

TREASURER'S REPORT

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Treasurer



The central theme for the American Psychological Association in 2013 was change. Over the past year, much attention has been focused on considering and developing changes to the APA governance structure and processes. Anticipating and managing change are addressed in much of the research, practice, education, and training in psychology. In the midst of the association's change process, we are simultaneously experts and individuals with a variety of personal reactions, including excitement and anxiety. We know that change can be difficult at times and requires a measure of stability while things are unstructured, a measure of flexibility while outcomes are uncertain.

The APA Finance Committee (FC) has made a systematic effort over the past year to use what we know about change to clarify and modify FC roles and functions. Our central goal is to provide sound financial advice to all parts of the association, both now and in the future. The use of technology to support more frequent meetings and efficient work between face-to-face meetings has been quite effective. In addition, we have increasingly used a brainstorming model and "mega" issues to focus the face-to-face meeting agendas and have relied on email and conference calls to address specific tasks.

APA experienced a substantial increase in net assets in 2013 and has received a very strong, positive assessment from Standard & Poor's (S&P). This gives the association increased flexibility in how it approaches fulfilling its mission. It also requires APA to exercise sound financial discipline. If we look back to 2008 and 2009, when we

could not be as confident in our financial picture, this is a welcome change and comes with the demand to act responsibly. Over the next year, the Finance Committee will be developing strategies to continue to grow APA's assets and direct some of these resources to high-priority activities in a systematic way.

Many people contribute substantially to the work of the Finance Committee. One of the key changes over the past year in how the committee functions has been increased reliance on the vice chair. Jean Carter, PhD, has served in that role with great skill, generously sharing her time as well as knowledge of both finance and APA. In addition to the superb work of the APA Finance Office, with the oversight of the Board of Directors and the Finance Committee, the association also benefits from the guidance of financial professionals who serve on the Audit and Investment subcommittees. Their work is appreciatively acknowledged (members of the Finance Committee and its subcommittees are listed on p. S44).

Operating Activity

Income. Electronic licensing revenues continued to experience strong growth in 2013, increasing 10.2% compared to 2012, and were the largest contributor to overall revenue growth. This continued growth is a direct result of the "Investment in APA," a special project implemented in 2011 that funded the creation of new publication products and enhanced IT support to facilitate their delivery. Publication sales, which had declined in 2012, grew by 4.7% in 2013. Other revenue categories have continued to experience declines, most notably member dues (3.4%) and journal subscriptions (1.9%). The decline in dues revenue is related both to an increase in the number of members moving to life status and a decrease in the number of members renewing to full membership status.

Expenses. Expenses in 2013 remained relatively level with those of 2012, showing a very small decrease of 1%. Due to the negative operating deficit in 2012, management implemented expense savings measures in spring 2013 to ensure a positive operating margin. The majority of those savings occurred in consulting and office expenses, where staff were able to make reductions.

Opportunities: The Use of Designations

One way to support innovation is to designate net assets. Designation is a mechanism to fund fixed-term, high-priority activities outside of the operating budget. Designations appear as a loss because they are not supported by revenue from the current-year operating activity (see Table 1, p. S45). In 2013, approximately \$20.7 million was designated for the following projects:

- **Publications and Databases R&D**—established to broaden growth opportunities in the Publications and Databases programs.
- **Accreditation stabilization**—established to moderate fees charged for accreditation over time.
- **Convention**—established to enhance programming to improve the convention experience.
- **Investment in APA**—established in 2010 to fund the creation of new publication products, enhance IT support to facilitate the delivery of these products, and expand marketing efforts. This 5-year, \$13.5 million investment to increase publication revenues has resulted in electronic licensing growth of 8–10% over the past 3 years.
- **Strategic Plan Initiatives**—established in 2012, this 3-year designation was created to maximize organizational effectiveness, expand psychology's role in advancing health, and increase recognition of psychology as a science.
- **Internship Stimulus Plan**—established in September 2012, this is a 3-year, \$3 million commitment to increase the number of APA-accredited internship programs and address the critical internship shortage.
- **APA Insurance Trust** (“The Trust”; see Other Income section)—established in 2013; specific uses of the monies are to be determined.

Overview. Overall there was a net loss from total operations of about \$5.8 million, \$0.3 million of which was from undesignated activities (see Table 1). However, APA operates under a long-term financial policy requiring bal-

anced, undesignated operating results over each rolling 3-year period, and this requirement was met for the 3 years ending with 2013.

