TREASURER'S REPORT

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Treasurer

In this report I focus on our 2012 fiscal activities and the link between priorities and the allocation of resources. The strategic planning process, initiated by CEO Norman Anderson, PhD, and endorsed by the Board of Directors and Council of Representatives, has been guiding the association's financial decisions. The plan's first goal, to maximize organizational effectiveness, has as one of its objectives to "ensure the ongoing financial health of the organization." This task is complex, multifaceted, and dependent on the perspectives and expertise of many.

In addition to the superb work of the APA Finance Office with the oversight of the Board of Directors and the Finance Committee, we benefit from the guidance of financial professionals who serve on our Audit and Investment subcommittees. Their work is appreciatively acknowledged (members of the Finance Committee and its subcommittees are listed on p. S44).

APA's activities are largely made possible by human resources supported by financial resources. Most of the financial resources come from operations: dues, books, journals, licensing, accreditation, and a few other association activities. In addition, the organization owns two office buildings in Washington, DC, that are appreciating and producing substantial income, and APA has a sizable long-term investment portfolio that has benefited from wise management and the strong performance of the equity market in 2012 (see p. S47). By relying on multiple sources of revenue, APA has consistently been able to fulfill its mission despite volatility in the national and global economies, changes in membership interests and needs, and a variety of emergent conditions.

With the 2012 books now closed, I am pleased to provide the following report summarizing our financial results for the past year.

Operating Activity

Income. Electronic licensing revenues experienced strong growth in 2012, increasing 10.4% compared to 2011. However, overall revenues decreased slightly (0.3%) due to larger than expected declines in member dues, journal subscriptions, and publication sales. The dues shortfall is partially explained by Council's decision to stimulate membership by lowering the price of full membership to $140 beginning in 2012. The deviation from projections for journal and book income has led to a reevaluation of our predictive models and a careful assessment of changing marketplace behavior so as to minimize our margin of error in current and future budgeting.

Expenses. Expenses in 2012 increased by $9.1 million over those in 2011, primarily in two areas: salaries and benefits; and publication production costs. An additional $600,000 was incurred to fund the Internship Stimulus Package, a grant program approved by the Board and Council in August 2012 to address the internship crisis.

Impact. APA's commitment to psychology and the public has been tested in 2012. Mobilizing our resources to respond to Hurricane Sandy is one of many examples of the "emergent" temporarily overshadowing the urgent (e.g., the internship crisis). Each of those is then balanced with the need to address the changing face of health care in the United States and the essential task of developing and presenting psychological science to the public and decision makers to ensure that good data are available and trump

unfounded opinion. This work is expensive but well worth the price. Nevertheless, our disappointing 2012 results from operating activity will require that we tighten our belts and find ways to work more efficiently.

Options. One way we have to support forward-moving projects is to take advantage of prior boons and alternative sources of income. Designation is a mechanism to fund fixed-term, high-priority activities outside of the operating budget. Designated special projects, generally supported by surpluses accumulated in prior years, accounted for an additional $5.2 million in expenses. Designations appear as a loss because they are not supported by revenue from current-year operating activity (see Table 1, p. S45). APA has designated net assets for the following:

- **Publications and databases R&D** designation—to broaden growth opportunities in the publications and databases programs.
- **Accreditation stabilization** designation—to moderate fees charged for accreditation over time.
- **Convention** designation—to enhance programming to improve the convention experience.
- **Web relaunch** designation—established in 2007 to redesign the APA website to better meet the needs of members and the public.
- **Investment in APA Plan** designation—established in 2010 to fund the creation of new publication products, enhance IT support to facilitate the delivery of those products, and expand marketing efforts. The 2012 project cost was $2.5 million as part of a 5-year, $13.5 million investment to increase publication revenues. A $5.2 million increase in licensing revenue has been realized in 2012.
- **Web and IT** designation—established in 2011 to fund mission-critical work in the Web and IT departments.
- The 3-year **Strategic Plan Initiative** designation—established in 2012 to maximize organizational effectiveness, expand psychology's role in advancing health, and increase recognition of psychology as a science.

Additionally, during 2012, Council approved the Internship Stimulus Package, a $3 million commitment to increase the number of APA-accredited internship programs and to address the critical internship shortage. In 2012, $600,000 of this commitment was spent to address immediate needs; the remaining $2.4 million is a designation of net assets that will be disbursed at a rate of $800,000 per year for 3 years, beginning in 2013.

Overview. Overall, the net loss from total operations was $12 million, $3.2 million of which was from undesignated activities (see Table 1, p. S45). However, APA operates under a long-term financial policy that requires balanced, undesignated operating results over each rolling 3-year period, and this requirement was met for the 3 years ending with 2012.

