.9%) from $21.0 million to $34.4 million as of December 31, 2002, and 2003, respectively. This increase in net assets was the result of several primary factors: (a) the 40%+ increase in the value of our long-term investment portfolio, (b) the gains from our building operations, and (c) the better than budgeted results from overall APA operations.

The association's finances have become more complicated every year. The consolidated statements presented herein include the activities related to APA, the APA Practice Organization, and our two buildings (Ten G and 750 First Street). In addition, we must now differentiate net assets as either "designated" or "undesignated" to properly track activity related to the Communications Research and Development Fund, the Accreditation Stabilization Reserve Fund, and the APA Practice Organization. Several tables accompanying this report summarize our consolidated financial position: Table 1 represents a simplified version of the association's consolidated balance sheet, Table 2 identifies the major categories and amounts which cause variation in our net asset values, and finally Table 3 provides additional detail for the major categories shown in Table 2.

APA's Long-Term Investments

The association's long-term investment portfolio performed very well during 2003. More specifically, the value of APA's long-term investments rebound-

2003 Long-Term Portfolio Performance Overview

	2003	Since Inception	Market Value	Style*
• Southeastern Asset Mgmt	34.54%	16.34%	$27.7 million	LCV
• Westfield Capital Mgmt	48.30%	11.81%	9.4 million	SCG
• Brandywine Mutual Fund	32.12%	31.33%	2.5 million	MCG
• International Mutual Funds:				
Vanguard	34.45%	3.50%	1.6 million	G
EuroPacific	32.91%	5.20%	1.4 million	G
Total			**$ 42.6 million**	

* LCV = Large Cap Value; SCG = Small Cap Growth; MCG = Multi-Cap Growth; G=Growth

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Treasurer

Balance Sheet (Consolidated) — Table 1

	1999	2000	2001	2002	2003
Assets:					
Cash and ST Investments	$10,123	$12,730	$9,936	$38,554	$42,228
Long-Term Investments	33,274	40,074	40,266	30,356	42,558
Land/Buildings/Equipment	102,384	97,728	93,366	89,116	86,324
Other	25,560	27,977	28,778	34,969	33,017
Total Assets	**$171,341**	**$178,509**	**$172,346**	**$192,995**	**$204,127**
Liabilities:					
Divisions/Other Groups	$3,591	$4,080	$3,989	$4,323	$4,261
Long-Term Debt	96,750	92,085	87,055	122,900	121,407
Accounts Payable/Accrued Expenses	9,583	11,145	11,595	11,687	11,611
Deferred Revenues	24,937	28,724	32,941	30,335	30,494
Deferred Rent/Real Estate Taxes	1,798	1,828	1,848	-	-
Other	1,067	1,150	1,196	2,709	1,974
Total Liabilities	$137,726	$139,012	$138,624	$171,954	$169,747
Net Assets	33,615	39,497	33,722	21,041	34,380
Total Liabilities and Net Assets	**$171,341**	**$178,509**	**$172,346**	**$192,995**	**$204,127**

(All figures shown in thousands.)

Net Assets Summary (Consolidated) — Table 2

	1999	2000	2001	2002	2003
Net Assets Beginning Balance (Consolidated)	$30,381	$33,615	$39,497	$39,309*	$21,041
APA Operations (see also Table 4)	(660)	(1,607)	(6,962)	(3,309)	429
APA Non-Operating Activity (see also Table 3)	3,894	7,456	804	(15,035)	11,865
APAPO Operations	-	33	382	76	1,045
Restatements (2002):					
Income Tax Benefit	-	-	1,965	-	-
Deferred Revenue Reversals	-	-	1,774	-	-
Deferred Real Estate Tax Expense Reversal	-	-	1,849	-	-
Total Change in Net Assets	$3,234	$5,882	$(188)	$(18,268)	$13,339
Net Assets Ending Balance (Consolidated)	**$33,615**	**$39,497**	**$39,309*** (Restated)	**$21,041**	**$34,380**
Composition of Ending Net Assets:					
APA Unrestricted/Undesignated	$33,615	$39,464	$37,120	$18,713	$30,473
Designated Activities:					
Communications R&D	n/a	n/a	679	519	715
Accreditation Stabilization	n/a	n/a	1,095	1,318	1,656
APAPO	n/a	33	415	491	1,536
Ending Net Assets, Unrestricted	**$33,615**	**$39,497**	**$39,309**	**$21,041**	**$34,380**

(All figures shown in thousands)

*During the 2002 audit, the 2001 net assets were increased to reflect several restatements (income tax benefit, deferred real estate tax, and designations for Communications R&D and Accreditation Stabilization).

