TREASURER'S REPORT

Carol D. Goodheart, EdD, Treasurer

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

During my 3 years as treasurer, and despite the difficult economic climate of the last year, APA has continued its solid financial performance. Annual revenues from operations have grown from $81 million in 2004 to just over $100 million in 2007; total assets have increased 10%, and net assets have increased 75% to more than $45 million, making progress toward our reserve goals (see Reserve Policy sidebar). Additionally, and even with the current instability in the stock market, APA's long-term investment portfolio has grown from $50.2 million to over $72 million. The majority of our tenant leases came up for renewal in the 2005–2007 period; today, I am happy to report that our properties are fully leased, with most of our major tenants committed until 2017 or longer.

I am also pleased to report that APA recorded a surplus of almost $700,000 (unconsolidated) this year—compared to a loss in 2006 of about $1 million (after consideration of the $2.5 million cash flow from the buildings for both years). Although the budgeted revenue target was missed by $2.2 million, our internal expense controls helped to offset this revenue shortfall and contributed to the overall surplus for 2007.

On the basis of the continuing authorization of the Board of Directors and the Council of Representatives, APA annual operations are subsidized by $2.5 million from the cash flow generated by our real estate holdings. Without this contribution from real estate profits, APA's operations for 2007 resulted in a loss of approximately $1.8 million. Essentially, APA's net assets are affected by our results from (a) operations, (b) real estate holdings, and (c) investment portfolio (see Table 1). The performance of each greatly affects our overall financial strength.

LICENSING REVENUES LEAD REVENUE GROWTH

Since year-end 2004, revenue growth continues to be fueled by licensing and royalties revenues, which are up 185% over the past 3 years, with a dollar growth of nearly $17.5 million (see Table 2 p. 328). This revenue source now accounts for nearly 38% of APA's total revenue, up from 25% in 2004. It takes people and resources to develop, market, and fulfill these product sales. As a result, 2007 saw an overall increase in the association's expenses as well as in the number of staff employed by APA—from 534 in 2004 to 587 at the close of 2007. The revenues from membership dues continue to level off and are holding steady at approximately 14% of the revenue mix.

INCOME AND EXPENSE

Revenues from 2007 operations (unconsolidated) surpassed $100 million for the first time. Expenses rose less rapidly on a percentage basis than revenues from 2006 to 2007; however, expenses—at $102 million—continue to exceed revenue, thus increasing the need to use our building cash flow to subsidize operations.

Revenue from dues remained stable as a percentage of total revenues (14.6% for 2007), and the number of members remained constant. A major focus of the association over the next few years will be on membership recruitment, retention, and engagement. APA's significant investment in a new Web site (see the Web Relaunch section on p. 329) is one major step

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 <u>at least four months of operating expenses.</u>

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

TABLE 1 CONSOLIDATED NET ASSETS SUMMARY

	2004	2005	2006 Restated [a]	2007
Net Assets Beginning Balance (Consolidated)	**$24,075**	**$26,290**	**$36,358**	**$44,525**
APA operations (see also Table 2)	(3,480)	2,314	(3,557)	(1,802)
APA nonoperating activity (see also Table 2)	5,602	6,580	11,451	2,922
APAPO operations	93	539	273	66
Total Change in Net Assets	**$2,215**	**$9,433**	**$8,167**	**$1,186**
Prior Period Adjustment–Ten G LLC[b]	—	635	—	—
Net Assets Ending Balance (Consolidated)	**$26,290**	**$36,358**	**$44,525**	**$45,711**
COMPOSITION OF ENDING NET ASSETS				
APA unrestricted/undesignated activities	$21,545	$30,206	$38,238	$31,454
DESIGNATED ACTIVITIES				
Publications and Databases R & D	1,265	1,888	1,654	2,181
Accreditation	1,850	2,095	2,141	1,985
APAPO	1,630	2,169	2,442	2,508
Convention	—	—	50	198
Web relaunch	—	—	—	7,385
Ending Net Assets, Unrestricted	**$26,290**	**$36,358**	**$44,525**	**$45,711**

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

[a] Restated to reflect a change in accounting method to adopt the appropriate recording of an income tax provision for Ten G LLC.

[b] Prior period adjustment primarily represents tax refunds due to Ten G LLC resulting from net operating loss carry forwards not previously reported.

