

TREASURER'S REPORT

BONNIE MARKHAM, PhD, PsyD
TREASURER



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Preparing this report for the APA membership has given me an opportunity to reflect on my first year as treasurer. It has been both a challenge and an honor to provide financial guidance to the association. This has been a year in which I have learned much, and I greatly appreciate the mentoring and support provided by the members of the APA Finance Office. With their expert guidance, the guidance of other financial professionals (who are listed on p. S44), and oversight by the Finance Committee and the Board of Directors, I am happy to report that the association is on solid financial ground.

With the 2011 books now closed, I am pleased to provide the following summary of our overall financial results, highlighting our real estate activities and sharing a glimpse into the future.

OPERATING ACTIVITY

Overall, revenues in 2011 were down \$2.6 million (2.4%) compared with those of 2010, primarily because of normal fluctuations in the *APA Publication Manual* lifecycle and continued decline in revenue from print journal subscriptions. These decreases were offset in part by the growth in electronic licensing revenues. Member dues revenues remained relatively stable in spite of the difficult economic conditions this past year.

Expenses increased \$1.7 million (1.6%) in 2011, a result primarily of the net effect of growth in salaries and benefits due to a combination of annual merit increases, new positions created under the Investment in APA project, and a small decrease in the number of vacant positions. Offsetting savings were achieved in a number of areas across the association, including stipends/tuition, convention, and depreciation expense on capital assets.

These changes in revenues and expenses resulted in a \$1.1 million surplus for regular undesignated operations; Board-designated activities offset this operating surplus with \$3.6 million of additional designated expenditures (described below), resulting in a net loss for 2011 of \$2.5 million (see Table 1, p. S45).

During 2011, significant work began on the Investment in APA project, which was funded by a Board-approved designation of net assets to strengthen APA publishing operations and the related technology infrastructure. By investing our net assets now, we can preserve and grow our most significant source of revenue for the present and for the future. This plan calls for additional investment in three main areas:

- **New products**—including PsycTHERAPY, PsycTESTS, and mobile device applications.
- **Marketing enablement**—including an expanded sales force and enhanced marketing analytics.
- **Platform capacity and infrastructure**—including an enhanced PsycNET platform and search engine.

APA will invest \$13.5 million in this plan over the period 2011–2015, with a projected return on investment in excess of 30%. The plan is fully funded as of early spring 2012, and it is our collective and sincere belief that the financial investment and effort put into this plan will protect and increase APA's single largest revenue stream.

The Board and Council also approved an additional designation of net assets in 2011 that will be implemented beginning in 2012 to fund seven specific initiatives within the approved APA strategic plan. This designation is proposed to span 3 years, the first of which has been funded out of net assets at \$2.1 million.

BALANCE SHEET

The net assets of APA declined in 2011 by \$7.2 million (see Table 2, p. S46). Of this amount, \$2.5 million was the result of the APA operating loss described previously, and \$4.5 million was due to losses on nonoperating activity (see Table 3, p. S46). The losses on nonoperating activity were primarily the result of unrealized losses on APA's long-term investment portfolio and on interest rate swaps

associated with the building loans. (An interest rate swap agreement is designed to exchange a variable interest rate to a fixed rate for a term loan.)

The value of the long-term investment portfolio declined 5.3%, ending the year with a balance of \$64 million (see graph and chart on p. S47). To make our portfolio less susceptible to the volatile market environment, the Finance Committee, with the assistance of its Investment Subcommittee, continued to refine the long-term investment portfolio asset allocation. The U.S. large- and mid-cap equities were reduced from 74% of the portfolio, and the funds were repositioned in bonds, international equities, and commodities. The greater diversification should provide increased protection from volatility over the long term.

Although our net assets are \$7.2 million less than last year, they are \$7.3 million greater than they were at the end of 2009. We will continue our efforts to control and manage our resources effectively to allow the association to fund initiatives consistent with APA's mission and strategic plan.