Nonoperating Activity

These activities, which include long-term investments, real estate, and income tax expense, had a net gain of $17.6 million in 2012. Investment gains, net of investment management fees, were $9.5 million; gains from real estate activities were $8.8 million; and income tax expense was $0.7 million.

Balance Sheet

During 2012, APA's net assets increased $5.6 million (see Table 3, p. S46). Net assets are crucial for our debt covenants, Standard and Poor's (S&P) ratings, overall fiscal health, and flexibility in addressing our mission. This increase was the result of a $17.6 million gain from nonoperating activity (see Table 3, p. S46) and the $12 million loss from APA operations mentioned previously. The gain from nonoperating activity was primarily the result of gains in the long-term investment portfolio, real estate activity, and interest rate swaps associated with the building loans. (An interest rate swap agreement is designed to exchange a variable interest rate for a fixed rate.)

The value of the long-term investment portfolio increased 15% in 2012, to $73 million (see graph and chart on p. S47), primarily as the result of unrealized gains due to favorable market conditions.

The Finance Committee and the Investment Subcommittee made several modest strategic portfolio upgrades within the current asset allocation to improve investment performance while balancing risk and volatility. In addition, they made several improvements to the investment policy statement. The most significant policy change was to acknowledge the role of the association's real estate holding in the 10 G Street LLC as the equivalent of a fixed-income investment. When viewed in this way, 10 G Street represents a diversifying asset when evaluating the relative amounts of equity and fixed-income holdings within the long-term investment portfolio.

Building Operations

As of December 31, 2012, APA's buildings were virtually 100% leased. Building cash flows remain strong, and $3.5 million is distributed annually to support APA's operations. An additional $500,000 will be distributed annually to fund the Internship Stimulus Package for 3 years beginning in 2013.

On September 4, 2012, the John Hancock 10 G Street loan was renewed for a 20-year term at a fixed rate of 4.60%. This renewal will reduce annual interest expense by approximately $250,000, on average, over the life of the loan. APA will have no remaining loans on that building as of 2032. The Bank of America loan on the headquarters building at 750 First Street was renegotiated with less restrictive debt covenants to allow APA to pursue its programmatic designations, as previously discussed. At the end of 2012, APA was in compliance with all debt covenants. (Debt covenants specify standards of fiscal health required by a lender to maintain favorable interest rates.) If there are no further changes to the debt associated with the 750 First Street building, that building will be debt free in 2018.

During 2012, plans were finalized to construct a rooftop conference center at the 750 First Street building. The center will contain 12,000 square feet of meeting rooms and reception areas, with 6,000 square feet of outdoor terrace space and green roof with views of the Capitol and the Washington Monument. Construction is anticipated to span from second quarter 2013 through first quarter 2014. The estimated $10 million project cost will be funded by cash flows from the buildings. This addition to APA's headquarters has been an organizational goal since the building's construction. District of Columbia zoning laws have eased over time, and APA is now able to take advantage of this opportunity. The conference center will be available for many APA events and for use by tenants and outside organizations, generating additional rental revenue.

Summary

As I look back over the past year, two words come to mind: *challenges* and *opportunities*. Dealing with an unexpectedly large operating loss is clearly a challenge. We learned that some of our predictive models were faulty and that we can be taken by surprise when our vendors suddenly alter their business models. This challenge was also an affirmation of the new directions we have been taking in our publishing and database activities through the Investment in APA Plan.

Our students have also been experiencing challenges, as many do not match for internships. APA responded with the Internship Stimulus Package. Our efforts with this initiative have led to asserting the value of APA accreditation and an increased vigor in developing standards for health care education in psychology.

Moving ahead with seven strategic initiatives gives us the opportunity to advance our mission in key areas: member engagement, psychology work force analysis, treatment guidelines, public education regarding the value of psychological science and practice, graduate training and professional development in interdisciplinary health care approaches, addressing health disparities, and forging strategic alliances. APA is also creating the potential for more opportunities by managing its resources effectively, including its buildings, other investments, and operations.

It has been a privilege to serve APA as treasurer during this past year. Thank you for allowing me to address these challenges and opportunities. ■

APA's Public Credit Rating

In March 2013, Standard and Poor's (S&P) affirmed APA's BBB+ rating with a stable outlook. S&P cited the following positive attributes of APA's operations:

- A long history of positive operating results.
- 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 recently, with cash and investments increasing to 114% of debt and 97% of operating expenses as of the fiscal year ending December 31, 2011.

Standard & Poor's affirmation of APA's BBB+ rating reflects their anticipation that APA will generate operating surpluses, stabilize membership, and successfully manage debt structure.

