TREASURER'S REPORT

Gerald P. Koocher, PhD

A Dynamic Decade of Dollars

A few months ago, I concluded the second of two 5-year terms as your Treasurer. During this 10-year span, APA has gone through a period of significant growth. In fact, annual revenues from operations have grown from $59 million in 1995 to $82 million in 2004 (see Table 1). Total assets have increased 30%, and net assets have grown over 27%. During this period, we have added additional funds to the association's investment portfolio and bolstered our real estate portfolio by constructing and operating a second commercial office building.

Challenges...

This tremendous growth has not come without significant challenges, particularly in the past 5 years. The aftermath of September 11th destabilized the stock market and this, combined with other market forces, contributed to large decreases in the market value of our investment portfolio. A shortfall in our electronic licensing revenue in 2001 caused by some faulty predictions, structural changes in our pricing methodology, and the bankruptcy of a key distributor put the association into a serious deficit situation in 2001 and 2002. By 2002 it was evident that we faced a cash flow shortage due to consecutive years of planned operating deficits, significant investments in technology, and an aggressive long-term real estate debt repayment plan. The outbreak of SARS in the city of Toronto in 2003 had the potential to seriously reduce attendance at our annual convention scheduled for Toronto that year with additional adverse economic consequences.

Another significant challenge facing APA, as well as many other member-driven organizations, is the aging of our membership base. After growing for several decades, the number of members and affiliates of the association has recently leveled off, as the new member growth has not been sufficient to offset the number of psychologists retiring from the profession. In fact, the number of members actually decreased slightly this year, from 149,026 in 2003 to 148,892 in 2004.

...And Solutions

APA management and the Board of Directors responded aggressively to all of these challenges. The significant deficits of 2001 and 2002 were addressed by across-the-board cuts in association expenses. Most significant among these was a voluntary staff-reduction program implemented in 2002, which cut the association's largest expense—salaries and benefits. APA also restructured its pricing methodology for electronic products, the revenues from which have continued to climb (see sidebar). To remedy our cyclical cash-flow shortfalls, we refinanced both buildings at lower interest rates over a longer amortization period, thereby increasing the cash flow from real estate operations. In the context of the SARS outbreak, our CEO, Norman Anderson, negotiated significant concessions from

the city of Toronto that minimized our loss of revenue from reduced attendance at the convention.

While we continue to actively market membership in the association to our colleagues, we have also sought to increase non-dues revenue sources. In 2004, membership revenue accounted for only 17% of total operating revenues. Some of our more notable new sources of non-dues revenue include the substantial growth in licensing revenues from the sale of electronic products noted above, and additional revenue from leasing space in the second office building operated by the association.

Income and Expenses

We ended the 2004 fiscal year with a planned loss on APA operations of $3.4 million (see Table 1). On a consolidated basis, including operation of the APA buildings and unrealized gains on our long-term investments, we ended the year with a net profit of $2.215 million (see Table 3). Revenues fell in line with the previous year, while expenses were slightly higher, particularly in personnel-related areas (salaries, benefits, space costs) as the association resumed more normal staffing patterns following the temporary voluntary staff-reduction program and as staff turnover dropped from previous years—reflecting the tepid national economy in 2004.

The programming highlight of the year for many members was the 2004 APA Annual Convention, held in Honolulu, where attendance surpassed all of our expectations. In fact, just short of 13,000 members joined us in Hawaii, greatly exceeding our registration projections. The 2004 Hawaiian convention got such rave reviews from the members that the Board of Directors has chosen Hawaii as the site for our 2012 convention.

The Balance Sheet

As noted in the sidebar discussion of the restructuring of our licensing revenue, the balance sheet in Table 2 restates the 2003 results along with the 2004 results to reflect the accounting change involving our licensing revenue.

