

Facilities

We have also continued to use our building as efficiently as possible and take on tenants in all available rentable spaces. The budget proposals include placeholders for possible expenses to upgrade phones and the HVAC system; a report on these needs will be presented at the meeting. The phones that we use now have been in place since 1993, and in addition to their lack of many modern features, the availability of service and parts has become scarce. The heating and cooling system in the building has been a patchwork for many years—central air only reaches the front half of the building, and rear offices are cooled by window units. Running new ductwork through the building would be prohibitively expensive today; newer technologies that place small air handlers directly in each office may provide a realistic and affordable solution. We continue to lease space in the headquarters building to other nonprofits: the Policy Studies Organization, Pi Sigma Alpha, and the Environmental Investigation Agency.

APSA's second building behind the headquarters building is presently leased to the School for Ethics and Global Leadership (SEGL), a semester-long residential program for high school juniors from across the United States. The program offers a unique curriculum that emphasizes ethical thinking, leadership development, and international affairs. While formally independent of SEGL, APSA is pleased to have such a complementary use in its facility.

CONCLUSION

It is fair to say that APSA, like most professional associations, faces a challenging but potentially transformative future that will require nimbleness and creative change. First, while APSA's financial condition is stable, we face more downside risks than upside potential in most traditional areas. The prospect for revenue growth in membership, journals, or meetings is less promising than are fears that such revenues could decline. Our endowed funds provide us a cushion, but we are already leaning on them

as much as is prudent. At the same time, costs in many areas can be expected to increase, such as those for editorial offices, travel, local taxes and services, and so forth.

As well, opportunities and expectations for association work have changed greatly. More work is done online and virtually. Demands and time commitments on volunteer members are greater than ever. The number of subgroups networked together within the association has increased. This situation does not warrant alarm, but I believe it does call for attention. The association has carried out a series of targeted planning efforts over the years but has not engaged in comprehensive planning for some time. We will begin a series of information-gathering activities in the coming months to provide background for a comprehensive analysis by the Council of our directions, priorities, and commitments.

For now, however, we are well-staffed, well-led, and eager to move forward to support the scholarship and teaching that are so important and timely for today. ■

APSA Financial Operations, 2009–2010

Arthur Lupia, *APSA Treasurer, University of Michigan*

Regina Chavis, *APSA Director of Finance and Administration*

The purpose of this report is to inform APSA membership about the association's financial health activities. This report provides a summary of APSA's assets, liabilities, and the financial impact of the association's current operations.

OVERVIEW

The association's financial condition remains stable in the face of a challenging economy. Table 1 reports APSA's assets and liabilities, reported annually and dating back to 2005. Since APSA's last annual report, the association's assets have increased in value from \$23.805 million on September 30, 2009, to \$25.945 million on September 30, 2010. During the same period, liabilities increased from \$4.446 million to \$5.072 million.

Table 2 reports annual revenue and expenditure information dating back to 1992. For the recently ended fiscal year (2009–10), operating revenue was \$5.679 million, not including expenditures drawn from specific

endowment funds. Operating expenditures for the year are within the budgeted amount at \$5.713 million (also not including endowment amounts). The association's primary revenue sources (memberships, the Annual Meeting, and APSA journals and publications) are stable, despite ongoing economic challenges.

The association's financial practices have undergone a thorough review and upgrade during the year. Under the direction of Regina Chavis, APSA's financial officer, the association has made changes in both its accounting practices and investment strategies that bring it in line with current best practices in both areas.

The most important attribute of accounting practice changes is increased transparency. The budget is now easier to interpret because of its organization with respect to the different kinds of activities in which the association engages. These accounting changes are advantageous, because they help

the APSA Council and members to better understand how and why APSA collects and spends funds as it does.

We are also glad to report that we have fully implemented responsible and forward-looking changes in APSA investment strategies. APSA's non-real estate holdings are now invested in a series of diversified, highly rated, and low-cost index funds. This strategy increases the likelihood of greater risk-adjusted returns over the long run, which can help the association pursue many worthy goals. We expect these changes to strengthen APSA's financial position now and in the future.

