

APSA Treasurer's Report 2007

Another Year of Growth and Innovation in APSA's Financial Operations

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with **Robin Smith**, *APSA Director of Finance and Administration*

Once again, I am pleased to report that our Association's financial condition remains healthy, providing a resource base sufficient to continue current operations, while expanding the Association's activities in new directions as needed. Since my last annual report, we have seen our endowment and real estate holdings grow in value to about \$30 million (as of August 2007), against which we are carrying just \$1.6 million in mortgage debt. For the fiscal year that ended June 30, 2007, we estimate that total operating income (\$4.7 million) was slightly above budget, with expenditures slightly below. Our broad membership base continues to be the most important reason for our healthy financial condition, while the Annual Meeting and APSA publications also provide substantial income. In short, we are in the enviable position of enjoying stable membership, while holding substantial income- and growth-producing assets with minimal long-term liabilities. All of these factors combine to produce an operating budget which hews closely to anticipated income and expenses, year after year.

Transparency and social responsibility

During my two year tenure as your Treasurer, the Council and staff have undertaken several initiatives to improve members' access to fiscal information, enhance mechanisms for Council-level fiscal responsibility, and ensure adherence to the social responsibility mandate which governs our investment policy. The Association's Trust and Development Board of Trustees, which is chaired by the Treasurer and oversees investments, has approved new guidelines (*APSA Investment Policies and Practices*) to make the organization of our portfolios more coherent; has published a list of our stock holdings, in *PS: Political Science and Politics*; and has solicited from our investment advisor a statement explaining how the social responsibility mandate is implemented in practice. The newly formed Audit Committee, working with the APSA staff and

Council, has implemented whistleblower protections and conflict of interest policies, and developed a clear new process for authorizing, reviewing, and approving an annual audit of the Association's financial operations.

New directions

In the coming months, several other initiatives began during the past two years will bear fruit. We expect to sell, with a reasonable gain, the property we own at 1528 18th Street, adjacent to the APSA headquarters building. The Administrative Committee and Council will consider improved mechanisms for Council fiscal oversight and management, bringing APSA into proactive compliance with the accounting industry's "best practices" for non-profit institutions, while more than satisfying the federal government's Sarbanes-Oxley requirements. Our investment advisor's performance, fees, and services will be comprehensively evaluated, with the assistance of qualified organizational consultants. Finally, an initiative to evaluate index-based, low-fee investment strategies will continue, through a newly-established relationship with the Vanguard Group. The Trust and Development Board will assess relative costs and benefits of so-called "passive" investment approaches, as compared to the actively managed approach we currently employ.

Stock market volatility

As this is written in late August 2007, the stock market has been experiencing extreme volatility, with a 10% downturn—technically a "correction"—amid great uncertainty about future directions for the U.S. housing market, home mortgages, retail sales, and interest rates. Like the rest of the nation's investors, we expect to see this volatility reflected in our own portfolio, when final figures are available. However, we expect the impact to be limited. Our endowment is invested in a diverse pool of securities, and we have limited exposure to markets experiencing

the greatest volatility in recent weeks, including those for asset-backed instruments and other complex, opaque, collateralized securities. We have avoided large investments in so-called "alternative" vehicles such as hedge funds, derivatives, and other instruments which have been so much in the news. While we are almost fully invested in stocks, our holdings cross a wide range of industries and regions (including about 12% explicitly international exposure), and they have generated better-than-average returns over many years. Thus we are optimistic that when the current correction is over, our portfolio will have performed no worse than the economy, or the stock market, as a whole, and is likely to outperform many comparably sized portfolios, whose managers have sought more aggressive returns—and correspondingly higher risk—over recent years.

Overview of operating budget 2006–2007. So you can see in greater detail where our money comes from, and where it's going, the budget for the most recent fiscal year appears in Table 6, Operating Budget. You will see that our largest income sources for 2006–2007 were membership dues and fees (\$1.587 million), Annual Meeting revenue (\$1.088 million) and publications (\$945,000). Our largest expenditure areas were publications (\$1.04 million), membership services and programs (\$1.022 million), and the Annual Meeting (\$717,000).

