

Report of the Treasurer (2007)

I. Introduction

One of the most important duties of the treasurer is to lead the Board of Trustees in the oversight of financial activities of the Society. This is done through close contact with the executive staff of the Society, review of internally generated financial reports, review of audited financial statements, and direct contact with the Society's independent auditors. Through these and other means, the Trustees gain an understanding of the finances of the Society and the important issues surrounding its financial reporting. 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. It contains summary information regarding the operating results and financial condition of the Society for 2007, a review of

Editor's note: All dollar figures are given in USDollars.

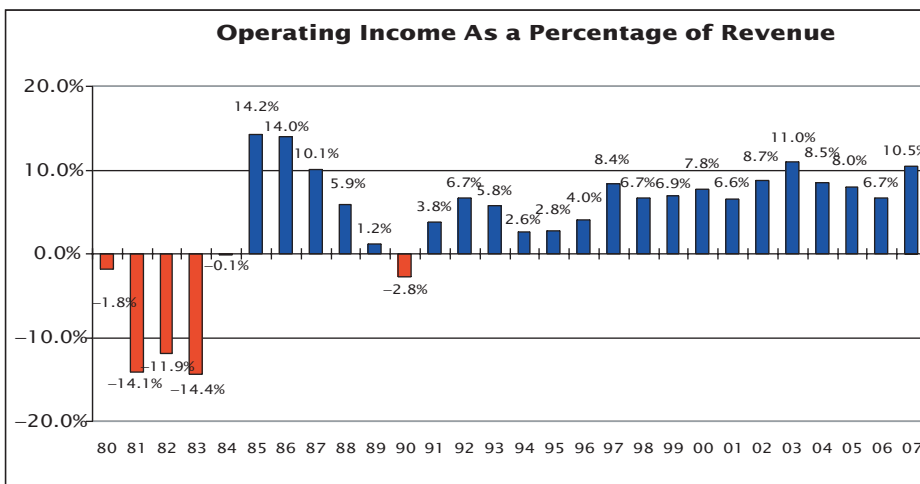
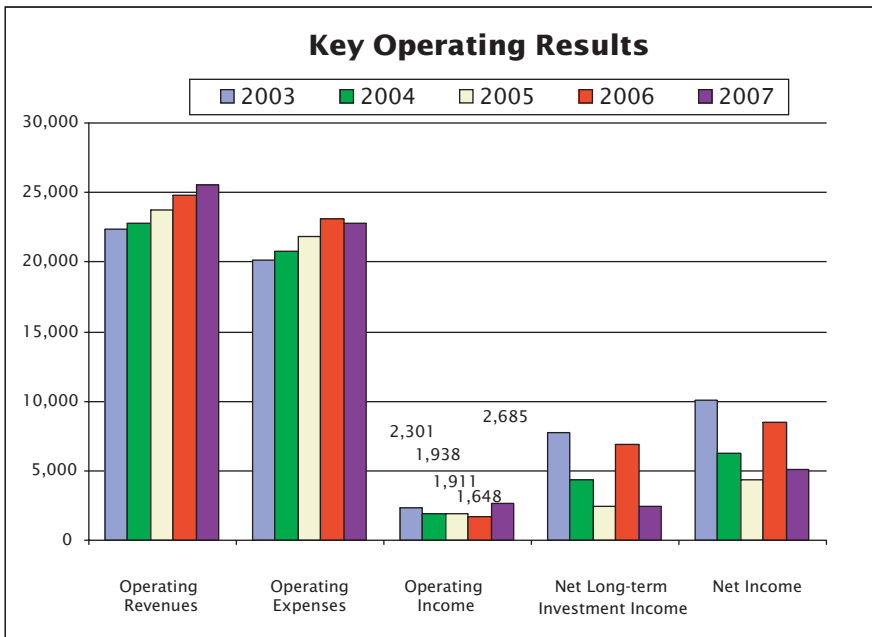
2007 operations, containing more detailed information regarding the Society's operations, and a discussion of the assets and liabilities of the Society. Finally, in the last part of the Report, there are financial statements derived principally from the Society's audited financial statements, which present the balance sheet, statement of activities (akin to an income statement in a for-profit organization), and information regarding the Society's invested funds.