In sum, APSA continues to operate in a desirable fiscal environment, with stable membership, substantial income and growth-producing programs, minimal long-term liabilities, professional accounting practices, and a diversified investment portfolio. All of these factors combine to produce an operating budget that hews closely to anticipated

Table 1
Balance Sheet

As of September 30, 2010 (with comparable totals for 2005–09)

	2005	2006	2007	2008	2009**	2010
ASSETS						
Current Assets	\$23,687,705	\$25,816,809	\$29,732,826	\$26,887,681	\$21,327,232	\$23,445,212
Property and Equipment	\$2,424,299	\$2,330,607	\$2,357,502	\$2,318,531	\$2,477,300	\$2,500,127
Total Assets	\$26,112,004	\$28,147,416	\$32,090,328	\$29,206,212	\$23,804,532	\$25,945,339
LIABILITIES AND NET ASSETS						
Liabilities	\$3,576,986	\$3,529,223	\$3,646,147	\$5,023,565	\$4,445,944	\$5,071,581
Net Assets	\$22,535,018	\$24,618,193	\$28,444,181	\$24,182,647	\$19,358,588	\$20,873,758
Total Liabilities and Net Assets	\$26,112,004	\$28,147,416	\$32,090,328	\$29,206,212	\$23,804,532	\$25,945,339

** In FY 2008–09, APSA changed year end from June 30 to September 30, and therefore budget is for 15 months.

income and expenses. In the remainder of this report, we will discuss each of these topics in greater detail.

OPERATING BUDGET FOR 2009–10

The budget for the most recent fiscal year appears in table 6. Our largest projected revenue sources for 2009–10 are membership dues and fees (\$1.837 million), revenues from conferences and meetings (\$1.467 million), and revenues from journals and publications (\$1.054 million). Our largest expenditures pertain to conferences and meetings (\$1.105 million), journals and publications (\$1.191 million), and activities associated with the Congressional Fellowship Program and other grants (\$1.131 million).

The association operates efficiently and responsibly, even while the mission has broadened and budgets have continued to tighten. Again, fiscal year 2010 ended with expenses (currently projected to be \$6.411 mil-

Table 2
Operating Budget 1992-2010: A Multiyear Perspective

YEAR	REVENUE	EXPENDITURES	SURPLUS	% CHANGE FROM PRIOR YEAR	
			(DEFICIT)	REVENUE	EXPENDITURES
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
2006-07	\$4,645,585	\$4,549,021	\$96,564	+2.9	+4.9
2007-08	\$4,760,164	\$4,826,910	\$(66,746)	+2.5	+6.1
2008-09	\$7,781,631	\$8,516,389	\$(734,758)	- (**)	- (**)
2009-10	\$5,678,572	\$5,713,383	\$(34,810)	(**)	(**)

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

** In FY 2008-09, APSA changed year end from June 30 to September 30, and therefore budget is for 15 months.

lion) that were within the operating budget (\$6.52 million). These amounts differ from those stated in table 2, as they include revenues and expenses in fiscal year 2009–10 that pertain to specific APSA endowments.

INVESTMENTS AND NET ASSETS FOR FISCAL YEAR 2009–10

APSA's financial statements, which also include the figures for operations, investments, endowed programs, and grant-funded activities, show an increase in total net assets from \$19.359 million on September 30, 2009, to \$20.873 million on September 30, 2010. The increase in net assets from 2008–09 to 2009–10 was due chiefly to an investment climate marked by increasing asset values in domestic equity markets. The association's overall financial position is stable, with total assets of \$25.945 million, a headquarters building and adjacent property that we own, and a carefully monitored operating budget (please refer to table 1 for the APSA Balance Sheet).

As table 3 details, these assets are held in three funds. One, the Trust Pool of Funds, is an endowment that is restricted for award and related activities. The second is a restricted endowment for the Congressional Fellowship Program. The third fund is a less-restricted endowment that can be used to fund general operations. At the close of fiscal year 2009–10, the market value of the Trust Pool of investments stood at \$9.022 million. The Congressional Fellowship Fund totaled \$10.299 million. The general operating fund was worth \$3.283 million. APSA's portfolios have historically outperformed the S&P 500.

Overall, APSA ended fiscal year 2010 with a balance sheet that reflected total assets of \$25.945 million and liabilities of \$5.072 million, resulting in a net worth of \$20.874 million. Our current assets, at nearly \$23.445 million, are characterized with respect to designated uses. Of these assets, \$22.605 million