Detailed discussion

In the remainder of this report (authored by Robin Smith, APSA director of finance and administration), you'll find more detailed discussion and statements regarding the Association's activities and financial condition. Smith reports that despite a broadening of APSA's mission, even while budgets are tightening, our Association has continued to operate efficiently and responsibly. Once again, fiscal year 2006 ended within the operating budget, and with growth in the value of our holdings.

APSA Investments

For the fiscal year ending June 30, 2006, APSA's audited financial statements, which also include the figures for operations, investments, endowed programs, and grant-funded activities, show an increase in total net assets of \$1.021 million for the fiscal year. This performance compares to an increase of \$372,411 in fiscal year 2005, and \$3.228 million in 2004, following declines in total net assets of \$763,433 and \$3.2 million for fiscal years 2003 and 2002.

The gain in net assets in the current fiscal period was due chiefly to a favorable investment climate. The Association's overall financial position continues to be strong, with assets of just over \$28 million, a headquarters building and adjacent property—both of which continue to appreciate in value—and a stable operating budget (please refer to Table 1 for the APSA Balance Sheet).

APSA's investment advisor, Cedarpoint Capital Management, Inc., reported that the value of the Trust Pool of investments (which include the Second Century and award funds) earned 11.7% for fiscal year 2005-06, and the Congressional Fellowship Fund investments earned 12.3%. By way of comparison, APSA investments outperformed the S&P 500, which earned 8.6% during the same period. This strong investment performance for 2006 allowed APSA to continue to recover from investment losses sustained in recent prior fiscal years. APSA's portfolios have historically outperformed the S&P 500 (please refer to Table 2 for more information on APSA's investment portfolio).

Overall, APSA ended fiscal year 2006

with assets of \$28.1 million and liabilities of \$3.5 million, resulting in a net worth of \$24.6 million. Of this amount, \$14.9 million is restricted as to its use and \$9.7 million is either unrestricted or board-designated.

The net assets may also be viewed as keyed to the funds: \$12.1 million in the Congressional Fellowship endowment; \$4.4 million in the Trust fund; \$4.6 million in the Second Century and related funds; \$2.1 million in general operating funds, and \$1.3 million in endowed award funds (all at market value as of June 30, 2006).

Operations and Budget in Review: Fiscal Year 2005–2006

Michael Brintnall completed his fourth full year as executive director. The Association's headquarters staff of 24 supported the Association to serve the membership's programming goals, and to respond flexibly to new responsibilities and Council-directed projects.

This was a year marked by conferences and meetings, and emerging international initiatives. The 2005 Annual Meeting in Washington, D.C. was a hugely successful event, and efforts designed to repeat that success were evident in planning for the 2006 Annual Meeting in Philadelphia. In February 2006 the APSA held its third Teaching and Learning Conference, which offered a strong program and 300 attendees in Washington, D.C., and planning was well under way for the next conference in Charlotte, N.C. Initiatives to promote political science in Africa and India were also key activities during the year.

The APSA web site served as a valuable resource for external audiences and a collaborative workspace for committees and members. APSA's online resources—Annual Meeting programming, *myAPSA*, *PROceedings*, and

departmental services—afforded APSA members expansive opportunities to enjoy direct access to and control of Association services and membership renewal.

In terms of earned operating revenue and program expenses, the outcome for the year was within budget expectations. APSA earned approximately \$4.52 million in operating revenues and incurred operating expenses of \$4.33 million. Actual operating revenue increased during this fiscal year by slightly more than \$281,000 over the prior year, and expenses increased by less than \$107,000. Realized operating revenue was just over the year's budget by roughly \$110,000, while total operating expense came in just slightly budget by \$4,000.

In 2005–2006, APSA realized the benefit of the fourth full year of its original journal publishing agreement with Cambridge University Press and the third full publication year of *Perspectives on Politics*. The Cambridge agreement has continued to result in increases in revenue and expense for APSA by shifting the bulk of the publishing operation to the publisher.

