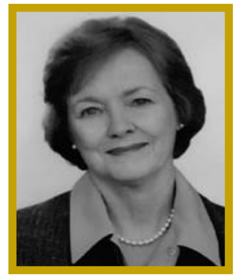
Treasurer's



Carol D. Goodheart, EdD, Treasurer

It is a pleasure to make my first report as treasurer to you, the members of APA, especially when there is so much good news to report! APA ended 2005 with a substantial consolidated net income of over $9 million for the year. Accordingly, the association's net assets increased from $26.3 million to $35.7 million as of December 31, 2005 (see Table 1, p. 374).

Upon completion of my first full year as treasurer of APA, I would like to acknowledge my recent predecessors: Gerald Koocher, Judith Albino, Charles Spielberger, Raymond Fowler, and Robert Perloff. Collectively, these treasurers of the association oversaw substantial growth of APA and its financial resources over the past 25 years.

Association Growth

I joined APA fresh from graduate school, and since that time, the association has grown substantially in size, resources, and complexity. For example, in 1980 we had 65,600 members and affiliates, total annual revenues of approximately $12 million, a staff of 215, and net assets of $2.4 million. Today, our membership has doubled to roughly 150,000 members and affiliates, and our annual revenues have increased tenfold to $120 million (consolidated). Staffing has increased as well; at the end of 2005, the association employed 550 staff, and our net assets have increased dramatically to $35.7 million.

The association's financial statements now also include the activities of the APA Practice Organization (APAPO) and two limited liability corporations (LLCs), which own and operate the buildings in which APA is housed. Each entity presents its own accounting, compliance, and management challenges, as well as the opportunities for advocacy (APAPO) and financial growth (LLCs).

A primary focus of APA's management has been, and continues to be, adding new sources of revenue, thereby reducing reliance on membership dues. Dues in 1980 accounted for 22% of total revenues. In 2005, membership dues comprised only 16% of total revenues, primarily because of the increased sales of publications and electronic licenses (see graphs below). The purpose of building nondues revenue is to better serve our members and return benefits to them—something that was not possible a generation ago—without having to raise dues beyond what is necessary to cover inflation.

Income and Expenses

APA had a spectacular financial year in 2005 (see Table 2). A combination of unanticipated sales growth and controlled spending internally caused APA to generate the highest net income in the association's history: $2,314,000. The revenue increases were primarily due to the superb sales of two books, the fifth edition of the *Publication Manual* and the introduction

Distribution of Revenue

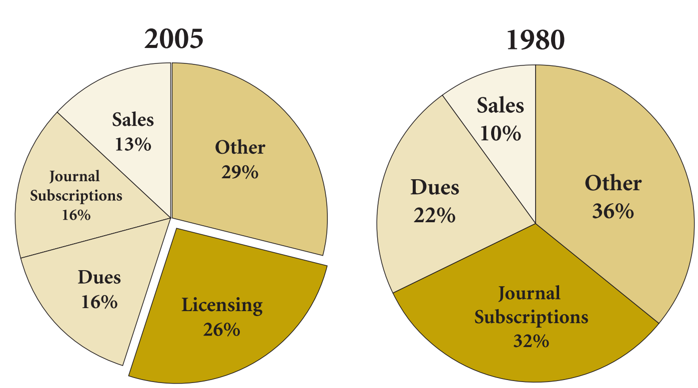


Table 1. Consolidated Net Assets Summary

	2003	2004	2005
Net Assets Beginning Balance (Consolidated)	$ 21,041	$ 24,075	$ 26,290
APA operations (see also Table 2)	(1,915)	(3,480)	2,314
APA nonoperating activity (see also Table 2)	11,865	5,602	6,580
APAPO operations	1,045	93	539
Restatement: Deferred licensing revenue	(7,961)	—	—
Total Change in Net Assets	**$ 3,034**	**$ 2,215**	**$ 9,433**
Net Assets Ending Balance (Consolidated)	**$ 24,075**	**$ 26,290**	**$ 35,723**
Composition of Ending Net Assets			
APA unrestricted/undesignated activities	$ 20,167	$ 21,545	$29,571
Designated activities			
Publications & Databases R&D	715	1,265	1,888
Accreditation stabilization	1,656	1,850	2,095
APAPO	1,537	1,630	2,169
Ending Net Assets, Unrestricted	**$ 24,075**	**$ 26,290**	**$ 35,723**

(All figures shown in thousands)

(APAPO = APA Practice Organization; R&D = research and development)

of a new publication, *Concise Rules of APA Style*. In addition, sales of two electronic licensing products, PsycARTICLES and PsycINFO, continue to grow exponentially as APA begins to market beyond the borders of the United States to an increasingly important international market (principally Europe, Japan, Korea, and Australia). As a result of the large surplus, the Board of Directors voted to give all employees a year-end bonus of $1,000 in recognition of the financial sacrifices made by staff during the lean years of 2002 and 2003.

