Treasurer's Report

Paul L. Craig, PhD
Treasurer

The ability of APA's governance bodies, management team, and employees to pull together in this difficult time to deliver a massive turnaround in the organization's operations is to be commended by all who benefit from the association's mission.

This was one of the most challenging years in APA's financial history. The national economic downturn that began in 2008 had severe effects on APA's revenues and on the value of the association's investment portfolio and net assets. APA reacted swiftly, implementing significant spending cuts (over $15 million) in late 2008 and early 2009 across the entire Central Office. Unfortunately, these measures were not sufficient; by mid-year, it appeared that APA would have a budget deficit at the end of 2009 as well as in 2010 if further corrective actions were not taken. Such a deficit would have serious consequences for APA's financial stability. Therefore, for the first time in APA's history, a reduction in force was necessary to balance the organization's budget.

Despite the negative news, there were two bright spots in 2009 that contributed significantly to positive year-end results. First, the combined efforts of everyone associated with the business of APA to identify and implement spending cuts undoubtedly helped stabilize the organization financially. Second, the release of the sixth edition of the *Publication Manual of the American Psychological Association* resulted in outstanding sales of over $12.3 million—$1.3 million more than budgeted. The strong sales of the *Publication Manual*, the spending cuts initiated by management and governance, and employees' vigilance over spending resulted in an operating safety margin of $2.9 million by the end of 2009. We have thus been able to honor the association's rule of maintaining an operating safety margin of 1–2%.

Our work is not complete, given that *Publication Manual* sales will level off and there will likely be cutbacks in the publication budgets of state-funded institutions during 2010. APA must continue to maintain control over expenses, particularly salaries. However, the ability of APA's governance bodies, management team, and employees to pull together in this difficult time to deliver a massive turnaround in the organization's operations is to be commended by all who benefit from the association's mission.

Balance Sheet

APA's balance sheet, which showed negative net assets at the end of 2008, improved significantly in 2009 (see Table 1). APA operations contributed $2.9 million to the increase in net assets in 2009, and nonoperating activity contributed over $31 million (see Table 2). Large nonoperating gains were produced by our investment portfolio, which rebounded by 38%, increasing from $40 million to $55 million as of December 2009 (for investment allocation, see Long-Term Portfolio chart and table on p. 348). Real estate activity, including $7.9 million from operations and $9.1 from unrealized gains in interest rate swaps associated with building loans, contributed significantly to the increase in net assets (see Table 3).

Altogether, APA ended the year with unrestricted net assets of $25.3 million, compared with the $8 million negative net assets as of December 31, 2008. Although we have begun to restore our net assets, it is important that we control and manage our resources effectively so that we support initiatives consistent with APA's recently adopted strategic plan.

TABLE 1 Balance Sheet (Consolidated)

	2007	2008	2009
ASSETS			
Cash and short-term investments	$46,249	$42,345	$48,195
Long-term investment portfolio	72,051	39,756	55,635
Real estate/equipment	81,617	82,679	79,778
Other	34,530	35,913	38,373
Total Assets	**$234,447**	**$200,693**	**$221,981**
LIABILITIES			
Divisions/other groups	$7,311	$9,552	$8,907
Long-term debt/swap liability	114,517	131,828	119,784
Accounts payable/accrued expenses/other	18,106	19,146	18,209
Deferred revenues	48,802	48,506	49,772
Total Liabilities	**$188,736**	**$209,032**	**$196,672**
Net Assets	**45,711**	**(8,339)**	**25,309**
Total Liabilities and Net Assets	**$234,447**	**$200,693**	**$221,981**

(All figures shown in thousands.)

TABLE 2 Consolidated Net Assets Summary

	2007	2008	2009
NET ASSETS BEGINNING BALANCE (CONSOLIDATED)	$44,525	$45,711	$(8,339)
APA operations (see also Table 3)	(1,802)	(8,155)	2,981
APA nonoperating activity (see also Table 3)	2,922	(45,989)	31,225
APAPO operations	66	94	270
APAPO nonoperating activity	—	—	(828)
Total Change in Net Assets	**$1,186**	**$(54,050)**	**$33,648**
Net Assets Ending Balance (Consolidated)	**$45,711**	**$(8,339)**	**$25,309**
COMPOSITION OF ENDING NET ASSETS			
APA unrestricted/undesignated activities	$31,454	$(22,012)	$13,222
Designated activities			
Publications and Databases R & D	2,181	2,489	2,238
Accreditation	1,985	1,647	1,469
APAPO	2,508	2,602	2,046
Convention	198	441	776
Web relaunch	7,385	6,494	5,023
2010 fall consolidated meetings	—	—	535
Ending Net Assets (Unrestricted)	**$45,711**	**$(8,339)**	**$25,309**

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

Treasurer's Report

Operations

Overall, revenues were up 5.5%, driven by increased licensing revenues and publication sales (see Table 3). Listed on Amazon's best seller list for 11 days and on *USA Today*'s top 150 best sellers list for 22 weeks, the sixth edition of the *Publication Manual* contributed significantly to increased revenues. Not surprisingly, the recession had a negative impact on journal subscriptions and advertising revenues, which were down approximately 6% and 25%, respectively.