Cambridge has direct responsibility for collection of institutional (library) dues, the sale of journal advertisements, and the management of royalties and permissions, as well as the *PROceedings* project and other electronic services. APSA receives a royalty, or share of the revenue that Cambridge brings in, from each of these areas. In addition, Cambridge provides funding for all three of the editorial offices (*APSR*, *PS*, and *Perspectives on Politics*). On the expense side, Cambridge is responsible for marketing, production, printing, and distributing all three journals.

Table 1
Balance Sheet
June 30, 2006 (With Comparable Totals for 2001-2005)

	2001	2002	2003	2004	2005	2006
Assets:						
Current Assets	\$ 24,102,839	\$ 20,741,134	\$ 20,039,231	\$ 22,928,254	\$ 23,687,705	\$ 25,816,809
Property and Equipment	438,392	513,622	525,411	848,011	2,424,299	2,330,607
Total Assets	<u>\$ 24,541,231</u>	<u>\$ 21,254,756</u>	<u>\$ 20,564,642</u>	<u>\$ 23,776,265</u>	<u>\$ 26,112,004</u>	<u>\$ 28,147,416</u>
Liabilities and Net Assets:						
Liabilities	\$ 1,618,715	\$ 1,556,759	\$ 1,630,078	\$ 1,613,658	\$ 3,576,986	\$ 3,529,223
Net Assets	22,922,516	19,697,997	18,934,564	22,162,607	22,535,018	24,618,193
Total Liabilities and Net Assets	<u>\$ 24,541,231</u>	<u>\$ 21,254,756</u>	<u>\$ 20,564,642</u>	<u>\$ 23,776,265</u>	<u>\$ 26,112,004</u>	<u>\$ 28,147,416</u>

Table 2
Investment Portfolio Summary for Trust Pool and Endowed Funds
Fiscal Year Ended June 30, 2006

BY PORTFOLIO	Value		
	Cost	Market	
General Operating Fund	\$ 1,955,634	\$ 2,140,490	
Trust Pool of Funds, Centennial Fund and Award Funds	8,530,680	10,909,085	
Congressional Fellowship Program Fund	<u>9,700,574</u>	<u>12,179,122</u>	
Total by Portfolio	<u>\$ 20,186,888</u>	<u>\$ 25,228,697</u>	

BY SECURITY TYPE	Market Value	Percent of Assets
Equities	\$ 8,799,607	34.9%
Cash and Cash Equivalents	1,408,643	5.6%
Mutual Funds	<u>15,020,447</u>	<u>59.5%</u>
Total by Security Type	<u>\$ 25,228,697</u>	<u>100.0%</u>

PORTFOLIO ACTIVITY	Trust	CFP	Working Capital
Starting Balance at July 1, 2005 (at cost)	\$ 8,205,757	\$ 9,696,287	\$ 2,013,390
Transactions:			
Purchases	3,744,522	4,193,189	309
Sales	<u>(3,863,609)</u>	<u>(4,713,011)</u>	<u>(150,000)</u>
Net Investment Transactions	(119,087)	(519,822)	(149,691)
Earnings:			
Earnings Reinvested (includes interest, dividends, gains/losses)	443,993	524,109	91,935
Cash Dividends (not reinvested)	<u>89,238</u>	<u>103,559</u>	<u>-</u>
Total Earnings	533,231	627,668	91,935
Ending Balance at June 30, 2006 (at cost)	<u>\$ 8,530,663</u>	<u>\$ 9,700,574</u>	<u>\$ 1,955,634</u>

Under this arrangement, APSA has streamlined its operations, reduced costs in several areas, and enhanced capacity to publish a third journal, *Perspectives on Politics*, without having members bear additional expense.

Compared to the prior year, total revenue realized from individual membership dues during 2005–2006 remained steady, increasing by 3% over the prior year. In contrast to the increase in individual dues revenue, APSA's individual membership actually decreased slightly from June 2005 to June 2006, down 122 to 14,601 members.

The cost to deliver services in major program areas—journals, committees, departments, representation, Annual Meeting, Teaching and Learning Conference, Centennial Center, publications, organized sections, education and professional development, employment, and awards—increased by \$102,229, or 3.3%, over the prior year. Supporting these major program areas, the costs for core operations (membership services, general

administration, building and equipment, business office and depreciation) increased by \$3,004, or less than 1%, in 2005–2006 (please see Tables 3, 4, and 5 for multi-year comparisons).