2012 Finance Committee Members

Bonnie Markham, PhD, PsyD, Chair
Guillermo Bernal, PhD, Vice Chair
Jean Carter, PhD
Jessica Henderson Daniel, PhD
Lisa R. Grossman, JD, PhD
Beth N. Rom-Rymer, PhD
Thomas J. Vaughn, 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 APA Revenues and Expenses

OPERATING ACTIVITY			
	2010	**2011**	**2012**
REVENUES			
Dues and fees	$13,631	$13,212	$11,189
Journal subscriptions	13,779	13,109	12,350
Licensing	47,312	50,152	55,389
Publication sales	19,449	15,617	13,672
Other	14,546	14,047	13,181
Total Revenues	$108,717	$106,137	$105,781
EXPENSES[a]			
Salaries and benefits	$51,130	$53,451	$57,591
Publication production costs	14,106	13,091	17,397
Space costs	8,976	9,599	9,250
Boards/committees/other meetings	4,266	4,757	5,326
Consulting/contractual/temporary	10,745	11,378	11,059
Printing/postage/office	3,946	3,790	3,925
Equipment/maintenance/depreciation	8,008	6,517	6,066
Other	5,707	6,044	7,154
Total Expenses	$106,884	$108,627	$117,768
Net Gain/(Loss) From Operations	**$1,833**	**$(2,490)**	**$(11,987)**
Composition of Net From APA Operations:			
Gain/(loss) from undesignated activities	$8,435	$4,666	$(3,209)
Cash flow from buildings used for operations	(3,500)	(3,500)	(3,500)
Loss from designated activities	$(3,102)	$(3,656)	$(5,278)
Net Gain/(Loss) From Total APA Operations	**$1,833**	**$(2,490)**	**$(11,987)**

NONOPERATING ACTIVITY			
	2010	**2011**	**2012**
LONG-TERM INVESTMENT ACTIVITY			
Realized gain/(loss) on sale of long-term investments	$3,568	$5,310	$4,626
Investment management fees	(438)	(449)	(463)
Unrealized gain/(loss) - (Net) (FAS 124)	6,231	(8,501)	5,339
Net Long-Term Investment Activity	$9,361	$(3,640)	$9,502
REAL ESTATE ACTIVITY			
Ten G Street operations	$2,589	$2,384	$3,075
750 First Street operations	6,361	6,263	6,097
Unrealized (loss)/gain on interest rate swap (LLC)	(1,940)	(4,583)	316
Unrealized (loss)/gain on interest rate swap (APA)	(1,248)	(2,842)	126
Interest on 750 First Street term loan (Bank of America)	(1,318)	(1,281)	(1,248)
Deferred rent	(253)	(100)	466
Net Real Estate Activity	$4,191	$(159)	$8,832
OTHER NONOPERATING ACTIVITY			
Income tax expense/provision	$(1,139)	$(740)	$(781)
Total Nonoperating Activity	**$12,413**	**$(4,539)**	**$17,553**

Note. All figures shown in thousands. FAS = Financial Accounting Standards.

[a]Expense data in 2010 and 2011 have been restated for comparison purposes.

Table 2 Balance Sheet (Consolidated)

	2010	2011	2012
ASSETS			
Cash and short-term investments	$56,136	$57,142	$59,297
Long-term investment portfolio	67,586	63,958	73,380
Real estate/equipment	74,229	71,923	69,171
Other	37,392	41,815	37,150
Total Assets	**$235,343**	**$234,838**	**$238,998**
LIABILITIES			
Divisions/other groups	$7,941	$8,408	$9,075
Long-term debt/swap liability	119,939	124,174	120,562
Accounts payable/accrued expenses/other	17,554	18,677	19,176
Deferred revenues	50,153	51,002	52,269
Total Liabilities	$195,587	$202,261	$201,082
Net Assets	39,756	32,577	37,916
Total Liabilities and Net Assets	**$235,343**	**$234,838**	**$238,998**

