
Report of the Treasurer (1996)

I. Introduction

The Report of the Treasurer is presented annually and discusses the financial condition of the Society as of the immediately preceding fiscal year-end and the results of its operations for the year then ended. This section contains summary information regarding the operating results and financial condition of the Society for 1996. Section II, Review of 1996 Operations, contains more detailed information regarding the Society's operations. Section III, Summary Financial Information, presents information regarding the operations, financial condition, and long-term investments of the Society in financial statement format. Section IV discusses the assets and liabilities of the Society.

The Society segregates its net assets, and the activities that increase or decrease net assets, into three types. Unrestricted net assets are those which have no requirements as to their use placed on them by donors outside the Society. A substantial majority of the Society's net assets and activities are in this category. Temporarily restricted net assets are those with donor-imposed restrictions or conditions that will lapse upon the passage of time or the accomplishment of a specified purpose. Examples of the Society's temporarily restricted net assets and related activities include grant awards and the spendable income from prize and other income-restricted endowment funds. Permanently restricted net assets are those which must be invested in perpetuity and are commonly referred to as endowment funds. The accompanying financial information principally relates to the unrestricted net assets, as this category includes the operating activities of the Society.

Unrestricted revenue in excess of unrestricted expenses for the year ended December 31, 1996, totaled approxi-

mately \$4,980,000. Of this amount, net returns on the unrestricted portion of the long-term investment portfolio totaled \$4,185,000, and net income from operations totaled \$795,000. Exceptionally strong financial markets in the U.S. during the year contributed to returns on our long-term portfolio that approximated 21%, a return which is comparable to the very highest of university endowments. These and other matters are discussed in more detail in the next section.

The Society's net assets totaled \$29,592,000 at December 31, 1996. \$1,279,000 is permanently restricted, consisting principally of donor restricted gifts and bequests received by the Society. \$1,540,000 is temporarily restricted by some donor-imposed limitations, which will lapse upon the passage of time or the use of the asset for its intended purpose. \$26,773,000 is unrestricted, of which \$21,344,000 has been designated by the Board of Trustees, principally in the form of the Economic Stabilization Fund. This fund's purpose is to provide a source of cash in the event of a financial crisis. It has met the target established by the Board of Trustees of 75% of operating expenses plus the unfunded liability for post-retirement benefits. Assets underlying this fund are long-term investments whose performance is monitored to ensure that the target is maintained. The remaining unrestricted net assets consist of \$6,117,000 invested in fixed assets and an undesignated cumulative deficit of \$678,000. This undesignated deficit has resulted from the fact that, historically, cash projected not to be required in the near future for continuing operations has been designated as part of the Economic Stabilization Fund.

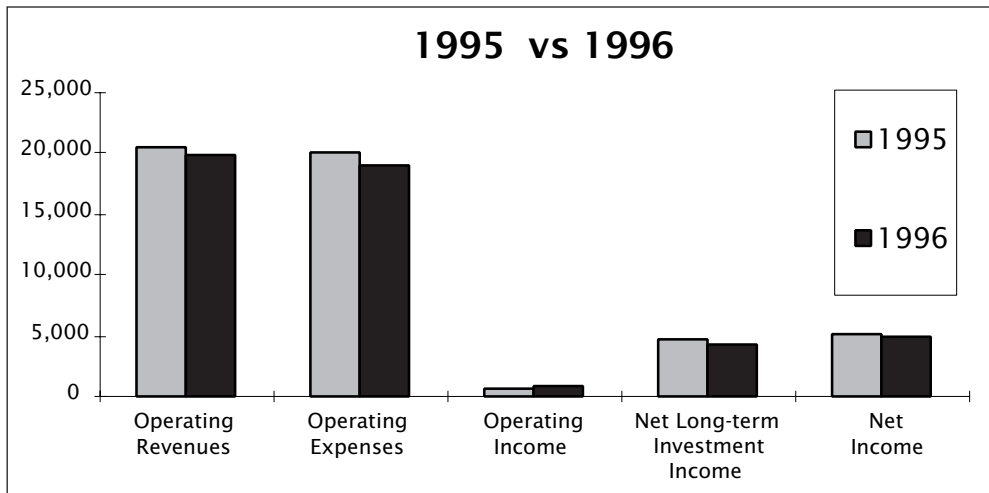


Chart 1.