Table 3
Investment Portfolio Summary for Trust Pool and Endowed Funds

Fiscal Year Ending September 30, 2010

BY PORTFOLIO	MARKET VALUE		
General Operating Fund	\$3,283,671		
Trust Pool of Funds, Centennial Fund, and Award Funds	\$9,022,239		
Congressional Fellowship Program Fund	\$10,299,169		
Total by Portfolio	\$22,605,080		
BY SECURITY TYPE	MARKET VALUE	PERCENT OF ASSETS	
Equities	\$16,274,660	72.0%	
Bonds	\$2,066,932	9.1%	
Cash and Cash Equivalents	\$1,177,428	5.2%	
TIP Bond Fund	\$1,877,904	8.3%	
Government-Secured Mutual Funds	\$648,946	2.9%	
Mutual Funds	\$559,210	2.5%	
Total by Security Type	\$22,605,080	100.0%	
PORTFOLIO ACTIVITY	TRUST	CFP	WORKING CAPITAL
Starting Balance at October 1, 2009	\$8,443,456	\$9,700,357	\$2,736,145
Transactions			
Purchases	\$3,006,278	\$11,940,912	\$ 1,198,000
Sales	(\$3,260,982)	(\$12,351,810)	(\$749,620)
Net Investment Transactions	(\$254,704)	(\$410,898)	\$ 448,380
Earnings			
Earnings Reinvested (with Realized Gains/Losses)	\$367,053	\$667,524	\$9,514
Cash Dividends (Reinvested)	\$185,478	\$206,653	\$48,181
Total Earnings	\$552,531	\$874,177	\$57,695
Change in Market Value at September 30, 2010	\$280,956	\$135,533	\$41,451
Ending Balance at September 30, 2010	\$9,022,239	\$10,299,169	\$3,283,671

are invested for the purpose of growing the amounts available for future APSA activities. In round terms, \$10 million is in holding for the Congressional Fellowship endowment; \$4 million is held for the Trust fund; \$3 million is held for the Second Century and related funds; roughly \$3 million is used for general operating funds; and \$3 million is held for endowed award funds (all at market value as of September 30, 2010).

OPERATIONS AND BUDGET IN REVIEW

The association has 26 employees at its headquarters in Washington, DC, who support the association to serve the membership's programming goals and respond

flexibly to new responsibilities and Council-directed projects.

The 2010 Annual Meeting in Washington, DC, was a successful event that broke the all-time attendance record. In February 2010, the APSA held its seventh Teaching and Learning Conference, which offered its attendees a robust program in Philadelphia. Planning is well underway for the 2011 TLC, to be held in Albuquerque. A key international initiative during the year was the continued development of a workshop series to promote political science in Africa, a multiyear program funded by the Mellon Foundation.

The APSA website continued to serve as a valuable resource for external audiences and a collaborative workspace for commit-

Table 4

Budgeted Draws/Fund Transfers

	2009-10
Congressional Fellowship Program	\$487,000
T&D Draw for Operations	\$159,100
Centennial Center Draw—Space	\$70,928
Centennial Center Draw—Operations	\$47,470
Board-Designated TLC Draw	\$3,600
Total	\$768,098

Table 5

Actual Net Operating Profit/Loss

STATEMENT	YTD ACTUAL 2010
Operating Net Profit (Loss)	\$34,810
Budgeted Draws	
Congressional Fellowship Program	\$487,000
T&D Draw for Operations	\$159,100
Centennial Center Draw—Space	\$70,928
Centennial Center Draw—Operations	\$47,470
Board-Designated TLC Draw	\$3,600
Net Operating Profit (Loss)	\$733,288

tees and members. APSA's online resources—Annual Meeting programming, myAPSA, conference papers on SSRN, and departmental services—afforded members expansive opportunities to enjoy direct access to and control of association services and membership renewal.

Earned operating revenue and program expenses are in line with expectations. As table 2 shows, APSA earned \$5.679 million in operating revenues and incurred operating expenses of \$5.713 million, excluding budgeted draws/fund transfers.

Please note that because of the change in the financial reporting format, APSA's Statement of Operating Activities and Projects are reported in line with Audited Financial Statements. Board-approved draws/fund transfers on the following programs are not included in the reporting of actual revenue activities within the financials. These amounts are only included in the budget column for budgeting and council reporting in table 4.

When draws/fund transfers are taken, they are reflected as a reduction of the Congressional Fellowship Fund and Trust and Development Funds, and as an increase of APSA

General Operating Fund on the balance sheet. Therefore, when budgeted draws/fund transfers are taken into consideration for operating activities and projects, Operating Net Profit (Loss) is as shown in table 5.

In 2009–10, APSA completed its eighth year of a publishing agreement with Cambridge University Press and the seventh full publication year of *Perspectives on Politics*. The Cambridge agreement has continued to benefit APSA by increasing revenues and shifting the bulk of the publishing operation to the publisher. Cambridge has direct responsibility for the collection of institutional (library) dues, the sale of journal advertisements, and the management of royalties and permissions. 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 (the *APSR*, *PS*, and *Perspectives on Politics*). On the expense side, Cambridge is responsible for marketing, production, printing, and distributing all three journals.