Tax Abatement

After considerable time and effort on the part of senior finance staff, the association was granted a tax abatement on real estate taxes that are paid annually to the District of Columbia. The abatement, passed by the Washington, DC, City Council in 2005, is worth approximately $1 million per year to the association and was effective August 1, 2005. The abatement recognizes APA's pledge to bring its annual convention to the District of Columbia once every three years. As recommended by the Finance Committee and the Board of Directors and approved by the Council of Representatives, approximately 25% of the tax abatement will be used to support future convention activities to better meet the needs and interests of members and their families who attend the conventions; 50% to support current operations; and 25% to increase the overall net assets of the association. These kinds of successful efforts to support the wide-ranging work and programs on behalf of members and the public are possible because of the skill and foresightedness of our professional finance staff.

Balance Sheet

APA's balance sheet remains healthy (see Table 3, p. 376). The large profit generated in 2005 on operating and nonoperating activities allows APA to continue to invest for the future and assure prudent stability. Gains on the association's long-term investments were a modest 5.75% in 2005; however, the annualized return of the past 15 years is just over 14%. Consistent with the recommendations of APA's Council of Representatives, we will continue to invest these funds to

Licensing

As discussed in last year's Treasurer's Report, the association restructured the licensing sales revenue on electronic products in order to comply with Generally Accepted Accounting Principles (GAAP). The impact of the accounting change caused the association to report operating losses in 2003 and 2004. Excluding this accounting change, net income would have been recorded as follows:

	2003	2004
Net (loss)/gain from APA operations	$(1,915)	$(3,480)
Impact of restatement	$ 2,343	$ 4,459
Theoretical surplus before restatement	**$428**	**$979**

(All figures shown in thousands)

A primary focus of APA's management has been, and continues to be, adding new sources of revenue, thereby reducing reliance on membership dues.

Table 2. Income and Expense Statement

APA Operations (Unconsolidated)

Revenues	**2003**	**2004**	**2005**
Dues & fees	$ 12,088	$13,364	$13,925
Journal subscriptions	20,387	19,990	18,903
Licensing/royalties	18,312	20,347	31,037
Sales	13,300	12,874	15,451
Other	17,392	15,160	17,550
Total Revenues	**$ 81,479**	**$ 81,735**	**$ 96,866**
Expenses			
Salaries/benefits	$ 36,796	$ 39,008	$ 44,713
Production costs	9,11	8,557	8,432
Space costs	7,723	8,255	8,249
Boards/committees	1,363	1,808	2,034
Consulting/contractual	8,241	8,616	10,001
Other	20,157	18,971	21,123
Total Expenses	**$ 83,394**	**$ 85,215**	**$ 94,552**
Net (Loss)/Gain From APA Operations (see Licensing sidebar, p. 374)	**($ 1,915)**	**($ 3,480)**	**$ 2,314**

Nonoperating Activity (Consolidated)

Long-Term Investment Activity			
Gain on sales/interest	$ 1,123	$ 1,336	$ 1,109
Investment management fees	(299)	(382)	(392)
Unrealized gains/(lossses) (FAS 124)	10,082	3,829	1,981
Net long-term investment activity	**$ 10,906**	**$ 4,783**	**$ 2,698**
Building/Partnerships Activities			
Ten G Street operations	$ 1,338	$ 1,298	$1,429
750 First Street operations	2,640	2,090	3,520
Unrealized (loss)/gain on interest rate swap	735	224	1,500
Interest expense	(2,232)	(2,152)	(2,148)
Income tax benefit	(2,222)	(1,366)	(992)
Income tax expense	—	—	(60)
Deferred rent/RE taxes/misc.	700	725	633
Net building/partnership activity	$ 959	$ 819	$ 3,882
Total Nonoperating Activity	**$ 11,865**	**$ 5,602**	**$ 6,580**

(All figures shown in thousands)

(FAS = Financial Accounting Standards; RE = real estate)

position the association to have sufficient funds to pay off or reduce its debt obligations when the current long-term debt matures in late 2012 and early 2013. Management will continue to focus on ensuring that APA has the funds necessary to meet these obligations and to guarantee the financial well-being of the association for years to come.

Although not shown in Table 3, the association's deferred tax asset will be fully used in 2006. The deferred tax asset was earned from unused tax losses that were carried forward for tax purposes. The tax asset was generated in prior years from the losses generated during the early years of building operations, plus the recorded losses associated with the 2002 refinancing of both properties. Since the refinancing, as APA generates substantial unrelated business income from a portion of the headquarters building and the operations of the 10 G Street property, the deferred tax asset has been applied, minimizing the association's tax liability on these building profits. Without these prior losses, APA would begin to generate unrelated business income tax resulting primarily from the gains from our debt-financed property. This is a topic that the Finance Committee will address in 2006.