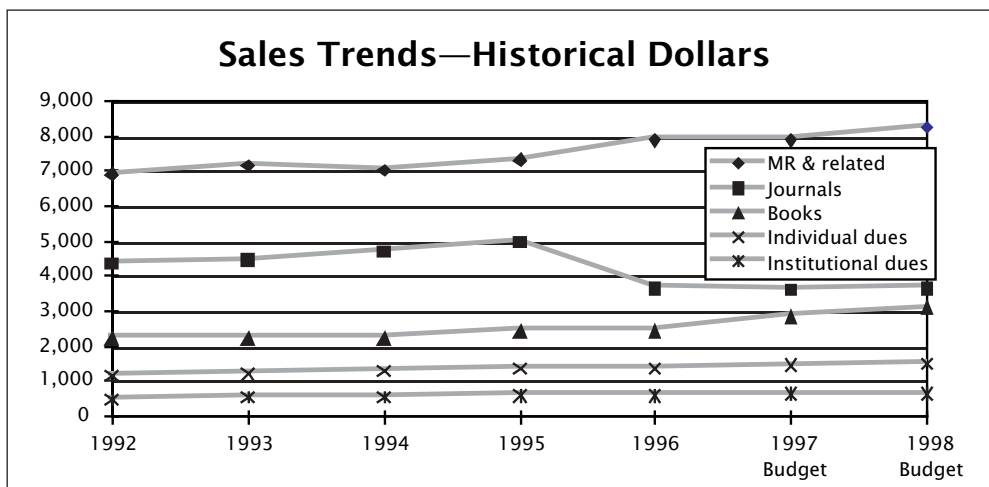


Chart 2.

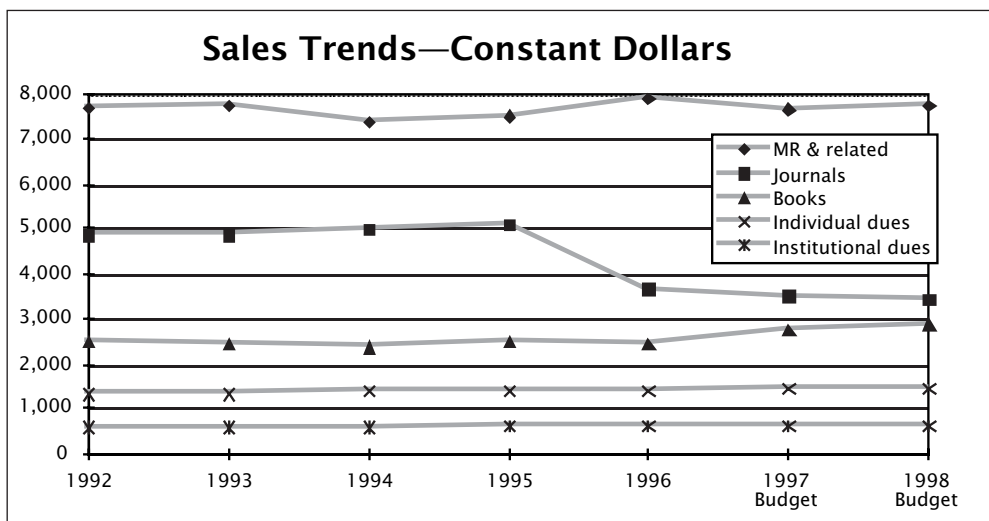


Chart 3.

II. Review of 1996 Operations

1996 was a very good year. In terms of operating income and total revenues over expenses (the equivalent of a for-profit’s net income), the Society exceeded all of its expectations (See Chart 1):

1995 was the final year in which the Society published four translation journals (*Izvestiya*, *Sbornik*, *Steklov*, and *Doklady*). Revenues from these journals were about \$1,500,000 in 1995. The challenge facing the Society (from a financial point of view) in 1996 was recovering from this very significant revenue loss without hurting the other operations of the Society. I am happy to report that this goal was accomplished. We were fortunate to have increased revenues in other areas (sales of books, sales of MathSciDisc, and the introduction of MathSciNet), and we managed to decrease costs in many areas. As a result, our operating income was slightly increased over 1995. In fact, as 1996 began we were expecting an operating loss, so finishing the year with an operating surplus is even more noteworthy. I would be remiss if I did not point out that much of the cost savings in 1996 was the direct result of the hard work and ingenuity of the Society’s staff.