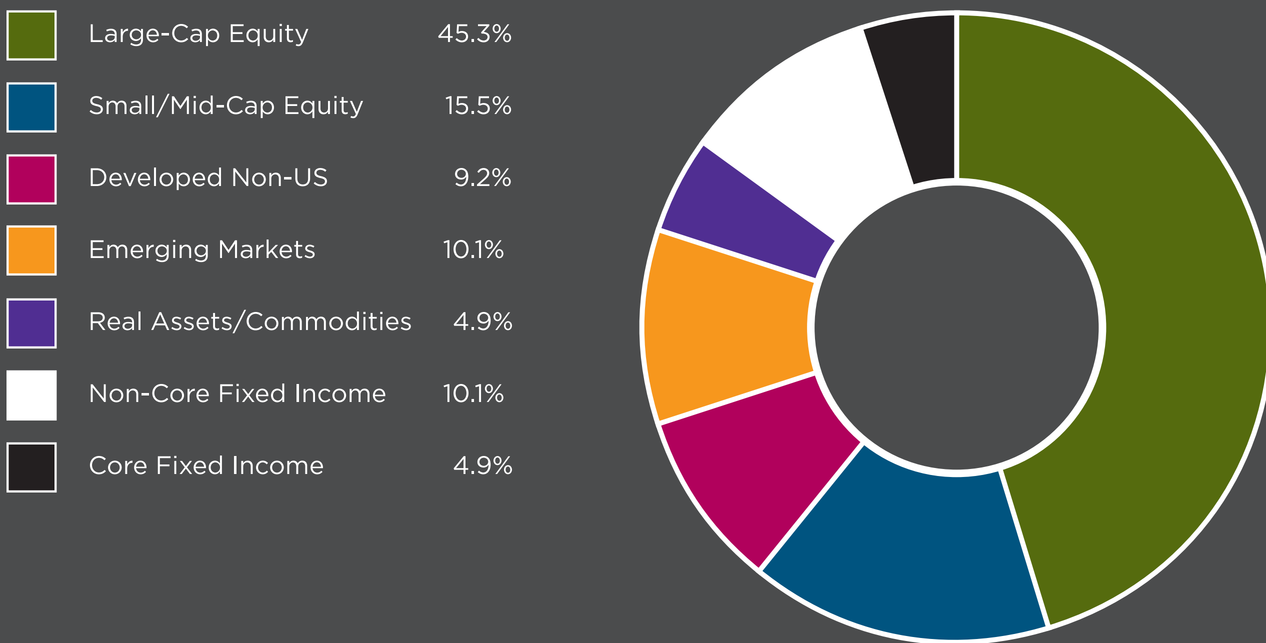
Note. All figures shown in thousands.

Table 3 Net Assets Summary (Consolidated)

	2010	2011	2012
NET ASSETS BEGINNING BALANCE (CONSOLIDATED)	$25,309	$39,756	$32,577
APA operations (see also Table 1)	1,833	(2,490)	(11,987)
APA nonoperating activity (see also Table 1)	12,413	(4,539)	17,553
APAPO operations	201	(130)	(271)
APAPO nonoperating activity	-	(20)	44
Total Change in Net Assets	$14,447	$(7,179)	$5,339
Net Assets Ending Balance (Consolidated)	**$39,756**	**$32,577**	**$37,916**
COMPOSITION OF ENDING UNRESTRICTED NET ASSETS			
APA unrestricted/undesignated net assets	$25,634	$15,361	$21,542
APAPO net assets	2,247	2,097	1,869
APA designated activities			
Publications and Databases R&D	667	637	612
Accreditation	1,407	992	500
Convention	1,034	484	452
Web relaunch	2,631	834	2
Investment in APA Plan	6,136	11,772	9,733
Web & IT	-	400	-
Strategic Initiatives	-	-	3,206
Ending Unrestricted Net Assets	**$39,756**	**$32,577**	**$37,916**

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

2012 LONG-TERM PORTFOLIO COMPOSITION



PERFORMANCE RETURNS/MARKET VALUE

2012 Long-Term Investment Portfolio		Market Value[a] 12/31/12	% of Market Value	2012 YTD Returns (%)[b]
Southeastern Asset Management	Large Cap Equity	$29.6	40.3	17.2
Osterweis Fund	Large Cap Equity	3.7	5.0	13.3
Advisory Research	Small/Mid Cap Equity	4.1	5.6	12.7
HSBC Opportunity Fund	Small Cap Equity	7.3	9.9	-
First Eagle Overseas	Developed Non-US	3.2	4.4	14.3
Longleaf International Fund	Developed Non-US	3.5	4.8	21.2
Aberdeen EM Fund	Emerging Markets	3.6	4.9	-
Laudus Mondrian Instl EM Fund	Emerging Markets	3.8	5.2	21.0
Jennison National Resources Fund	Real Assets/ Commodities	0.8	1.1	-2.4
PIMCO Commodity Real Return	Real Assets/ Commodities	2.8	3.8	5.3
Loomis Sales Bond Fund	Non-Core Fixed Income	2.5	3.4	15.1
TCW Emerging Markets Currency	Non-Core Fixed Income	1.2	1.6	-
PIMCO Emerging Local Bond Instl	Non-Core Fixed Income	1.3	1.8	15.2
DoubleLine Total Return Bond	Non-Core Fixed Income	2.4	3.3	8.6
PIMCO Low Duration Bond Fund	Core Fixed Income	3.6	4.9	6.0
		$73.4	100%	
			Overall Return	**14.8%**
			Return Since Inception	**10.9%**

Note. EM = emerging markets.

[a]In millions. [b]Returns are net of fees.