REAL ESTATE AND BUILDING OPERATIONS

Although significant new office construction is occurring a few blocks from our headquarters location in the area north of Massachusetts Avenue (the NoMa district), APA's buildings continue to be fully leased in 2011 and to produce substantial cash flow from operations. Low tenant turnover (Amtrak renewed its lease for 12 years in the 10 G Street building) and long-term lease structures contribute to a stable source of cash that provides a revenue stream and an investment source to APA and funds APA operations in the amount of \$3.5 million annually.

The 10 G Street building has a mortgage note payable to John Hancock Financial Services that will be coming due at the end of 2012. In anticipation of this, APA worked with John Hancock on the terms of a loan extension with a fixed interest rate. On November 14, 2011, the interest rate for an extended loan was locked in at 4.6% for 20 years. This rate is over 1% lower than the rate on the current loan and is expected to result in significant savings over the life of the loan.

We surpassed our goal of obtaining Silver LEED (Leadership in Energy and Environment) certification for the 10 G Street building. In 2011, the building received a perfect test score, thereby achieving LEED Gold Existing Building certification. The certifications were developed by the U.S. Green Building Council to provide building owners with a framework for identifying and implementing practical and measurable green building

design, construction, operations, and maintenance solutions. Our energy and water efficiencies have a positive impact on the building's cost of operations, and the use of less toxic cleaning solutions and improved indoor air quality create a healthier work environment.

As presented in the real estate report to the Council, APA is moving forward with the development of a rooftop conference center for the 750 First Street building. The conference center will provide a stunning view of the U.S. Capitol building, and we are looking forward to holding APA functions there.

SUMMARY

The management, the Finance Committee, the Board, and the Council monitor APA's operations (undesignated and designated) and have developed the strategic plan to provide context for these processes. Within the framework of the strategic plan, new programs and products are considered and developed that will ensure that APA fulfills its mission for years to come. The long-term investment portfolio and real estate holdings serve as valuable assets that ensure the continued financial strength of the association.

I am honored to serve APA's diverse membership as treasurer during these ongoing volatile economic times. The discipline of psychology has much to offer as society grapples with its current and future challenges. APA's strong financial status provides a solid foundation upon which we can collectively address the various opportunities that arise through our association.

If you have any questions regarding the finances of APA, you may submit your inquiry to your treasurer at finances@apa.org. ■

APA'S PUBLIC CREDIT RATING

In December 2011, Standard and Poor's (S&P) affirmed APA's BBB+ rating with a stable outlook, citing the following positive attributes of APA's operations:

- A long positive operating history.
- Diverse revenue streams, with revenue flexibility supported by APA's ability to increase dues and subscription prices while reducing operating expenses.
- Good growth in financial resources over the past 2 fiscal years, with cash and investments increasing to 114% of debt and 99% of operating expenses as of the fiscal year ending December 31, 2010.

The stable outlook reflects S&P's anticipation that APA will generate operating surpluses, stabilize membership, and manage its debt structure (\$105.5 m with 64% variable rate).

