

Commentary

In My Opinion

Spending (Non-)Profits

A not-for-profit corporation organized for scientific and educational purposes, like the American Mathematical Society, can be exempt from federal taxation as long as, in the words of the Internal Revenue Code, “no part of the net earnings of [it] inures to the benefit of any private shareholder or individual.” In the financial statements of a nonprofit corporation, the annual revenue it receives for the goods and services it provides minus the annual expenses incurred in providing them is called *operating income* if it is non-negative (or *operating loss* if it isn't) instead of net earnings. Ideally annual operating income for a nonprofit would be zero, but since the problems of overshooting, or inadvertently collecting more revenue than expenses, are generally easier to solve than undershooting, or spending more than is taken in, most nonprofits budget for and try to achieve modest positive operating income. The AMS is no exception. For example, the Society went on record on this point in November 1997, saying that “the Society [should] budget positive operating income each year in the low range,” leaving it to the treasurer and associate treasurer each year to define “low range”.

Even well-managed and expertly led organizations can occasionally be caught unaware by unexpected events, like loss of a key customer or failure of an important piece of capital equipment on the negative side, or finding themselves with surprisingly successful products or in an unusually robust economy on the positive side. Again the AMS is no exception. In the last few years, the Society has unexpectedly found itself achieving significantly more than its budgeted operating income; see the Treasurer's Report annually published in these *Notices* for details. The treasurer also reports there on investment returns and other revenue which is not operating income.

Many factors contribute to the AMS's positive operating income: the Society's professional leadership and staff, the success of products like MathSciNet and the enhanced book publishing program, and the generally favorable U.S. economic environment. These are likely to continue to benefit the AMS for years to come.

Here is a partial list of things which the Society has been able to do because of this situation: it has introduced consortium pricing, bringing MathSciNet to many smaller institutions at reduced rates; it has introduced international institutional membership, bringing reduced journal subscription rates to academic libraries outside North America; and it has introduced special dues for new individual

members, cutting their dues by half for their first five years of membership. It has also been able to reward its hard-working staff.

We still need to bear in mind, however, exactly where the revenue comes from. Some of those dollars come from individual mathematicians, and many more from their institutions' library budgets. It would be wonderful if over-budget positive operating income came from selling outdated copies of the *Combined Membership List* to tobacco companies, but in fact it, like the rest of the money, comes from resources transferred from the mathematical community.

The Society collects about \$2.1M annually in dues: \$1.4M from individuals, and the balance from institutions. It collects about \$0.5M annually in individual meeting registrations, and it takes in about \$14.2M annually in publications, including about \$4.7M in subscriptions, \$3.2M in book sales, and \$5.8M from Math Reviews Data Access Fees. Presumably it is not necessary to remind *Notices* readers and Society members that AMS publications and member services are high quality and fairly priced; the community is getting good value for its money. Nonetheless, leaving any of those resources in the community in the first place is like making a grant of the equivalent amount. I think it should be a priority.

This comes out sounding rather unusual when stated as a goal: I want to measure success by the revenue *not* collected, the operating income *not* earned. And I certainly do not mean to encourage meeting that goal by weak marketing and inefficient production of inferior products. Rather, the Society should always be asking itself how it can continue to deliver quality publications and services while at the same time continually reducing expenses. (Would it be cheaper to do our fulfillment from Colorado Springs, say, or our printing in Matamoros?) All of the management techniques of for-profit corporate America—downsizing, outsourcing, maybe even profit sharing—should be in the AMS arsenal. And I would like to see the AMS matching expense reductions with price reductions on subscriptions, dues, and meeting registrations. At the very least, in my opinion, reducing prices (that is, leaving resources in the community) is my first choice when it comes to spending any operating income windfall.

—Andy Magid
Associate Editor

Andy Magid is a trustee of the Society, a member of the body that conducts the business affairs of the Society. He wants to emphasize that the opinions expressed in this column are his own.