Nonoperating Activity

These activities, which include the long-term investment portfolio, real estate, and income tax expense, resulted in a net gain of \$35.2 million in 2013. Investment gains, net of investment management fees, were \$15.5 million; gains from real estate activities were \$14.8 million; and income tax expense was \$1.4 million.

Other Income

APA entered into an agreement with APA Insurance Trust (now called “The Trust”) that will provide APA with \$6.25 million over a 3-year period to compensate for revisions to The Trust document that alter APA's relationship with The Trust, including removing the APA Board of Directors from involvement in the internal governance of The Trust and changing other rights and responsibilities of APA set out in the old trust document. Consistent with the terms of the 2013 agreement, APA received \$2 million in 2013 and \$2 million in January 2014, which is included in accounts receivable on the consolidated balance sheet (see Table 2). A final payment of \$2.25 million is due in July 2015 and is included in other assets on the consolidated balance sheet.

Balance Sheet

During 2013, APA's net assets increased \$29.3 million (see Table 3). Net assets are crucial for meeting debt covenants, supporting overall financial health, establishing credit agency ratings, and maintaining flexibility in addressing our mission. This net asset increase was the result of \$35.2 million in gains from nonoperating activity (see Table 3), a \$5.8 million loss from APA operations, and a \$0.1 million loss from the American Psychological Association Practice Organization. The gains from nonoperating activity were the result of gains on real estate activity, unrealized gains on APA's long-term investment portfolio, 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 for a term loan.)

The value of the long-term investment portfolio increased 21%, to end the year with a market value of \$89 million (see graph and chart on p. S47), primarily as the result of unrealized gains due to favorable market conditions.

APA 750 LLC funded the cost of adding a conference center on the rooftop of the 750 First Street building.

Property and equipment increased 13%, by \$9 million, as a result of capitalizing the costs of the project.

Building Operations

Although economic conditions are improving in Washington, DC, the market for commercial real estate continues to be sluggish. Average vacancy rates in DC were 10.6% marketwide and 16.2% in the “NoMa” (North of Massachusetts Avenue) district where APA’s buildings are located. However, as of December 31, 2013, both APA 750 LLC and APA Ten G LLC were fully leased, and negotiations have either been completed or are under way to renew expiring 2014 lease agreements with existing tenants or subtenants.

In 2013, the APA headquarters building (750 First Street, NE) earned LEED Existing Building Gold Certification. This was a major achievement that required capital investment to increase the building’s energy efficiency. The building’s Energy Star score improved from 52 in January 2012, when the energy efficiency program began, to 79 in December 2013, which places it in the top 22% of all comparable office buildings nationwide. Energy use decreased by nearly 830,000 kWh from 2012 to 2013, approximately a 10% decrease year over year.

Several major capital projects commenced at the APA headquarters building in 2013. Construction of the APA Capitol View Conference Center began in April 2013. The new conference center will contain a large multi-function room, a board-style meeting room, three small meeting areas, and two large outdoor garden terraces. The conference center is expected to be fully operational for APA’s convention in August, and APA staff members are making requests to use the space for meetings in 2014. The project cost of approximately \$10 million was funded by capital reserves in APA 750 LLC. Additional capital projects at the 750 First Street building included a new roof and an elevator modernization project that commenced in 2013 and will be completed in 2014.

The buildings distributed \$4 million to APA in 2013, \$3.5 million of which went toward the APA operating budget, while the remaining \$500,000 funded a portion of the Internship Stimulus Plan.

Summary

Managing change successfully requires resilience. APA is positioned to be stable and resilient. We continue to pay down our debt, attain the level of financial health expected of our lenders, earn high S&P ratings, balance our budget, recover from unfavorable economic conditions, benefit from diversified assets, and tolerate uncertainty.

Managing change successfully also requires flexibility. APA is positioned to be flexible and invest in its future. The association is open to trying new models of governance, experimenting with varied approaches to asset management and development, thinking differently about using investments to advance the field and its impact on the public, and embracing uncertainty as an opportunity for innovation.

Balancing excitement and anxiety, exuberance and discipline, is an essential agenda of APA. It continues to be a privilege to play my part in advancing that agenda as your treasurer.

APA’s Public Credit Rating

In May 2014, 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 its ability to increase dues and electronic subscription prices while reducing operating expenses.
- Strong growth in financial resources, with cash and investments increasing to 130% of debt and 99% of operating expenses as of the fiscal year ended December 31, 2012.