Table 1. Income and Expense Statement

APA Operations (Unconsolidated)

Revenues	**2003**	**2004**
Dues & Fees	$12,088	$13,364
Journal Subscriptions	20,387	19,990
Licensing/Royalties	18,312	20,347
Sales	13,300	12,874
Other	17,392	15,160
Total Revenues	**$81,479**	**$81,735**
Expenses		
Salaries/Benefits	$36,796	$39,008
Production Costs	9,114	8,557
Space Costs	7,723	8,255
Boards/Committees	1,363	1,808
Consulting/Contractual	8,241	8,616
Other	20,157	18,971
Total Expenses	**$83,394**	**$85,215**
Net Loss from APA Operations*	**($1,915)**	**($3,480)**

Non-Operating Activity (Consolidated)

Long-Term Investment Activity:		
Gain on Sales/Interest	$ 1,123	$ 1,336
Investment Mgmt Fees	(299)	(382)
Unrealized Gains (FAS 124)	10,082	3,829
Net Long-Term Investment Activity	$ 10,906	$ 4,783
Building Activities:		
Ten G Operations	$ 1,338	$ 1,298
750 Operations	2,640	2,090
Unrealized Gain on Interest Rate Swap	735	224
Interest Expense	(2,232)	(2,152)
Income Tax Benefit	(2,222)	(1,366)
Deferred Rent	700	725
Net Building/Partnership Activity	$ 959	$ 819
Total Non-Operating Activity	**$ 11,865**	**$ 5,602**

(All figures shown in thousands)
(2003 balances have been restated)

Looking Ahead

As I hand over the Treasurer's responsibilities to Carol Goodheart, EdD, the association faces some significant fiscal oversight challenges in this post-Enron era of more intense scrutiny, particularly as we anticipate extension of Sarbanes-Oxley style legislation (nicknamed SOX by many) to the nonprofit world. APA has implemented many of the SOX standards, even though they

are not currently required of not-for-profit entities. The continued increase in the percentage of the association's total revenue, which is earned from the licensing of electronic products, poses additional challenges for the association. Many of these licenses are sold through third-party distributors. As we have experienced in the past, due to the large balances collected by the distributors, dependence on these third parties bears risk for the association until APA actually receives payment from the distributor.

Our real estate portfolio also poses challenges. Although both buildings are currently close to full occupancy, several major leases will expire in 2007 and 2008, most notably the lease with Amtrak. Amtrak occupies close to one third of the 10 G Street building. Considering the amount of space leased by Amtrak, and in spite of the questions raised annually on Capitol Hill about the long-term viability of Amtrak, we continue to monitor the situation and are pushing for an early renewal of the Amtrak lease, believing that Amtrak will survive in the end.

As our membership ages and more of our members retire or become eligible for life membership, increasing membership will be a primary focus for the association in the coming years. With our continued focus on increasing non-dues revenue sources, we hope to keep dues low as a percentage of our overall budget.

Our cash position has greatly improved since the 2002 refinancing of the buildings and will remain strong as long as the budget is balanced, the buildings remain fully leased, the interest rate market remains stable, capitalization is controlled and the equity market is stabilized.

A Personal Note

I would like to end this brief report by thanking the many Finance Committee and investment subcommittee members who have served with me over the past 10 years. A special thank you also goes to the entire accounting staff who have

Table 2. Balance Sheet (Consolidated)

Assets:	**2003**	**2004**
Cash and ST Investments	$ 42,228	$ 46,119
Long-Term Investments	42,558	50,231
Land/Buildings/Equipment	86,324	84,557
Other	33,017	31,140
Total Assets	**$ 204,127**	**$ 212,047**
Liabilities:		
Divisions/Other Groups	$ 4,261	$ 5,009
Long-Term Debt	121,407	119,497
Accounts Payable/Accrued Expenses	11,611	13,036
Deferred Revenue	40,799	46,465
Other	1,974	1,750
Total Liabilities	**$ 180,052**	**$ 185,757**
Net Assets	**24,075**	**26,290**
Total Liabilities and Net Assets	**$ 204,127**	**$ 212,047**

Table 3 . Net Assets Summary (Consolidated)

	2003	**2004**
Net Assets Beginning Balance (Consolidated)	$ 21,041	$ 24,075
APA Operations (see also Table 1)	(1,915)	(3,480)
APA Non-Operating Activity (see also Table 1)	11,865	5,602
APAPO Operations	1,045	93
Restatement: Deferred licensing revenue	(7,961)	-
Total Change in Net Assets	**$ 3,034**	**$ 2,215**
Net Assets Ending Balance (Consolidated)	**$ 24,075**	**$ 26,290**
Composition of Ending Net Assets:		
APA Unrestricted/Undesignated	$ 20,167	$ 21,545
Designated Activities:		
Communications R&D	715	1,265
Accreditation Stabilization	1,656	1,850
APAPO	1,537	1,630
Ending Net Assets, Unrestricted	**24,075**	**26,290**

(All figures shown in thousands)
(2003 balances have been restated)

Restructuring Licensing Revenue

In this era of scrutiny and compliance, particularly the impact of the Sarbanes-Oxley legislation, one of the most significant issues that arose for us in 2004 was the complete restructuring of revenue recognition for our electronic product sales. This change was necessary in order to be in compliance with Generally Accepted Accounting Principles (GAAP).