Sales Trends

Charts 2 and 3 show sales trends from 1992 through budgeted 1998, first in historical dollars and second in constant dollars (using 1996 as the base year and adjusting other years for actual or projected inflation).

MATH REVIEWS: MR has been a financially healthy operation for the past several years. In terms of sales trends, the first graph shows a generally upward trend with a slight flattening in 1994. The second graph (constant dollars) reveals 1994 to

be a more pronounced falloff in revenues, with 1996 looking more like a recovery year. 1994 was the year we revised the pricing of MR by establishing the data access fee (DAF) and charging separate, much lower amounts for paper subscriptions and MathSciDisc (MSD). One of the results of this revision was a reduction in the cost of MR for several institutions. After 1994 both DAF revenues and MSD revenues have increased each year. In addition to these trends in the older products, MathSciNet (MSN) was made available in 1996 and added about \$245,000 to the total MR revenues. For 1997 and 1998 we are budgeting revenue increases about in line with inflation (flat on Chart 3).

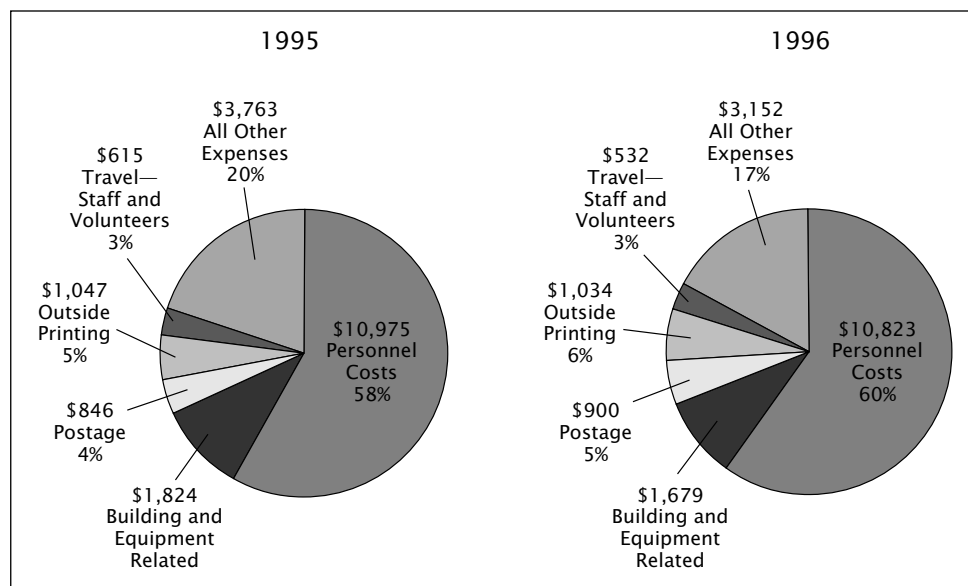


Chart 4.

Chart 2 shows sales trends from 1992 through budgeted sales for 1998. Some of the trends are mildly upward, and this may be due to the effects of inflation. Chart 2 is repeated in Chart 3 with the underlying data converted to constant dollars.

JOURNALS: Of course, the most prominent feature of the journal line is the plunge in revenues from 1995 to 1996, which was the first full year without the four Russian journals mentioned above.

BOOKS: Book revenues have been somewhat level historically. There was a slight increase in 1996, with steeper increases budgeted for 1997 and 1998. With increased promotions and acquisitions efforts, this increase ought to be attainable.

DUES: Dues, both individual and institutional, have shown a slight upward slope on the historical dollars chart and a nearly flat line in constant dollars. This is expected for institutional dues, as the number of members is pretty constant and the dues rates are set so that total dues will increase at about the same level as inflation. With individual members what looks like a flat line is actually a very slight upward trend. This results from dues rates going up at a rate roughly equal to the increase in faculty salaries, combined with a small increase in paying members in the ordinary dues categories.