APSA Operations in 2006–2007

The recently concluded fiscal year was also defined by a number of achievements. The Council enthusiastically endorsed a wide range of significant programs to serve APSA's members. These initiatives included continued public presence efforts, expanded department and international membership, program review, a new conference for department chairs, the Teaching and Learning Conference, and graduate education, among others.

For the fiscal year ending June 30, 2007, the operating budget anticipated revenues of \$4.703 million and expenses of \$4.711 million. The Council approved a modest dues increase that went into effect on July 1, 2006, for individual membership. This resulted in an increase of \$1 for

students and increases ranging from \$2 to \$6 for professional members. Please see Table 6 for a detailed comparison of fiscal year 2005–2006 revenue and expenses compared to the 2006–2007 budget.

In comparing the budget for the fiscal year 2006–2007, to the budget of the prior year, projected operating revenue was expected to increase by 6.7%, and expenses to increase by 2.5%. The balanced budget forecasted that 34% of total revenue would be derived from individual memberships; 23% from the Annual Meeting; and 20% from journals, sales, and advertising revenue streams. The remaining 23% was attributed to investments and administrative sources.

On the expense side of the ledger, costs for the three journals were expected to account for 16% of all operating expenses in fiscal year 2006–2007, followed by the Annual Meeting at 15%, committee programs at 13%, and building and equipment (including depreciation costs) at 9%. Each of the following programs constituted 6% of operating costs: publications,

Table 3
Operating Budget 1989-2006: A Multi-Year Perspective

Year	Revenue	Expenditures	Surplus (Deficit)	% Change from Prior Year	
				Revenue	Expenditures
1989-90	\$ 1,891,773	\$ 1,871,305	\$ 20,464		
1990-91	2,153,800	2,133,524	24,595	+13.9	+14.0
1991-92	2,254,844	2,180,544	74,300	+4.7	+2.2
1992-93	2,405,023	2,321,830	83,193	- (*)	- (*)
1993-94	2,704,155	2,423,847	280,308	+12.4	+4.4
1994-95	2,734,375	2,524,664	209,711	+1.1	+4.2
1995-96	2,822,154	2,590,227	231,927	+3.2	+2.6
1996-97	2,979,845	2,793,237	186,608	+5.6	+7.2
1997-98	3,068,237	2,981,914	86,323	+3.0	+6.7
1998-99	3,150,001	3,086,546	63,455	+2.7	+3.5
1999-00	3,395,407	3,224,919	170,489	+7.8	+4.5
2000-01	3,595,669	3,351,744	243,925	+5.9	+3.9
2001-02	3,621,269	3,447,455	173,813	+0.7	+2.8
2002-03	3,707,125	3,660,820	46,305	+2.4	+6.2
2003-04	4,026,806	4,028,780	(1,974)	+8.6	+10.0
2004-05	4,235,397	4,228,507	6,890	+5.2	+4.9
2005-06	4,516,090	4,333,740	182,350	+6.6	+2.5

(*) In FY 1992-93, APSA moved to a new budgeting system, making the figures in that year not comparable with those of prior years

web and sales; and governance, business office, and member services. At 5% were general administration and member services costs (down from 6% the prior year). At 4% or less were costs related to external relations, organized sections support, the Teaching and Learning Conference, education and professional development, employment services, the Centennial Center, program review and endowed awards.

Investing in our future.

In April and July, the Association's Trust and Development Board of Trustees met to review our manager's report on APSA's investment portfolios, update investment policies, discuss improvements to the APSA headquarters building, and form an action plan for the five-year review of our investment manager and portfolio performance. In coming months the Board of Trustees will complete its review

of the portfolio manager's performance and further its consideration of Association policies for socially responsible investing. As does the entire APSA staff, we welcome your inquiries and suggestions, and look forward to your continued support, as APSA moves forward into another year of initiatives, improvements and growth.