To better understand this phenomenal growth, we have included Tables 4a and 4b. Table 4a demonstrates the rapid and significant growth in electronic revenues since the late 1980s. Table 4b clearly shows that in the past several years, our income from electronic products has outpaced our income from traditional journal hard copy sales. This rapid growth brings with it many new challenges for management; such as, new pricing strategies, uneven and uncertain cash flow, third-party vendor dependence, while maintaining balanced budgets.

As a result of this growth, which now represents a significant percentage of our annual income, and due to the fact that these licenses are serviceable over a 12-month period from contract date and not tied to a calendar year subscription as in the case of hard copy journals, we now have to recognize income across multiple years.

The effect of this change means that we must recognize a liability of $11 million on our balance sheet as of December 31, 2003, which quantifies the services that we were theoretically obligated to deliver during 2004. In addition, we must also increase that liability to $15 million as of December 31, 2004 for services to be delivered during 2005.

Table 4a

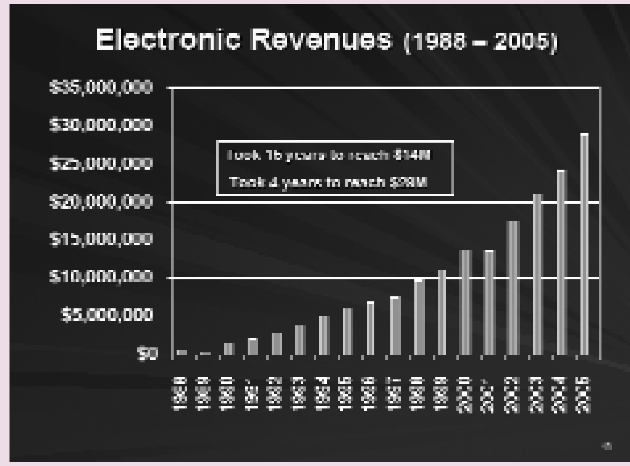
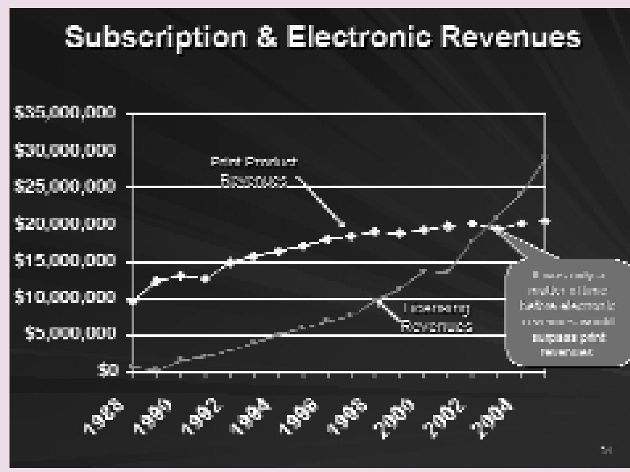


Table 4b



worked closely with me through some challenging times, particularly our Chief Financial Officer, Charles L. "Jack" McKay, and his Deputy, Susan Graves. Without the hard work, dedication, and persistence of our governance members and staff, the Association would not be in the financially sound position that exists today.

Should you have any questions about the association's finances, please e-mail your Treasurer at finances@apa.org. ■

2004 Finance Committee Members

Gerald P. Koocher, PhD, Chair
Sandra R. Harris, PhD, Vice Chair
Sharon S. Brehm, PhD
Ronald E. Fox, PhD
Kathleen M. McNamara, PhD
Natalie Porter, PhD
Nina K. Thomas, PhD

2004 Investment Committee Members

Jocelyn S. Davis
John J. McCormack
Frederick Kobrick
Sheila Roberts