Much energy was focused on filling the tenant vacancies throughout the year, and we are pleased to report that the majority of the vacant space in both buildings has been or is in the process of being leased.

ed by 40.2%, from $30.4 million to $42.6 million. A macro overview of the association's investments is provided on page 314.

The growth in the stock market during 2003 had a similar impact on the American Psychological Foundation (APF), with its net assets growing to more than $12 million (see page 319).

Building Activity

In March 2003, the association completed the final phase of the refinancing of its real estate holdings with the issuance of $21.1 million in tax-exempt bonds. The association chose to lock in at a historically low bond interest rate by the use of an interest rate swap at 4.34%. The final blended interest rate on all of the association's real estate debt is 6.01%.

Much energy was focused on filling the tenant vacancies throughout the year, and we are pleased to report that the majority of the vacant space in both buildings has been or is in the process of being leased. As for the building operations, 2003 resulted in net gains of $3.9 million ($1.3 million for 10 G and $2.6 million for 750 First Street). We anticipate that our buildings will continue to appreciate in value and that the cash flow from our building operations will increase over time.

APA Operations

The 2003 budget approved by the Council called for a modest profit from operations ($385,300) after recognition of the $2 million in cash flow from the buildings. In fact, our 2003 operations ended much better than anticipated, with a surplus of $2,429,000 after recognition of the $2 million cash flow from the buildings. This is much improved when compared to the $1,309,000 loss from 2002 operations (after recognition of the $2 million cash flow).

While the year-end results show positive financial news, this was not an easy year for a variety of reasons.

• **Distributor bankruptcy:** Early in 2003, we learned that one of our major journal subscription vendors had filed for bankruptcy, reporting that they were unable to pay the publishers (including APA) approximately $50 million in subscription payments that they had collected from universities across the country. APA's share of that $50 million was $1.3 million. In the best interest of APA and to maintain our reputation as a publisher, we agreed, as did many other publishers, to furnish the 2003 journals ordered by the universities for which we were not paid. Because our approved budget allowed very little flexibility, careful management and tight across–the–board expense controls were required to cover these costs and stay within the Council's mandated budget.

• **SARS:** In the spring of 2003, the SARS epidemic hit Toronto, host city for our annual convention. Significant concessions were negotiated from the city of Toronto which, when combined with our own cost-cutting efforts, enabled APA to salvage what could have been a disastrous convention. Total registration of 8,757 was 32% lower than the 1996 registration in Toronto, and 35% lower than the 2002 convention in Chicago. While convention-related revenues were down significantly from budget ($600,000), we were also able to reduce overall convention expenses ($460,000), thereby minimizing the negative impact on APA's bottom line. (Note: Convention-related activity is subsumed in the "other" revenue and expense lines in Table 4.)

• **Cost reductions continued:** During 2003, the association continued the cost-cutting measures implemented in 2002 to help restore APA's net assets. These measures included continuing the voluntary staff reduction program, having no salary/merit increase pool for staff, and employing many other operational restraints (printing/mailing/etc.). Based on the anticipated modest positive year-end results at that time, the Board of Directors authorized the CEO to issue after-tax bonus checks in the amount of $750 to each employee (mid-December) to partially compensate the staff for their support, given that there were no merit increases for 2003.

In addition to the revenue-related variances discussed above (journal subscriptions and convention), the final revenue variance of significance represents the exponential growth that APA has experienced in the licensing of its PsycINFO products. Due to the unrelenting efforts of our marketing staff to finalize 2003 licensing agreements during the last 45 days of the year, 2003