Major Expense Categories

The pie charts in Chart 4 show the major expense categories for 1995 and 1996. The biggest component of costs is personnel related. There is an opportunity for significant savings by holding vacant positions open for a time before filling them and evaluating open positions to determine whether the Society can do without the position. On the other hand, fairness to staff results in a continuation of providing competitive salaries and benefits and means that savings beyond open positions are difficult. Personnel cost as a percentage of total cost increased in 1996. Note, however, that the 1996 pie is smaller than the 1995 pie (by almost a million dollars) and personnel dollars decreased.

III. Summary Financial Information

The Treasurer presents to the membership the following financial information of the Society. A copy of the Society's audited financial statements, as submitted to the Trustees and the Council, will be sent from the Providence Office to any member who requests it from the Treasurer. The Treasurer will be happy to answer any questions members may have regarding the financial affairs of the Society.

From the AMS—Treasurer's Report

STATEMENTS OF ACTIVITIES (IN 000'S)

Unrestricted Net Assets

Years Ended December 31, 1996, and 1995

Operating Revenue	1996		1995	
Publication:				
<i>Mathematical Reviews</i>				
and related activities	\$7,894	40%	\$7,303	35%
Journals (excluding <i>MR</i>)	3,658	19%	4,968	24%
Books	2,462	12%	2,432	12%
Sale of services	275	1%	333	2%
Other	64	- %	40	- %
Total publication revenue	14,353	72%	15,076	73%

Membership and professional services, including assets released from restrictions of \$466 and \$360 in 1995 and 1994, respectively:

Meetings	730	5%	745	3%
Dues and membership services	3,266	16%	3,254	16%
Grants, prizes and awards	1,067	5%	953	5%
Total membership and professional services revenue	5,063	26%	4,952	24%

Short-term investment income	239	1%	317	2%
Other	207	1%	217	1%

Total operating revenues **\$19,862** 100% **\$20,562** 100%

Operating Expenses

Publication:				
<i>Mathematical Reviews</i> and related activities	\$5,224	27%	\$4,982	25%
Journals (excluding <i>MR</i>)	1,101	6%	1,640	8%
Books	1,919	10%	1,738	9%
Publication—divisional indirect	1,088	6%	1,375	7%
Warehousing and distribution	598	3%	570	3%
Sale of services	244	1%	293	1%
Other	-	- %	21	- %
Total publication expense	10,174	53%	10,619	53%

Membership and professional services:

Dues and member services	2,534	13%	2,544	13%
Grants, prizes and awards	1,020	6%	1,000	5%
Meetings	724	4%	730	4%
Governance	427	2%	448	2%
Divisional indirect	273	1%	269	1%

Total membership and professional services expense

4,978 **26%** **4,991** **25%**

Interest portion of post-retirement benefits	96	- %	91	- %
Miscellaneous	316	2%	338	2%

Membership and customer services	853	4%	917	5%
General and administrative	2,650	15%	3,030	15%

Total operating expenses **\$19,067** 100% **\$19,986** 100%

Excess of operating revenue over operating expenses	795	576
Long-term investment income (losses)	4,185	4,626
Cumulative effect of a change in accounting principle (post- retirement benefits)	—	(1,080)
Increase in unrestricted net assets	4,980	4,122
Unrestricted net assets, beginning of year	21,793	17,671
Unrestricted net assets, end of year	\$26,773	\$21,793

BALANCE SHEETS (In 000's)

December 31, 1996, and 1995

Assets	1996		1995	
Assets:				
Cash and cash equivalents	\$708	2%	\$488	1%
Short-term investments	7,939	18%	\$6,468	17%
Receivables:				
Customers, less allowance	1,052	2%	928	3%
Grants and other	527	1%	520	1%
Deferred pre-publication costs	397	1%	412	1%
Completed books	982	2%	1,012	3%
Prepaid expenses and deposits	832	2%	904	2%
Land, buildings and equipment, net	6,117	14%	6,405	16%
Long-term investments	26,347	59%	21,960	56%
Total assets	\$44,901	100%	\$39,097	100%