The salaries and benefits line item in Table 3 represents nearly 50% of APA's total expenses and is therefore one of the most important expense categories to control. In addition to the reduction in force, APA instituted several salary and related reductions, including a rollback of merit increases and the elimination of the 2% retirement contribution. Although the full effect of these actions was dampened in 2009 because they were taken in mid-year and the severance costs had to be paid in 2009, greater overall savings should be realized in 2010.

Consulting/contractual is another significant line item in APA's expenses, representing approximately 9% of total expenses. APA curtailed its contractual agreements, where possible, and this restraint resulted in a nearly 16% reduction in this expense category. Some late 2009 projects were delayed to 2010 to provide time to reexamine how the major projects align with the new strategic plan. Governance bodies also tightened their belts by eliminating the fall consolidated meetings in 2009 and reducing their expenses.

It was critical for APA to produce a positive bottom line in 2009. Our negative results in 2008 did not meet one of our debt covenants. If the covenant was not met again in 2009, we would have been in violation of our covenant, and this would have serious negative consequences for our loan pricing/commitment, bond rating, and access to credit. Fortunately, close monitoring of revenues and expenses as well as all of the actions taken throughout 2009 to curtail expenses produced positive operating results of $2.9 million, compared with the $8.1 million loss reported in 2008.

In addition, in May 2009, we received good news from our rating agency, Standard & Poor's, which affirmed our BBB+ rating with a stable outlook based on the expectation that APA will maintain balanced operations and incur no additional debt (see APA's Public Credit Rating, sidebar, p. 349).

Listed on Amazon's best seller list for 11 days and on *USA Today*'s top 150 best sellers list for 22 weeks, the sixth edition of the *Publication Manual* contributed significantly to increased revenues.

TABLE 3 Income and Expense Statement

APA Operations (Unconsolidated)

	2007	2008	2009
REVENUES			
Dues and fees	$14,695	$14,531	$14,547
Journal subscriptions/licensing/sales	69,346	73,000	83,106
Other	16,285	15,517	11,158
Total Revenues	**$100,326**	**$103,048**	**$108,811**
EXPENSES			
Salaries and benefits	$47,560	$52,322	$51,725
Publication production costs	9,093	9,960	10,775
Space costs	8,609	8,801	8,940
Boards/committees	2,608	2,786	2,097
Consulting/contractual	11,199	11,898	9,959
Other	23,059	25,436	22,334
Total Expenses	**$102,128**	**$111,203**	**$105,830**
Net Gain/(Loss) From APA Operations	**$(1,802)**	**$(8,155)**	**$2,981**

Nonoperating Activity (Consolidated)

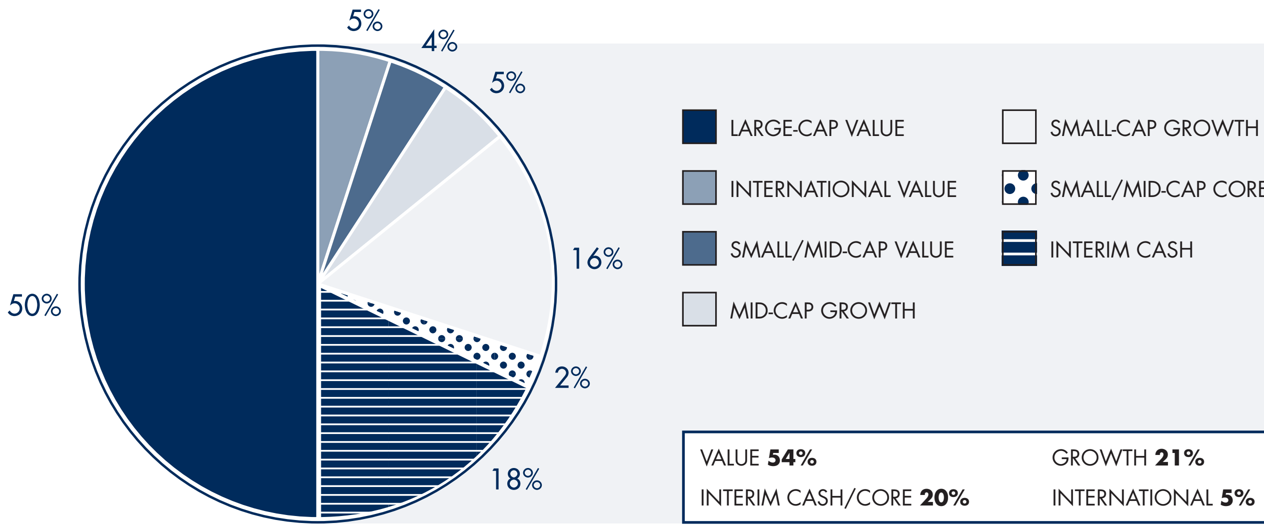
	2007	2008	2009
LONG-TERM INVESTMENT ACTIVITY			
Realized gain/(loss) on sale of investments & interest on LT	$4,823	$(3,387)	$5,582
Investment management fees	(505)	(464)	(372)
Unrealized gain/(loss) - (Net) (FAS 124)	(1,495)	(28,046)	10,899
Net Long-Term Investment Activity	**$2,823**	**$(31,897)**	**$16,109**
REAL ESTATE ACTIVITY			
Ten G Street operations	$808	$2,166	$1,941
750 First Street operations	5,465	5,823	6,002
Unrealized gain/(loss) on interest rate swap (LLC)	(1,635)	(10,036)	5,826
Unrealized gain/(loss) on interest rate swap (APA)	—	(5,738)	3,329
Series B interest	(2,148)	(512)	—
Interest on 750 term loan (Bank of America)	—	(1,056)	(1,364)
Deferred rent	(806)	(545)	(401)
Prepayment penalty & financing costs	—	(3,604)	—
Net Real Estate Activity	**$1,684**	**$(13,502)**	**$15,333**
OTHER APAPO NONOPERATING ACTIVITY			
Loss on impairment - Center for Professional Development[a]	—	—	$(828)
OTHER NONOPERATING ACTIVITY			
Deferred income tax fluctuation	$(811)	$(342)	—
Income tax expense/provision	(55)	(248)	(217)
Retiree gap insurance adjustment (FAS 158)	(719)	—	—
Net Other Nonoperating Activity	**(1,585)**	**(590)**	**(217)**
Total Nonoperating Activity	**$2,922**	**$(45,989)**	**$30,397**
Total Nonoperating Activity (APA only)	**$2,922**	**$(45,989)**	**$31,225**