Non-Operating Activity (Consolidated)					**Table 3**
	1999	2000	2001	2002	2003
Long-Term Investment Activity:					
Gain/(Loss) on Sales	$2,044	$1,580	$(162)	$(1,010)	$1,123
Investment Mgmt Fees	(258)	(318)	(311)	(303)	(299)
Unrealized Gains/(Losses) (FAS 124)	1,735	5,021	(648)	(3,627)	10,082
Net Long-Term Investment Activity	**$3,521**	**$6,283**	**$(1,121)**	**$(4,940)**	**$10,906**
Building/Partnership Activities:					
Interest on Loans	$717	$734	$751	$644	$ -
Square 677/10 G Operations	(1,482)	(934)	(642)	(1,453)	1,338
G Place/750 Operations	1,318	1,622	2,085	2,569	2,640
NASW Buy-Out	-	-	-	(1,789)	-
Unrealized (Loss)/Gain on Interest Swap	-	-	-	(2,709)	735
Interest Expense	-	-	-	(485)	(2,232)
Income Tax Benefit	-	-	-	3,912	(2,222)
Minority Interest	(105)	(130)	(167)	(15)	-
Deferred Rent/RE Taxes/ Misc.	(75)	(119)	(102)	706	700
Net Building/Partnership Activity	**$373**	**$1,173**	**$1,925**	**$1,380**	**$959**
Extraordinary Items Related to Refinance					
Prepayment Penalty	-	-	-	$(10,167)	-
Write-off of Deferred Financing Costs	-	-	-	(1,308)	-
Total Non-Operating Activity	**$3,894**	**$7,456**	**$804**	**$(15,035)**	**$11,865**

(All figures shown in thousands)

ended with $21 million in licensing revenues. For comparative purposes, 2003 actual licensing revenues were $3.3 million better than our 2002 actual and $2.8 million over the 2003 final budget (February 2003). It is also important to note that 2003 marks the first year in which royalties/licensing income surpassed the income generated by hard copy journal subscriptions. We fully anticipate this trend to continue in the upcoming years. Management is making efforts to continue to monitor this shift from print to electronic so that we can efficiently meet and manage the market demands.

As for expenses, the single largest variance during 2003 occurred in salary and benefits. Salary and benefits for 2003 were down from our 2002 experience because of the one-time impact of the 2002 staff buy-outs as part of the voluntary staff reduction plan (VSRP) and the one-time 2002 impact of the termination package for the former CEO. Actual salary and benefit costs for 2003 were higher than the 2003 final budget because of two unbudgeted actions taken by the Board of Directors, namely, the December 2003 staff bonus as discussed above and the retroactive recognition for end-of-contract leave accruals for the executive directors.

To summarize, in spite of the various challenges and mid-year decisions, and with the hard work of our management and staff, we ended 2003 APA operations with a net gain of $2,429,000; the first surplus from operations in more than 5 years.

The Future

Despite a number of challenges, 2003 ended on a positive note with a substantial restoration of our net assets ($13.3 million). The refinancing of the APA buildings in late 2002 at lower interest rates over a longer amortization period has increased the net profits and cash flow generated by the buildings, which help subsidize APA programs and significantly contribute to the growth in APA net assets. The Finance Committee and Board of Directors have committed to preserve a substantial portion of the building returns for future contingencies. Building the asso-

Income and Expense Statement **Table 4**
APA Operations (Unconsolidated)

	1999	2000	2001	2002	2003
Revenues:					
Dues & Fees	$11,171	$10,901	$11,808	$12,225	$12,904
Special Assessments	4,280	4,875	-	-	-
Journal Subscriptions	18,855	19,187	19,828	20,154	19,446
Royalties/Licensing	12,385	14,302	13,588	17,716	21,012
Sales	7,550	7,912	11,093	12,335	12,737
Building Interest Inc.	7,571	7,234	6,872	-	-
Other	14,973	16,026	20,294	19,158	17,724
Total Revenues	**$76,785**	**$80,437**	**$83,483**	**$81,588**	**$83,823**
Expenses:					
Salaries and Benefits	$27,685	$29,309	$34,436	$38,278	$36,796
Production Costs	7,762	7,736	10,581	8,571	9,114
Space Costs	6,421	6,487	6,725	7,641	7,723
Boards/Committees	1,363	1,874	1,866	1,461	1,363
Consulting/Contractual	6,473	8,507	7,939	8,406	8,241
Building Interest Exp	7,571	7,234	7,090	-	-
Other	20,170	20,897	21,808	20,540	20,157
Total Expenses	**$77,445**	**$82,044**	**$90,445**	**$84,897**	**$83,394**
Net (Loss)/Gain from APA Operations*	**($660)**	**($1,607)**	**($6,962)**	**($3,309)**	**$429**

(All figures shown in thousands)

*All organizational deficits have been funded from the results of building activities, or the cash flow from buildings.

ciation's net assets assures our ability to withstand future financial challenges, and building sufficient reserves to pay-down building debt when deemed financially advantageous.

APA is a large and complex organization; this brief summary of APA's finances can only address the highlights. Should you have any questions about the association's finances, please send an e-mail to me at finances@apa.org. ■

2003 Finance Committee Members

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