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Individual Memberships	\$ 990,106	\$ 942,969	\$ 1,113,525	\$ 1,148,084	\$ 1,291,044	\$ 1,278,155	\$ 1,319,968
Institutional Memberships	549,761	567,915	307,679	-	-	-	-
Administrative	91,215	101,962	77,472	68,493	51,213	59,434	63,218
Annual Meeting Registration	338,427	459,839	510,151	546,369	543,995	564,353	682,393
Annual Meeting Advertising and Exhibits	406,622	431,974	371,935	348,774	418,082	369,113	328,814
Teaching and Learning Conference	-	-	-	-	2,300	36,910	55,760
Dividends, Interest and Draws	184,966	147,637	200,742	88,723	105,676	236,021	441,511
Journals, Sales and Publications	210,144	196,024	318,418	806,273	813,712	849,367	922,122
Departmental Services	221,848	250,247	267,833	272,464	298,777	313,088	355,571
Centennial Center	-	-	-	-	180,735	171,790	23,400
Other (section dues, rental income, etc.)	402,319	497,102	453,514	427,945	221,272	357,164	323,333
Total Revenue	\$ 3,395,407	\$ 3,595,669	\$ 3,621,269	\$ 3,707,125	\$ 3,926,806	\$ 4,235,395	\$ 4,516,090

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Journals, Publications and Web	\$ 761,265	\$ 572,842	\$ 721,648	\$ 958,059	\$ 1,008,004	\$ 944,591
Annual Meeting	484,097	464,089	593,044	621,988	539,795	575,888
Teaching and Learning Conference	-	-	-	8,160	121,640	145,970
Special Programs	1,022,414	1,139,253	1,103,918	1,089,078	1,164,335	1,234,340
Governance	196,923	274,242	167,101	234,471	265,915	301,129
Membership, Business Office and Sales	416,181	415,624	496,413	509,199	477,037	507,689
General Operating and Building	470,864	581,405	578,696	607,827	651,781	624,133
Total Expense	\$ 3,351,744	\$ 3,447,455	\$ 3,660,820	\$ 4,028,782	\$ 4,228,507	\$ 4,333,740

Table 6			
Operating Budget			
Actual Revenue for Fiscal Year 2005-06 and Projected Revenue for Fiscal Year 2006-07			
Category	Actual 2005-06	Projected	
		2006-07	% of Total
Membership			
Individual (incl. sections and postage)	\$ 1,522,193	\$ 1,587,200	34%
Annual Meeting	1,011,207	1,087,724	23%
Sales, Advertising and Journals	952,122	945,395	20%
Interest, Dividends and Draws	411,511	433,900	9%
Departmental Dues	269,835	294,000	6%
Administrative and Miscellaneous	109,189	100,900	2%
Employment Services	85,736	86,000	2%
Rent (1527 New Hampshire Avenue)	75,137	79,000	2%
Teaching and Learning Conference	55,760	65,605	1%
Centennial Center	23,400	23,500	0%
Total Revenue	\$ 4,516,090	\$ 4,703,224	100%
Actual Expense for Fiscal Year 2005-06 and Projected Expense for Fiscal Year 2006-07			
Category	Actual 2005-06	Projected	
		2006-07	% of Total
Journals	\$ 703,160	\$ 758,200	16%
Annual Meeting	575,888	717,240	15%
Committee Programs	536,892	627,000	13%
Building and Equipment	402,124	434,000	9%
Business Office	284,571	288,500	6%
Publications, Web and Sales	241,431	281,500	6%
Governance	301,129	270,000	6%
General Administration	222,009	250,000	5%
Member Services	223,118	245,000	5%
External Relations	155,777	175,650	4%
Organized Sections	168,776	173,500	4%
Teaching and Learning Conference	145,970	149,000	3%
Education and Professional Development	118,437	116,000	2%
Departmental Programs and Conference	58,586	100,500	2%
Employment Services	38,224	47,000	1%
Centennial Center	34,689	46,500	1%
Endowed Awards	28,719	22,000	0%
Other	94,240	20,000	0%
Total Expenses	\$ 4,333,740	\$ 4,721,590	100%