2013 Finance Committee Members

Bonnie Markham, PhD, PsyD, Chair
Jean Carter, PhD, Vice Chair
Jessica Henderson Daniel, PhD
Lisa R. Grossman, JD, PhD
Beth N. Rom-Rymer, PhD
Robert E. McGrath, 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			
	2011	2012	2013
REVENUES			
Dues and fees	\$13,212	\$11,189	\$10,803
Journal subscriptions	13,109	12,350	12,111
Licensing	50,152	55,389	61,061
Publication sales	15,617	13,672	14,317
Other	14,047	13,181	12,442
Total Revenues	\$106,137	\$105,781	\$110,733
EXPENSES^a			
Salaries and benefits	\$53,451	\$57,481	\$59,916
Publication production costs	13,091	12,901	12,954
Space costs	9,599	9,131	8,887
Boards/committees/other meetings	4,757	4,709	4,309
Consulting/contractual/temporary	11,378	14,454	12,893
Printing/postage/office	3,790	2,795	2,398
Equipment/maintenance/depreciation	3,645	2,900	1,860
Stipends/tuition/grants/honoraria	3,129	4,245	4,517
Other	5,787	9,151	8,768
Total Expenses	\$108,627	\$117,768	116,503
Net Gain/(Loss) From Operations	\$(2,490)	\$(11,987)	\$(5,769)
Composition of Net From APA Operations:			
Gain/(loss) from undesignated activities	\$4,666	\$(3,209)	\$3,740
Cash flow from buildings used for operations	(3,500)	(3,500)	(4,000)
Loss from designated activities	\$(3,656)	\$(5,278)	(5,510)
Net Gain/(Loss) From Total APA Operations	\$(2,490)	\$(11,987)	\$(5,769)
NONOPERATING ACTIVITY			
	2011	2012	2013
LONG-TERM INVESTMENT ACTIVITY			
Realized gain/(loss) on sale of long-term investments	\$5,310	\$4,626	\$1,726
Investment management fees	(449)	(463)	(389)
Unrealized gains/(loss)	(8,501)	5,339	14,198
Net Long-Term Investment Activity	\$(3,640)	\$9,502	\$15,535
REAL ESTATE ACTIVITY			
Ten G Street operations	\$2,384	\$3,075	\$3,092
750 First Street operations	6,263	6,097	5,677
Unrealized (loss)/gain on interest rate swap (LLC)	(4,583)	316	4,293
Unrealized (loss)/gain on interest rate swap (APA)	(2,842)	126	2,454
Interest on 750 First Street term loan (Bank of America)	(1,281)	(1,248)	(1,210)
Deferred rent	(100)	466	466
Net Real Estate Activity	\$(159)	\$8,832	\$14,773
OTHER NONOPERATING ACTIVITY			
Other income	-	-	\$6,250
Income tax expense/provision	\$(740)	\$(781)	(1,371)
Total Nonoperating Activity	\$(4,539)	\$17,553	\$35,186

Note. All figures shown in thousands. ^a Expense data in 2011 and 2012 have been restated for comparison purposes.

Table 2 Balance Sheet (Consolidated)

	2011	2012	2013
ASSETS			
Cash and short-term investments	\$57,142	\$59,297	\$53,554
Long-term investment portfolio	63,958	73,380	88,981
Real estate/equipment	71,923	69,171	78,113
Other	41,815	37,150	41,076
Total Assets	\$234,838	\$238,998	\$261,724
LIABILITIES			
Divisions/other groups	\$8,408	\$9,075	\$9,470
Long-term debt/swap liability	124,174	120,562	110,156
Accounts payable/accrued expenses/other	18,677	19,176	21,145
Deferred revenues	51,002	52,269	53,734
Total Liabilities	\$202,261	\$201,082	\$194,505
Net Assets	32,577	37,916	67,219
Total Liabilities and Net Assets	\$234,838	\$238,998	\$261,724

Note. All figures shown in thousands.

