Treasurer's Report

2006 was another solid year financially for the American Psychological Association.

As your treasurer, I am pleased to report that 2006 was another solid year financially for the American Psychological Association. APA ended the year with net assets increasing by $8 million (from $35.7 million in 2005 to $43.9 million at the close of 2006), making substantial progress toward our reserve goals **(see Table 1 and Reserve Policy sidebar)**. This 23% increase in net assets was attributable primarily to the substantial returns from the association's real estate holdings and long-term investments.

The year-end results from APA operations (unconsolidated) are managed on a very tight margin from year to year, and 2006 was no different. After consideration of the Board and Council authorization of a $2.5 million allocation of cash flow from our real estate investments, we sustained a deficit of about $1 million, which is less than one-half of 1% of estimated revenues and expenses. Despite our efforts to bring 2006 in at break-even from operations for 2006, some last quarter activity made that unattainable. With over $200 million in estimates, ending with a deficit of $1 million is quite remarkable. It is important to remember that the results from APA unconsolidated operations represent only one of the three sources that impact our consolidated net assets; the other two significant elements, discussed later in this report, are the results from our real estate holdings and our long-term investments **(see Table 2)**.

Reserve Policy

ASSOCIATION RULE
210-3. RESERVES:

On a continuing basis, the Association shall strive to maintain working capital and net assets reserves as follows:

Working Capital: The Association shall strive to maintain working capital equal to **at least four months of operating expenses.**

Net Assets: The Association shall strive to maintain net assets equal to **at least one year's operating budget.**

Continued Growth

Overall, membership has leveled off in recent years, but APA's revenues continue to increase, primarily because of the expansion of product sales, principally electronic products. Licensing/royalties and rights increased 6% over 2005, topping $32.9 million in 2006. It takes people and resources to develop, market, and fulfill these product sales, and 2006 saw an overall increase in APA's expenses, as well as an increase in the number of staff employed by APA (from 548 in 2005 to 555 at the close of 2006).

Income and Expenses

Revenues for 2006 were just short of $100 million for APA operations (unconsolidated); expenses rose more rapidly from 2005 to 2006, surpassing the $100 million mark for the first time **(see Table 2)**.

Revenue from dues remained stable as a percentage of total revenues (14.4% for both 2006 and 2005); individual

Carol D. Goodheart, EdD
Treasurer

member dues increased only marginally to keep pace with inflation. This is attributable in part to the leveling off of the number of members. The number of new members who join APA each year is offset by an increasing number of members who reach retirement age. A major focus of the association over the next few years will be membership recruitment and retention. Dues revenue, as a percentage of total revenues, has remained constant because of the association's ability to maintain and/or grow nondues revenues.

Salary and benefit expenses continued to increase as well, as additional staff were hired to create and market the APA products that generate the substantial nondues revenue needed to support the infrastructure of the association, as well as to increase the services to members. Yet it is important to note that salaries and benefits represent only 45% of the overall expenses of the association—a number that has remained relatively constant over the past few years (47% in 2005; 45% in 2004).

Association Investments

The association's financial stability is attributable in large part to two major elements: APA's long-term investment portfolio and real estate investments **(see Tables 2 and 3)**.

Long-term investment portfolio. APA's investment portfolio has grown significantly in the past year, with a June 2006 contribution of $2 million from excess cash flow from APA's real estate investments and continued strong investment returns, resulting in an overall 15.72% return for 2006 **(see Long-Term Portfolio sidebars below)**. This is attributable to the sound investment advice we have received from APA's investment portfolio managers, our investment consultant, and our Investment Subcommittee **(see sidebar,** p. 369**)**. APA's investment portfolio has returned an annualized average rate of return of 14.56% since inception.

Table 1. Consolidated Net Assets Summary

	2005	2006
Net Assets Beginning Balance (Consolidated)	$26,290	$35,723
APA operations (see also Table 2)	2,314	(3,557)
APA nonoperating activity (see also Table 2)	6,580	11,470
APAPO operations	539	274
Total Change in Net Assets	**$ 9,433**	**$ 8,187**
Net Assets Ending Balance (Consolidated)	**$35,723**	**$43,910**
Composition of Ending Net Assets		
APA unrestricted/undesignated activities	$29,571	$37,623
Designated activities		
Publications and Databases R&D	1,888	1,654
Accreditation	2,095	2,141
APAPO	2,169	2,442
Convention	–	50
Ending Net Assets, Unrestricted	**$35,723**	**$43,910**

(All figures shown in thousands)
(APAPO = APA Practice Organization; R&D = research and development)

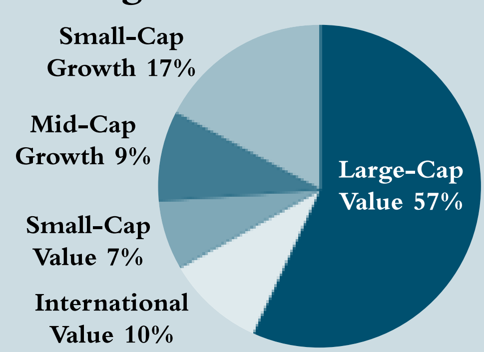
Long-Term Portfolio

Rates of Return

	2006	Since Inception	Market Value
Southeastern Asset Mgmt	18.78%	15.38%	$38.4 M
Westfield Capital Mgmt	10.61%	10.84%	11.7 M
Earnest Partners	10.66%	14.74%	4.5 M
Brandywine Mutual Fund	9.97%	16.85%	6.0 M
Longleaf International Fund	17.07%	13.75%	6.9 M
Total	**15.72%**	**14.56%**	**$67.5 M**