Table 3. Balance Sheet (Consolidated)

Assets	2003	2004	2005
Cash and ST investments	$ 42,228	$ 46,119	$ 49,002
Long-term investments	42,558	50,231	56,873
Land/buildings/equipment	86,324	84,557	81,668
Other	33,017	31,140	31,710
Total Assets	**$ 204,127**	**$ 212,047**	**$ 219,253**
Liabilities			
Divisions/other groups	$ 4,261	$ 5,009	$ 5,679
Long-term debt	121,407	119,497	117,468
Accounts payable/accrued expenses	11,611	13,036	15,447
Deferred revenue	40,799	46,465	44,686
Other	1,974	1,750	250
Total Liabilities	**$ 180,052**	**$ 185,757**	**$ 183,530**
Net Assets	**24,075**	**26,290**	**35,723**
Total Liabilities and Net Assets	**$ 204,127**	**$ 212,047**	**$ 219,253**

(All figures shown in thousands)
(ST = short term)

Future Challenges

We are pleased with this year's rosy results but know that challenges remain that could have a negative effect on the association. Therefore, appropriate steps are being taken to anticipate the forces of change. For example, the federal Sarbanes–Oxley legislation will continue to be a focal point for management. Although still not yet applicable to nonprofit organizations such as APA, the association is monitoring events and has already initiated a number of measures to comply with the spirit of Sarbanes–Oxley, most notably the creation of an audit subcommittee in 2005 (see Audit Subcommittee sidebar, p. 377). In today's post-Enron business climate, APA management and governance leadership believes it is important to adopt these reform measures before they are required.

APA's nonoperating activities continue to add value to the association. Cash flows from each of the two APA-owned buildings have been consistently large due to a high occupancy rate and favorable financing. However, several large tenant leases are due to expire over the next three years. Management is working to renew these leases early in order to maximize occupancy and the cash flows that the properties generate. Despite the fact that new challenges will always materialize in such a complex environment, our senior financial managers and advisors have an excellent track record of anticipating and responding to changes that develop. I would like to thank the entire finance staff for helping me to get up to speed during my first year as treasurer. We can all be proud of the recent financial accomplishments of the association and hope that the next 25 years continue to be as successful.

Should you have any questions about the association's finances, please send an e-mail to your treasurer at finances@apa.org.

2005 Finance Committee Members

Carol D. Goodheart, EdD, APA Treasurer, Chair
Kathleen M. McNamara, PhD, Vice Chair
Daniel J. Abrahamson, PhD
Rita Dudley-Grant, PhD
Ronald E. Fox, PhD
Sandra R. Harris, PhD
Natalie Porter, PhD

2005 Investment Subcommittee Independent Members

Frederick R. Kobrick
John J. McCormack
Sheila T. Roberts
Steven S. Zaleznick

Hurricane Katrina Relief

Undoubtedly everyone was disturbed by the tragic events that occurred last summer in the Gulf Coast region of the United States. APA made a significant contribution to those individuals and institutions affected by Hurricanes Katrina and Rita. In addition to sizable donations given to several relief organizations (the American Red Cross, the Bush–Clinton Katrina Recovery Fund, and Habitat for Humanity), APA provided direct aid to our members in the affected areas through a one-year dues exemption. A similar exemption was granted to several psychology academic and training institutions for electronic product licensing and accreditation fees. Funds were earmarked for replacement of books and other necessary materials destroyed by Hurricane Katrina and the ensuing flooding. Funding was granted to state psychological associations for activities related to mental health training. A Task Force on Multicultural Training was formed to advise APA on the models, content, and direction of training and resource development needed for the provision of culturally sensitive services for the affected public. Altogether, the financial contributions of APA for disaster relief totaled $781,000.

APA will continue to support the Gulf Coast area in 2006 when it brings the annual convention to New Orleans. In the fall of 2005, several members of the Board of Directors and senior staff visited the hurricane-ravaged area to determine whether the city would be able to deliver the level of services needed for this summer's convention. The Board was encouraged by the environmental safety data and the business community's assurances and expects the city to be prepared to host APA when the August 2006 convention begins.

Audit Subcommittee

The Audit Subcommittee is responsible for reviewing the association's financial statements and internal controls. The subcommittee was created in 2005 in response to Sarbanes–Oxley legislation requiring closer monitoring of the relationship between an audit firm and the client. The primary function of the subcommittee is to oversee the services provided by the association's independent accounting firm and advise the association on financial-related matters. The subcommittee works with the Quality Assurance office to ensure that internal controls are functioning properly. The subcommittee consists of three independent financial experts in addition to the chair and vice chair of the Finance Committee.

2005 Audit Subcommittee Independent Members

Jocelyn S. Davis
Steven C. Howell
Stephen F. Stanton