(All figures shown in thousands. APAPO = APA Practice Organization; FAS = Financial Accounting Standards; LT = long-term investments.)

[a] APAPO determined that the continuing education marketplace had changed dramatically; the "first-to-market" advantage had been lost, and the required technology necessary to deliver the library of courses would not be available until 2010. Thus, the Board closed the Center for Professional Development and recorded the noted loss on impairment.

Treasurer's Report

Long-Term Portfolio Composition



VALUE **54%**	GROWTH **21%**
INTERIM CASH/CORE **20%**	INTERNATIONAL **5%**

Performance Returns/Market Value

2009 Long-Term Portfolio

	YTD Returns[a]	Market Value[b]
Southeastern Asset Management	59.1%	$28.1
Westfield Capital Management	42.3%	8.6
Brandywine Mutual Fund	11.0%	2.8
Longleaf International Fund	26.9%	3.2
Advisory Research Fund	22.8%	2.0
Lapides	44.4%	0.9
Interim Cash[c]	—	10.0
Total	**41.8%**	**$55.6**
Return Since Inception	**11.1%**	

[a] Returns are net fees. [b] In millions. [c] Interim cash was converted to fixed income (PIMCO) upon Council's February 2010 approval of the long-term investment policies allowing investment in the new asset class.

APA's Public Credit Rating

In May 2009, 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:

- A long, positive operating history
- Diverse revenue streams
- Revenue flexibility supported by APA's ability to increase dues and subscription prices while reducing operating expenses
- APA's adequate financial resources

Offsetting credit factors include:

- Balance sheet exposure risk due to real estate holdings and the associated swaps and debt
- Substantial losses in fiscal 2008 due to investments and swap valuations
- High level of debt
- Subsequent operating challenges

The stable outlook reflects S&P's anticipation that APA will issue no new debt, continue to manage its current debt and derivative instruments, maintain balanced operations, and stabilize its membership base.

2009 Finance Committee Members

Paul L. Craig, PhD, APA Treasurer, Chair
Nina K. Thomas, PhD, Vice Chair
Guillermo Bernal, PhD
Ronald E. Fox, PhD
Bonnie Markham, PhD, PsyD
Kathleen M. McNamara, PhD
Danny Wedding, PhD

Outside Expert Members

Investment Subcommittee
Frederick R. Kobrick
John J. McCormack

Audit Subcommittee
Stephen C. Howell
Joan Lynch
Steven F. Stanton

Building Operations

Although considerable new office construction is occurring a few blocks from APA's headquarters, APA's buildings continue to be fully leased and to produce substantial cash flow from operations. Low tenant turnover and long-term lease structures contribute to a stable source of cash ($3.5 million annually) to fund APA operations and to increase cash and investments on a consolidated basis.

Because of the extreme volatility experienced in the stock market over recent years, future excess cash flows (above the $3.5 million reserved for APA operations) will be invested in fixed-income investments, with the goal of using these excess funds to reduce APA's long-term debt. By reducing debt, APA assumes less financial risk in the event of another major downturn in the stock and/or real estate markets and will realize savings in interest and income tax expenses.

Summary

The last 2 years have been economically difficult and educational for the association. We have proven that the APA can persevere through challenging times, manage our way through adversity, and emerge intact as an organization. As APA's treasurer, I am grateful for the collaborative efforts of governance, management, and staff as we work toward the goal of improving APA's finances in the aftermath of 2008. APA's recovery is under way, and our financial outlook is stable.

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