TABLE 2 INCOME AND EXPENSE STATEMENT

APA OPERATIONS (UNCONSOLIDATED)

	2004	2005	2006	2007
REVENUES				
Dues and fees	$13,364	$13,925	$14,038	$14,695
Journal subscriptions	19,990	18,903	17,891	16,933
Licensing/royalties	20,347	31,037	32,971	37,805
Sales	12,874	15,451	15,093	14,608
Other	15,160	17,550	17,163	16,285
Total Revenues	**$81,735**	**$96,866**	**$97,156**	**$100,326**
EXPENSES				
Salaries and benefits	$39,008	$44,713	$45,476	$47,560
Publication production costs	8,557	8,432	9,591	9,093
Space costs	8,255	8,249	8,130	8,609
Boards/committees	1,808	2,034	2,367	2,608
Consulting/contractual	8,616	10,001	11,240	11,199
Other	18,971	21,123	23,909	23,059
Total Expenses	**$85,215**	**$94,552**	**$100,713**	**$102,128**
Net (Loss)/Gain from APA Operations	**$(3,480)**	**$2,314**	**$(3,557)**	**$(1,802)**

NONOPERATING ACTIVITY (CONSOLIDATED)

	2004	2005	2006 Restated[a]	2007
LONG-TERM INVESTMENT ACTIVITY				
Gain on sales/interest	$1,336	$1,109	$1,961	$4,823
Investment management fees	(382)	(392)	(446)	(505)
Unrealized gains/(loss) - (Net) (FAS 124)	3,829	1,981	7,134	(1,495)
Net Long-Term Investment Activity	**$4,783**	**$2,698**	**$8,649**	**$2,823**
REAL ESTATE ACTIVITY				
Ten G Street operations	$1,298	$1,429	$429	$808
750 First Street operations	2,090	3,520	4,048	5,465
Unrealized gains/(loss) on interest rate swap	224	1,500	467	(1,635)
Series B interest	(2,152)	(2,148)	(2,148)	(2,148)
Deferred rent	725	633	149	(806)
Net Real Estate Activity	**$2,185**	**$4,934**	**$2,945**	**$1,684**
OTHER NONOPERATING ACTIVITY				
Deferred income tax fluctuation	$(1,366)	$(992)	$(144)	$(811)
Income tax expense	—	(60)	1	(55)
Retiree gap insurance adjustment (FAS 158)	—	—	—	(719)
Net Other Nonoperating Activity	**$(1,366)**	**$(1,052)**	**$(143)**	**$(1,585)**
Total Nonoperating Activity	**$5,602**	**$6,580**	**$11,451**	**$2,922**

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

[a]Restated to reflect a change in accounting method to adopt the appropriate recording of an income tax provision for Ten G LLC.

TABLE 3 BALANCE SHEET (CONSOLIDATED)

	2004	2005	2006 Restated[a]	2007
ASSETS				
Cash and ST investments	$46,119	$49,186	$49,749	$46,249
Long-term investment portfolio	50,231	56,873	67,536	72,051
Real estate/equipment	84,557	81,668	79,309	81,617
Other	31,140	31,526	32,154	34,530
Total Assets	**$212,047**	**$219,253**	**$228,748**	**$234,447**
LIABILITIES				
Divisions/other groups	$5,009	$5,679	$6,523	$7,311
Long-term debt	119,497	117,468	115,338	114,517
Accounts payable/accrued expenses/other	14,786	15,697	14,669	18,106
Deferred revenues	46,465	44,686	47,693	48,802
Total Liabilities	**$185,757**	**$183,530**	**$184,223**	**$188,736**
Net Assets	**26,290**	**35,723**	**44,525**	**45,711**
Total Liabilities and Net Assets	**$212,047**	**$219,253**	**$228,748**	**$234,447**

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

[a] Restated to reflect a change in accounting method to adopt the appropriate recording of an income tax provision for Ten G LLC.

in an effort to provide members with greatly improved online services and to better disseminate psychology information to the public. Salary and benefit expenses continue to be our largest expense line item, increasing by 4.6%, or $2.1 million over 2006.

WEB RELAUNCH

In 2007, APA embarked on a comprehensive project to rebuild APA's Web site. Through this enhanced site, APA expects greater membership recruitment and retention, higher product marketing and sales, enhanced online dues collection capabilities, and more comprehensive public education.

This initiative will provide a consistent, easy-to-navigate Web site; search capabilities that will greatly enhance the ability of members to find specific content; and a simplified sign-on account that will enable members to log on once and have access to all APA functions, services, and products.

APA's Board of Directors and Council of Representatives approved the Web relaunch as a $7.6 million investment in APA's infrastructure to bring the Web site up to date with today's technology. This project will be funded from current cash reserves and our $10 million line of credit. This project was approved as a designation of APA's net assets (see Table 2).

ASSOCIATION INVESTMENTS

The association's financial stability is attributable in large part to two major elements: APA's long-term stock portfolio and real estate holdings (see Table 3).