2011 FINANCE COMMITTEE MEMBERS

Bonnie Markham, PhD, PsyD, Chair

Guillermo Bernal, PhD, Vice Chair

Jessica Henderson Daniel, PhD

Louise A. Douce, PhD

Ronald E. Fox, PhD

Beth N. Rom-Rymer, PhD

Danny Wedding, PhD

Outside Expert Members

Investment Subcommittee

Stephen C. Howell

John J. McCormack

Peter M. Ramsey

Sheila T. Roberts

Audit Subcommittee

Stephen C. Howell

Joan E. Lynch

Steven F. Stanton

TABLE 1 REVENUE AND EXPENSES

TOTAL APA OPERATIONS (UNCONSOLIDATED)			
	2009	2010	2011
REVENUES			
Dues and fees	\$14,547	\$13,631	\$13,212
Journal subscriptions/licensing/sales	83,106	81,602	79,734
Other	11,158	13,484	13,191
Total Revenues	\$108,811	\$108,717	\$106,137
EXPENSES			
Salaries and benefits	\$51,725	\$51,130	\$54,196
Publication production costs	10,775	9,447	9,658
Space costs	8,940	8,975	9,263
Boards/committees	2,097	2,717	3,030
Special projects	7,484	7,927	7,788
Consulting/contractual	9,959	11,389	12,263
Other	14,850	15,299	12,429
Total Expenses	\$105,830	\$106,884	\$108,627
Net Gain/(Loss) From Total APA Operations	\$2,981	\$1,833	\$(2,490)
Composition of Net From APA Operations:			
Gain from APA operations excluding designated activities	\$4,545	\$4,935	\$1,166
Loss from designated activities	(1,564)	(3,102)	(3,656)
Net Gain/(Loss) From Total APA Operations	\$2,981	\$1,833	\$(2,490)
NONOPERATING ACTIVITY (CONSOLIDATED)			
	2009	2010	2011
LONG-TERM INVESTMENT ACTIVITY			
Realized gain on sale of long-term investments	\$5,582	\$3,568	\$5,310
Investment management fees	(372)	(438)	(449)
Unrealized gain/(loss) - (Net) (ASC 850)	10,899	6,231	(8,501)
Net Long-Term Investment Activity	\$16,109	\$9,361	\$(3,640)
REAL ESTATE ACTIVITY			
Ten G Street operations	\$1,941	\$2,589	\$2,384
750 First Street operations	6,002	6,361	6,263
Unrealized (loss)/gain on interest rate swap (LLC)	5,826	(1,940)	(4,583)
Unrealized (loss)/gain on interest rate swap (APA)	3,329	(1,249)	(2,842)
Interest on 750 First Street term loan (Bank of America)	(1,364)	(1,317)	(1,281)
Deferred rent	(401)	(253)	(100)
Net Real Estate Activity	\$15,333	\$4,191	\$(159)
OTHER APAPO NONOPERATING ACTIVITY			
Loss on Impairment - Center for Professional Development ^a	\$(828)	\$-	\$-
OTHER NONOPERATING ACTIVITY			
Income tax expense/provision	(217)	(1,139)	(740)
Total Nonoperating Activity	\$30,397	\$12,413	(4,539)
Total Nonoperating Activity (APA only)	\$31,225	\$12,413	(4,539)

Note. All figures shown in thousands. APAPO = APA Practice Organization; ASC = Accounting Standards Codification.

^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.

TABLE 2 BALANCE SHEET (CONSOLIDATED)

	2009	2010	2011
ASSETS			
Cash and short-term investments	\$48,195	\$56,136	\$57,142
Long-term investment portfolio	55,635	67,586	63,958
Real estate/equipment	79,778	74,229	71,923
Other	38,373	37,392	41,815
Total Assets	\$221,981	\$235,343	\$234,838
LIABILITIES			
Divisions/other groups	\$8,907	\$7,941	\$8,408
Long-term debt/swap liability	119,784	119,939	124,174
Accounts payable/accrued expenses/other	18,209	17,554	18,677
Deferred revenues	49,772	50,153	51,002
Total Liabilities	\$196,672	\$195,587	\$202,261
Net Assets	25,309	39,756	32,577
Total Liabilities and Net Assets	\$221,981	\$235,343	\$234,838

Note. All figures shown in thousands.

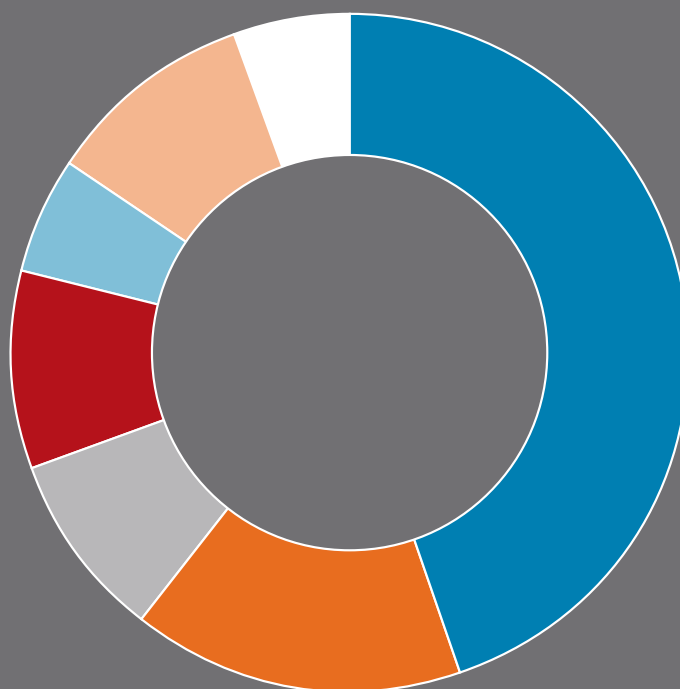
TABLE 3 NET ASSETS SUMMARY (CONSOLIDATED)