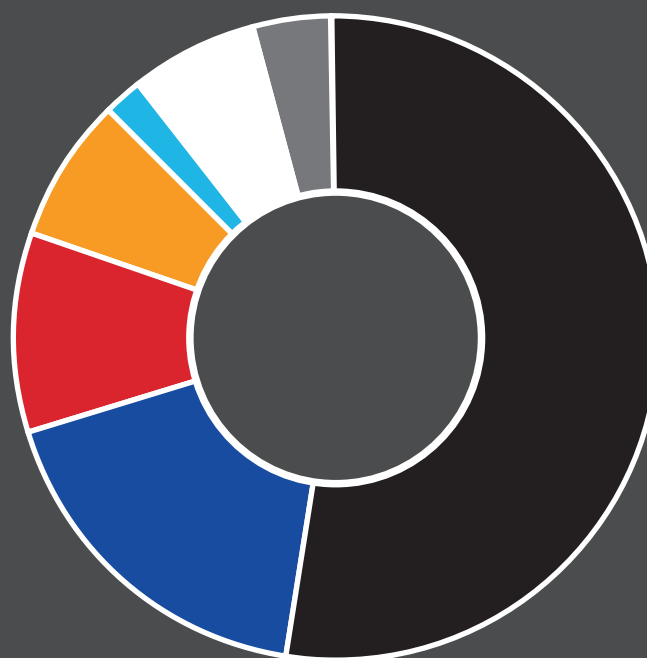
Table 3 Net Assets Summary (Consolidated)

	2011	2012	2013
NET ASSETS BEGINNING BALANCE (CONSOLIDATED)			
APA operations (see also Table 1)	(2,490)	(11,987)	(5,769)
APA nonoperating activity (see also Table 1)	(4,539)	17,553	35,186
APAPO operations	(130)	(271)	(86)
APAPO nonoperating activity	(20)	44	(28)
Total Change in Net Assets	\$(7,179)	\$5,339	\$29,303
Net Assets Ending Balance (Consolidated)	\$32,577	\$37,916	\$67,219
COMPOSITION OF ENDING UNRESTRICTED NET ASSETS			
APA unrestricted/undesignated net assets	\$15,361	\$21,543	\$44,673
APAPO net assets	2,097	1,869	1,756
APA designated activities			
Investment in APA	11,772	9,733	7,476
The Trust business agreement	-	-	6,250
Strategic Plan Initiatives	-	3,206	3,894
Intern Stimulus Plan	-	-	1,775
Accreditation	992	499	647
Convention	484	452	367
APA centralized application service for grad. ed. in psychology	-	-	325
GGP Implementation Workgroup	-	-	259
Web relaunch	834	2	-
Web & IT	400	-	-
Publications and Databases R&D	637	612	(203)
Ending Unrestricted Net Assets	\$32,577	\$37,916	\$67,219

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

2012 LONG-TERM PORTFOLIO COMPOSITION

Large-Cap Equity	52.7%
Small/Mid-Cap Equity	17.6%
Developed Non-US	10.0%
Emerging Markets	7.4%
Real Assets/Commodities	1.9%
Non-Core Fixed Income	6.4%
Core Fixed Income	4.0%



PERFORMANCE RETURNS/MARKET VALUE

2013 Long-Term Investment Portfolio		Market Value ^a 12/31/13	% of Market Value	2013 YTD Returns (%) ^b
Southeastern Asset Management	Large Cap Equity	\$39.2	44.1	32.9
Osterweis Fund	Large Cap Equity	5.0	5.6	35.8
Schafer Cullen	Large Cap Equity	1.3	1.5	5.9
Bahl & Gaynor	Large Cap Equity	1.3	1.5	5.8
Advisory Research	Small/Mid Cap Equity	5.6	6.3	35.8
HSBC Opportunity Fund	Small Cap Equity	10.0	11.2	36.9
First Eagle Overseas	Developed Non-US	4.0	4.5	12.1
Lionleaf International Fund	Developed Non-US	4.9	5.5	28.4
Aberdeen EM Fund	Emerging Markets	3.3	3.7	-7.5
Laudus Mondrian Instl EM Fund	Emerging Markets	3.4	3.8	-10.0
Jennison Natural Resources Fund	Real Assets/Commodities	1.7	1.9	11.7
Loomis Sales Bond Fund	Non-Core Fixed Income	1.8	2.0	5.7
TCW EM Currency	Non-Core Fixed Income	0.8	0.9	-4.2
PIMCO Emerging Local Bond Fund Instl	Non-Core Fixed Income	0.7	0.8	-10.8
DoubleLine Total Return Bond	Non-Core Fixed Income	2.4	2.7	0.0
PIMCO Low Duration Bond Fund	Core Fixed Income	3.6	4.0	0.3
		\$88.9	100.0%	
		2013 Overall Return		21.3%
		Return Since Inception		11.3%

Note. EM = emerging markets.

^aIn millions. ^bReturns are net of fees.