LONG-TERM STOCK PORTFOLIO

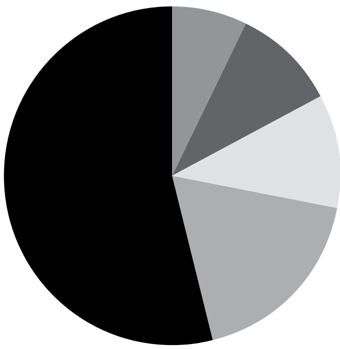
APA's stock portfolio realized modest growth in the past year (including a $1 million increase from excess cash flow from the APA real estate operations); more specifically, the portfolio performance resulted in a 4.86% overall 2007 return. APA's investment portfolio has seen continued strong investment returns at an overall annualized average rate of 13.65% since inception (see Long-Term Portfolio graph and table on p. 330). This is attributable to the sound investment advice we have received from our investment consultant, with oversight by the Investment Subcommittee (see sidebar, p. 331).

REAL ESTATE HOLDINGS

APA's two commercial office buildings, with a total of 604,000 square feet of office space, continue to produce solid returns for the association. All major leases have been renewed through 2017 and beyond, and most of the tenant improvements associated with these renewals were paid for in 2007, paving the way

TREASURER'S REPORT

LONG-TERM PORTFOLIO COMPOSTION



54% LARGE-CAP VALUE
11% INTERNATIONAL VALUE
7% SMALL-CAP VALUE
10% MID-CAP GROWTH
18% SMALL-CAP GROWTH

VALUE 61%	GROWTH 28%	INTERNATIONAL 11%

Market data as of December 31, 2007

PERFORMANCE RETURNS

	2007	SINCE INCEPTION	MARKET VALUE
Southeastern Asset Management	– 0.86%	14.05%	$ 38.1 M
Westfield Capital Management	13.52%	10.19%	13.3 M
Advisory Research* (12/07)	5.08%	5.08%	4.6 M
Brandywine Mutual Fund	19.78%	17.34%	7.1 M
Lapides* (4/07)	–15.78%	–15.78%	0.9 M
Longleaf International Fund	15.29%	14.14%	8.0 M
Total	**4.86% ** **	**13.65%****	**$ 72.0 M**

* Mid-year purchases.
**Performance return data shown above is as of December 31, 2007, but before the 2007 dividend and interest withdrawal (per Council action).

for increased cash flow from building operations in 2008 and into the future.

DEBT REFINANCE

Unsettled financial markets are not good for the overall economy but have worked in APA's favor. Given the low-interest-rate environment and upcoming balloon payments on $25 million of APA's debt (on its buildings), APA's finance team worked to secure a commitment from the Bank of America that will lower the interest expense on our debt, extend the term of the bank's commitment from the remaining 4 years to 10 years, and extend the maturity of the amortization of some sizable balloon payments ($25 million) coming due in 2010 through 2012.

It is important to understand that in an uncertain credit market in which many organizations are having difficulty securing loans and, in most cases, banks are increasing rates on existing loans, APA's strong financial performance made it possible for us to get lower bank rates and longer bank commitments. Last year, Standard and Poor's (S&P) affirmed APA's public debt rating of BBB+ (see credit rating sidebar on p. 331). Please take time to read the section on our debt rating and S&P's comments. It provides a summary of what a credit analyst looks for when determining a credit rating and hints at a possible upgrade if APA's trends continue to show improvement. It would be nice to get an "A" on our next report card!

CONCLUSIONS

As a result of our investment and real estate performance, we were able to continue to grow as an 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, Investment and Audit subcommittees (see sidebar

APA'S PUBLIC CREDIT RATING

In fall 2007, Standard & Poor's (S&P) affirmed APA's BBB+ rating with a stable outlook (upgraded from BBB in September 2006). S&P cited the following positive attributes of APA's operations, which offset the fact that APA's membership base is not growing:

- Long operating history
- Diverse revenue streams
- Revenue flexibility supported by APA's ability to increase dues and subscription prices while reducing operating expenses
- Improving liquidity with no additional (or new) debt anticipated
- Experienced management team

The stable outlook anticipates no new debt, continued balanced operations, and no erosion of membership base. Further, if APA grows its investments through proceeds of its real estate holdings and continues to post positive financial results, there may be positive outlook or rating implications for the long term.

2007 Finance Committee Members

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

2007 Investment Subcommittee

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

2007 Audit Subcommittee

Outside Expert Members
Stephen C. Howell
Joan E. Lynch
Steven F. Stanton

above), and the staff in the APA Finance Office for their hard work throughout the past 3 years in keeping APA in good financial condition.

A PERSONAL NOTE

As many of you know, Jack McKay announced his retirement last year after a 35+-year tenure as APA's chief financial officer. APA's financial success is due in no small part to Jack's no-nonsense leadership, determined fiscal discipline, integrity, and entrepreneurial vision. It has been a great experience working with Jack and his staff. He will be missed very much by staff and members alike. The good news is that Jack will continue working with us on an advisory basis for one year while his successor, Archie Turner, currently the CFO of the National Academies of Science, transitions into the role.

It has been a distinct honor and a pleasure for me to serve as the APA treasurer and to work with such an accomplished team. I leave the association in the able hands of 2008 Treasurer Paul L. Craig, PhD.

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