Compared to the prior year, total revenue realized from individual membership dues during 2009–10 remained steady, with rates 3% higher than the prior year. The cost to deliver services in major program areas—journals, committees, departments, external relations, Annual Meeting, Teaching and Learning Conference, Centennial Center, publications, organized sections, education and professional development, employment and awards—increased from the costs of 2008–09. Supporting these major program areas, the costs for core operations (membership services, general administration, building and equipment, business office and depreciation) increased as well from 2008–09 costs (see tables 6, 7, and 8 for multiyear comparisons).

ACCOUNTING CHANGES

In recent years, a number of decisions have been made to improve how the association reports its financial activities. After many questions about APSA's financial reporting from previous APSA members, President Henry Brady proposed a new method of

reporting revenues and expenditures. This method organizes revenues and expenditures according to the different kinds of activities in which the association engages. The new organizing categories are: Membership Department, Conferences and Meetings, Department Services, Journals and Publications, Programs, Congressional Fellowship Program, and Administrative Income. He proposed this method to APSA's Finance Committee, which reviewed it, discussed it in the context of possible alternatives, and ultimately approved it.

Regina Chavis, APSA's new director of finance and administration has been the lead person in implementing these changes. Moving from one accounting system, particularly one as complex as the system that APSA previously used, to a new system requires great diligence and documentation. Regina Chavis's work in this regard has been exceptional. This new format vastly increases the transparency of how APSA earns and spends money.

INVESTMENT STRATEGY CHANGES

In the last fiscal year, APSA completed a transformation of how its non-real estate financial assets are managed. In previous years, APSA employed a small company to oversee these assets. The firm placed these assets into individual stocks. Previous APSA presidents and treasurers asked the Trust and Development Committee to explore alternatives to this way of managing the association's assets. Questions were raised about whether these assets were sufficiently diversified to increase long-term risk-adjusted returns.

Over a period of several years, the Trust and Development Committee and the APSA treasurer have worked with APSA staff to oversee a change in the association's investment strategy. The culmination of these changes occurred in the last fiscal year when APSA's assets were moved into a set of Vanguard mutual funds. Vanguard funds are highly rated by independent agencies such as Morningstar for their commitment to shareholder interests and their low costs. The association's assets are now allocated to funds that invest in domestic equities, international equities, government bonds, and inflation-protected bonds.

This new strategy is designed to increase the association's long-term, risk-adjusted returns on its assets. Achieving such returns means that the association will be in a position to benefit from increases in asset valuations while being protected from losses when adverse market conditions arise. While many

factors contribute to increasing long-term, risk-adjusted returns, a core principle of such a strategy entails diversification over asset classes such as stocks and bonds. APSA's investment strategies are now more diversified than ever before, and the association has achieved this diversification at a far lower cost than in previous years.

APSA has also made this investment strategy available to its organized sections. The current policy is for APSA to manage the organized sections' funds. In the past, these funds were managed in the same man-

ner as those of the association at large. However, some organized sections have relatively small cash positions and may be more risk averse than the broader association. For these sections, APSA now offers a second investment strategy called the "Preservation Portfolio." This strategy is more conservative than APSA's investment strategy, being higher weighted in bonds and with less cash invested in equities. Over the long run, we expect that organized sections that choose this strategy will sacrifice some amount of long-term growth but will experience more

stable year-to-year returns. The operative arrangement between APSA and its organized sections on this matter is "opt-out." In other words, an organized section's funds will be held in APSA's main portfolio unless its fiduciary representative requests the "Preservation Portfolio."

Further information on APSA's financial operations and practices are available upon request. Thank you for your continuing support of the association and its endeavors. ■

Table 6

Operating Revenue Trends, 2004–10

	2004-05	2005-06	2006-07	2007-08	2008-09**	2009-10
Individual Memberships	\$1,278,155	\$1,319,968	\$1,394,734	\$1,417,293	\$1,902,711	\$1,564,968
Institutional Memberships	—	—	—	—	—	—
Administrative	\$59,434	\$63,218	\$61,666	\$73,974	\$69,731	\$71,317
Annual Meeting Registration/Other	\$564,353	\$682,393	\$788,138	\$803,053	\$1,788,132*	\$1,074,448
Annual Meeting Advertising and Exhibits	\$369,113	\$328,814	\$389,870	\$361,578	\$640,440*	\$328,444
Teaching and Learning Conference	\$36,910	\$55,760	\$65,605	\$79,275	\$56,040	\$66,591
Dividends, Interest and Draws	\$236,021	\$441,511	\$163,891	\$140,528	\$82,512	—
Journals, Sales and Publications	\$849,367	\$922,122	\$986,903	\$1,046,199	\$1,264,719	\$1,085,387
Departmental Services and eJobs	\$313,088	\$355,571	\$420,823	\$470,802	\$577,490	\$463,006
Centennial Center	\$171,790	\$23,400	\$23,091	\$35,780	\$31,359	\$13,984
Congressional Fellowship & Other Grants	—	—	—	—	\$850,852	\$591,294
Other (section dues, rental income, etc.)	\$357,164	\$323,333	\$350,865	\$331,682	\$517,646	\$419,134
Total Revenue	\$4,235,395	\$4,516,090	\$4,645,586	\$4,760,164	\$7,781,631	\$5,678,572