Liabilities and Net Assets

Liabilities:				
Accounts payable	\$1,285	3%	\$1,274	3%
Accrued expenses:				
Severance and study leave pay	878	2%	757	2%
Vacation and sick pay	508	1%	445	1%
Payroll, benefits & other	710	2%	793	2%
Deferred revenue:				
Subscriptions	8,533	19%	8,199	21%
Dues	1,444	3%	1,402	4%
Other	576	1%	526	1%
Post-retirement benefit obligation	1,375	3%	1,219	3%
Total liabilities	15,309	34%	14,615	37%

Net assets (deficit) :

Unrestricted:				
Undesignated	(679)	-2%	(2,256)	-5%
Designated	21,335	48%	17,644	45%
Invested in Fixed Assets	6,117	14%	6,405	16%
Temporarily restricted	1,540	3%	1,447	4%
Permanently restricted	1,279	3%	1,242	3%
Total net assets	29,592	66%	24,482	63%
Total liabilities and net assets	44,901	100%	39,097	100%

LONG TERM INVESTMENT INFORMATIONAllocation to Net Asset Types and Related Subfunds
December 31, 1996, and 1995

Asset Types	1996	1995
Unrestricted net assets:		
Undesignated	\$2,915,022	\$2,465,651
Designated:		
Economic Stabilization Fund	21,158,630	17,502,715
Friends of Math	123,572	123,572
Charitable Annuities	10,602	
Journal Archive Fund	23,500	
Russian Royalties	17,829	17,945
Total allocated to unrestricted net assets	<u>24,249,155</u>	<u>20,109,883</u>
Temporarily restricted net assets, principally net gains on income-restricted endowment funds	<u>818,990</u>	<u>608,261</u>
Permanently restricted net assets:		
Unrestricted use of income:		
Robert Henderson Endowment	548,223	548,223
Joseph Fels Ritt	100,000	100,000
Eliakim Hastings Moore	47,521	22,521
	2,575	2,575
	<u>698,319</u>	<u>673,319</u>
Restricted use of income:		
Prize Funds	214,218	213,834
Trjitzinsky Memorial Scholarship Fund Centennial	195,780	195,780
Research Fund	52,000	52,000
Pooled Income Fund	5,000	5,000
Karl Menger Fund	3,550	2,550
Arnold Ross Lectures	10,000	
C.V. Newsom Fund	100,000	100,000
	<u>580,548</u>	<u>569,164</u>
Total allocated to permanently restricted net assets	<u>1,278,867</u>	<u>1,242,483</u>
Total investment portfolio, at market	<u>\$26,347,012</u>	<u>\$21,960,627</u>

IV. Assets and Liabilities

So far this report has dealt with sources of revenue and expenditures that affect unrestricted net assets. Another aspect of the Society's finances is what it owns and owes, or its assets and liabilities, which are reported above in the Balance Sheets. As discussed previously, the Society's net assets and activities that increase or decrease net assets are classified as unrestricted, temporarily restricted, or permanently restricted. A majority of the assets and liabilities detailed on the accompanying Balance Sheets relate to the unrestricted net assets. The permanently restricted net assets are supported by investments in the long-term investment portfolio, and the temporarily restricted net assets are supported by investments in the long-term and short-term investment portfolios. The Long-Term Investment Information shows the allocation of the portfolio among the three types of net assets as well as related subfunds.

The Society's fiscal year coincides with the period covered by subscriptions and dues. Since dues and subscriptions are generally received in advance, the Society reports a large balance of cash and short-term investments on its financial statements at year-end. This amounted to about \$8,647,000 and \$6,956,000 at December 31, 1996 and 1995, respectively. The recorded liability for the revenues received in advance was about \$10,553,000 and \$10,127,000 at December 31, 1996 and 1995, respectively. The difference can be thought of as having been invested in the Society's other assets, principally the long-term investment portfolio. Effectively, the Society borrows from its subscribers to finance current operations and long-term investments. This is a common practice in the publishing industry and allows the Society to operate free of short-term or long-term bank debt.

The Society's property and equipment include land, buildings and improvements, office furniture, and equipment as well as software. The Society also owns a small amount of transportation equipment. The land, buildings, and improvements include the Society's Rhode Island headquarters, with buildings in Providence and Pawtucket, and the Mathematical Reviews offices in Ann Arbor. The largest part of the Society's office equipment is its investment in computer facilities.

*Respectfully submitted,
Franklin P. Peterson
Treasurer*