	2009	2010	2011
NET ASSETS BEGINNING BALANCE (CONSOLIDATED)	\$(8,339)	\$25,309	\$39,756
APA operations (see also Table 1)	2,981	1,833	(2,490)
APA nonoperating activity (see also Table 1)	31,225	12,413	(4,539)
APAPO operations	270	201	(150)
APAPO nonoperating activity	(828)	-	-
Total Change in Net Assets	\$33,648	\$14,447	\$(7,179)
Net Assets Ending Balance (Consolidated)	\$25,309	\$39,756	\$32,577
COMPOSITION OF ENDING UNRESTRICTED NET ASSETS			
APA unrestricted/undesignated net assets	\$13,222	\$25,634	\$15,361
Designated net assets:			
Publications and Databases R&D	2,238	667	637
Accreditation	1,469	1,407	992
Convention	776	1,034	484
Web relaunch	5,023	2,631	834
2010 fall consolidated meetings	535	-	-
Investment in APA	-	6,136	11,772
Web & IT	-	-	400
APAPO	2,046	2,247	2,097
Ending Unrestricted Net Assets	\$25,309	\$39,756	\$32,577

Note. All figures shown in thousands. APAPO = APA Practice Organization; IT = information technology; R & D = research and development.

2011 LONG-TERM PORTFOLIO COMPOSITION

Large-Cap Equity	44.8%
Small/Mid-Cap Equity	15.8%
Developed Non-US	9.0%
Emerging Markets	9.5%
Real Assets/Commodities	5.4%
Non-Core Fixed Income	10.2%
Core Fixed Income	5.3%



PERFORMANCE RETURNS/MARKET VALUE

2011 Long-Term APA Portfolio		2011 YTD Returns ^a	% of \$64m	Market Value ^b 12/31/11
Southeastern Asset Management	Large-Cap Equity	-2.8%	39.6%	\$25.3
Osterweis Fund	Large-Cap Equity	-4.3%	5.2%	3.3
Advisory Research	Small/Mid-Cap Equity	5.4%	5.6%	3.6
Westfield Capital Management	Small-Cap Equity	-7.6%	10.2%	6.5
First Eagle Overseas Fund	Developed Non-US	-	4.5%	2.9
Longleaf International Fund	Developed Non-US	-20.3%	4.5%	2.9
Eaton Vance Structured EM Fund	Emerging Markets	-19.2%	4.5%	2.9
Laudus Mondrian EM Fund	Emerging Markets	-12.7%	5.0%	3.2
Prudential Jennison Natural Resources Fund	Real Assets/Commodities	-	1.3%	0.8
PIMCO Commodity Real Return Fund	Real Assets/Commodities	-	4.1%	2.6
Loomis Sayles Bond Fund	Non-Core Fixed Income	-	3.4%	2.2
PIMCO Emerging Markets Currency Fund	Non-Core Fixed Income	-	1.7%	1.1
PIMCO Emerging Local Bond Fund	Non-Core Fixed Income	-	1.7%	1.1
DoubleLine Total Return Bond Fund	Non-Core Fixed Income	-	3.4%	2.2
PIMCO Low Duration Bond Fund	Core Fixed Income	1.8%	5.3%	3.4
Overall Return		-5.4%	100.0%	\$64.0
Return Since Inception		10.7%		

Note. EM = emerging markets.
^a Returns are net fees. ^b In millions.