*Includes 2 Annual Meetings, 2008 and 2009

** In FY 2008-2009, APSA changed Year end from June 30th to September 30th, therefore budget is for 15 months.

Table 7

Operating Expenditure Trends, 2004–10

	2004-05	2005-06	2006-07	2007-08	2008-09***	2009-10
Journals, Publications and Web	\$1,008,004	\$944,591	\$1,037,408	\$1,155,131	\$1,464,177	\$1,026,001
Annual Meeting	\$539,795	\$575,888	\$693,462	\$721,440	\$1,577,206*	\$709,375
Teaching and Learning Conference	\$121,640	\$145,970	\$143,953	\$168,189	\$165,009	\$117,359
Programs and Projects	\$1,164,335	\$1,234,340	\$1,169,089	\$1,208,658	\$2,887,393**	\$1,526,763
Governance	\$265,915	\$301,129	\$263,006	\$348,452	\$432,467	\$415,765
Membership, Business Office and Sales	\$477,037	\$507,689	\$568,459	\$558,233	\$988,322	\$1,043,452
General Operating and Building	\$651,781	\$624,133	\$673,644	\$666,807	\$1,001,817	\$874,667
Total Expenditures	\$4,228,507	\$4,333,740	\$4,549,021	\$4,826,910	\$8,516,389	\$5,713,383

*Includes 2 Annual Meetings, 2008 and 2009.

**Includes CFP and other grants.

*** In FY 2008-09, APSA changed Year end from June 30th to September 30th, therefore budget is for 15 months.

Table 8

Operating Budget: Actual Revenue for FY 2008–09 and Projected Revenue for FY 2009–10

CATEGORY	ACTUAL	PROJECTED	
	2008-09**	2009-10	% OF TOTAL
Membership			
Individual (with Sections and Postage)	\$2,243,092	\$1,836,900	28%
Annual Meeting	\$2,428,572	\$1,406,900	22%
Journals and Publications	\$1,264,719	\$1,054,435	16%
Interest, Dividends, and Draws	\$82,512	\$817,998	13%
Departmental Services	\$437,211	\$382,625	6%
Administrative and Miscellaneous	\$122,705	\$80,300	1%
Employment Services	\$140,279	\$113,500	2%
Rent (1527 New Hampshire Avenue)	\$124,291	\$138,700	2%
Teaching and Learning Conference	\$56,040	\$60,065	1%
CFP and Other Grants	\$850,852	\$600,350	9%
Centennial Center	\$31,359	\$20,500	0%
Total Revenue	\$7,781,631	\$6,512,273	100%

Actual Expense for FY 2008-09 and Projected Expense for FY 2009–10

CATEGORY	ACTUAL	PROJECTED	
	2008-09**	2009-10	% OF TOTAL
Annual Meeting	\$1,577,206	\$931,300	15%
Journals	\$1,085,397	\$890,450	14%
Committee Programs	\$746,622	\$400,700	6%
Building and Equipment	\$583,447	\$469,700	7%
Publications, Web and Sales	\$378,779	\$300,300	5%
Business Office	\$525,286	\$395,700	6%
Governance	\$432,467	\$364,700	6%
General Administration	\$394,836	\$376,600	6%
Member Services	\$292,433	\$246,000	4%
Organized Sections	\$279,675	\$220,300	3%
External Relations	\$170,603	\$130,500	2%
Teaching and Learning Conference	\$165,009	\$173,700	3%
Departmental Programs and Conference	\$135,640	\$132,000	2%
Employment Services	\$95,087	\$83,100	1%
Education and Professional Development	\$79,272	\$49,700	1%
CFP and Other Grants	\$1,461,567	\$1,131,204	18%
Centennial Center	\$44,463	\$58,300	1%
Endowed Awards	\$45,066	\$46,400	1%
Other	\$23,534	\$10,000	0%
Total Expenses	\$8,516,389	\$6,410,654	100%

** In FY 2008-09, APSA changed year end from June 30 to September 30, and therefore budget is for 15 months.