Performance data as of December 31, 2006

Diversification of Long-Term Portfolio



Market data as of December 31, 2006

Table 2. Income and Expense Statement

APA Operations (Unconsolidated)

Revenues	**2005**	**2006**
Dues & fees	$ 13,925	$ 14,038
Journal subscriptions	18,903	17,891
Licensing/royalties	31,037	32,971
Sales	15,451	15,093
Other	17,550	17,163
Total Revenues	**$ 96,866**	**$ 97,156**
Expenses		
Salaries/benefits	$ 44,713	$ 45,476
Publication production costs	8,432	9,591
Space costs	8,249	8,130
Boards/committees	2,034	2,367
Consulting/contractual	10,001	11,240
Other	21,123	23,909
Total Expenses	**$ 94,552**	**$100,713**
Net (Loss)/Gain From APA Operations	**$ 2,314**	**($ 3,557)**

Nonoperating Activity (Consolidated)

Long-Term Investment Activity		
Gain on sales/interest	$ 1,109	$ 1,961
Investment management fees	(392)	(446)
Unrealized gains/(losses) (FAS 124)	1,981	7,134
Net long-term investment activity	**$ 2,698**	**$ 8,649**
Buildings/Partnerships Activities		
Ten G Street Operations	$ 1,429	$ 448
750 First Street Operations	3,520	4,047
Unrealized (loss)/ gain on interest rate swap	1,500	468
Series B interest/other expense	(2,148)	(2,148)
Income tax expense	(1,052)	(142)
Deferred rent expense	633	148
Net building/partnership activity	$ 3,882	$ 2,821
Total Nonoperating Activity	**$ 6,580**	**$ 11,470**

(All figures shown in thousands)
(FAS = Financial Accounting Standards)

Real estate holdings. APA's two commercial office buildings, which total 604,000 square feet of office space, continue to produce solid returns for the association. The buildings, at 750 First Street, NE, and 10 G Street, NE, are now 15 and 10 years old, respectively. A major focus in 2006 was the renewal of a number of major leases in these buildings. More than half of the non-APA occupied space is now leased through 2017 and beyond in both buildings.

Concessions negotiated as part of these lease renewals will lower 2007 building revenues slightly, and we will be making substantial capital investments in tenant improvements and leasing commissions, which will lower the excess cash flow from the properties in 2007. It is important to the future financial health of APA to have these long-term leases in place. In short, we are making some short-term investments for long-term stability.

Good News, With a Caveat

The good news is that APA's real estate investments are generating significant profits for the association. The caveat is that because the buildings are debt-financed, APA is subject to unrelated business income tax (UBIT) on these profits. Until now, we have been able to use tax loss carry-forwards from prior years to offset these taxable gains. As noted in last year's Treasurer's Report, these losses were generated from the losses during the early years of building operations, plus the recorded losses associated with the refinancing of both properties in 2002. In recent years, the accumulated losses (deferred tax asset) have been applied, minimizing the association's tax liability on building profits.

We expect that the deferred tax asset will be depleted in 2007. As a 501(c)3 tax-exempt organization, APA under current tax law pays tax on profits generated from debt-financed properties. Our tax obligations could be significantly reduced by using a portion of our long-term investments to pay off

Table 3. Balance Sheet (Consolidated)

Assets	2005	2006
Cash and ST investments	$ 49,186	$ 49,750
Long-term investments	56,873	67,536
Land/buildings/equipment	81,668	79,309
Other	31,526	31,539
Total Assets	**$219,253**	**$228,134**
Liabilities		
Divisions/other groups	$ 5,679	$ 6,523
Long-term debt	117,468	115,338
Accounts payable/ accrued expenses	15,447	14,669
Deferred revenues	44,686	47,694
Other	250	–
Total Liabilities	**$183,530**	**$184,224**
Net Assets	**$ 35,723**	**$ 43,910**
Total Liabilities and Net Assets	**$219,253**	**$228,134**

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

the debt on the 10 G Street property. This is but one option that may be available to the association. The Finance Committee, the Investment Subcommittee, and the Audit Subcommittee will continue to review the various strategies for tax planning going forward.

As a result of our investment revenue and our real estate performance, we were able to continue to grow the association and expand the services provided to our members.

Conclusions

As a result of our investment revenue and our real estate performance, we were able to continue to grow the association and expand the services provided to our members (as described elsewhere in this annual report). My thanks to the members of the Finance Committee, the Investment and Audit Subcommittees, and the staff in the APA Finance Office for their hard work throughout the past year in keeping APA in good financial condition.

As always, if you have any questions about the association's finances, please feel free to e-mail your treasurer at finances@apa.org. ■

Increased Use of the Internet

While we've noted the continued increase in revenues from the sale of electronic products, many of which are distributed via the Internet, it is interesting also to note the impact of the Web on APA's business. In 2006, 12% of annual dues payments were received over the Internet, as were approximately 80% of advance convention registrations!

2006 Finance Committee Members

Carol D. Goodheart, EdD, APA Treasurer, Chair
Kathleen M. McNamara, PhD, Vice Chair
Jean A. Carter, PhD
Paul L. Craig, PhD
G. Rita Dudley-Grant, PhD
Natalie Porter, PhD
Nina K. Thomas, PhD

2006 Investment Subcommittee

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

2006 Audit Subcommittee

Stephen C. Howell
Steven F. Stanton
Joan E. Lynch