The Society segregates its net assets, and the activities that increase or decrease net assets, into three types. Unrestricted net assets are those that 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 that 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 revenues in excess of unrestricted expenses for the year ended December 31, 2007, resulted in an increase in unrestricted net assets of approximately \$5,105,000. Of this amount, operating activities provided approximately \$2,685,000 and the return on the unrestricted portion of the long-term investment portfolio totaled approximately \$2,420,000. The overall return on the Society's long-term investment portfolio was 5.4% in 2007 versus 13.6% in 2006. The problems with sub-prime mortgage loans first came to light in August 2007 and have led to a significant contraction in lending and financial difficulties for many banks and other financial institutions that continue in 2008. These and other matters are discussed in more detail in the following sections.

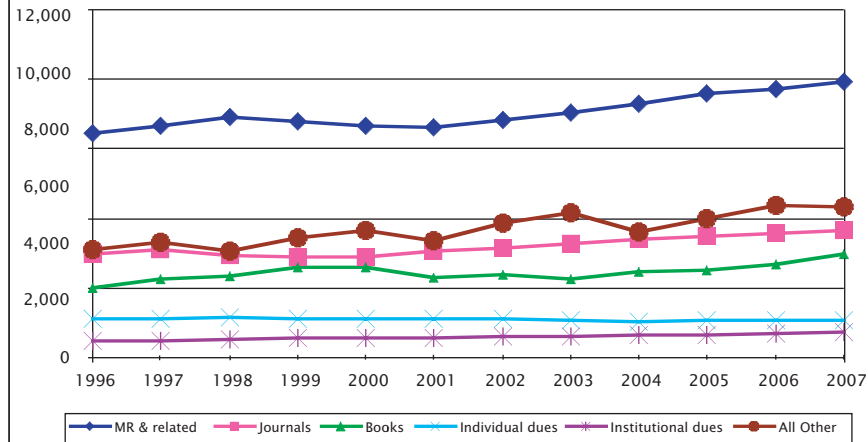
Unrestricted net assets also increased at the end of 2007 due to the implementation of a new accounting pronouncement related to the Society's post-retirement health benefit plan, in the amount of approximately \$751,000. Under previous accounting rules, the amount required to be recorded as the liability for these benefits



was not the accumulated plan benefit obligation (APBO) as estimated by the plan's actuary, as gains and losses from plan amendments and/or actual experience being different from plan assumptions were required to be deferred and recognized in the annual benefit expense, and thus the liability, over an appropriate period of time. Under the new accounting rules, these gains and losses are still recognized in the annual expense, but the liability must be stated at the plan's APBO as determined by its actuary. Accordingly, there was an entry directly in unrestricted net assets in 2007 to adopt the new rules and adjust the liability to be equal to the APBO. For the Society, this was a reduction in the recorded liability and an increase in net assets. In future years, there will continue to be entries directly in unrestricted net assets which essentially reverse the effects of the amortizations of the gains and losses that are included in the annual expense, included in operating results.

The Society's net assets totaled \$79,897,000 at December 31, 2007. \$3,835,000 is permanently restricted, consisting of the original amount of donor restricted gifts and bequests received by the Society, as required under current accounting and legal guidance. \$1,909,000 is temporarily restricted by donor-imposed limitations that will lapse upon the passage of time or the use of the assets for their intended purposes. \$74,153,000 is unrestricted, of which \$63,524,000 has been designated by the Board of Trustees as reserved for specific purposes in four distinct funds: the Economic Stabilization Fund (ESF), the Operations Support Fund (OSF), the Journal Archive Fund, and the Young Scholars Fund. The ESF's purpose is to provide a source of cash in the event of a financial crisis. The Society's Board of Trustees set the target at which to maintain the ESF at the sum of 75% of annual operating expenses plus the current estimate of the post-retirement health benefit plan's APBO. The OSF is used to provide operating income to the Society via the use of a spending rate, currently set by the Board at 5%. At the end of each year, the ESF and OSF are rebalanced so that the ESF is set at its target level. This was first done at the end of 2006 under the new Board policy. The rebalancing at the end of 2006 and 2007 moved funds from the ESF to the OSF of approximately \$13,032,000 and \$1,117,000, respectively. The Journal Archive Fund was established by the Board to accumulate funds to be able to convert the Society's journal data into new formats that may be developed and become standard for the dissemination of

Sales Trends - Historical Dollars



Sales Trends - Constant Dollars



information in future years. The Young Scholars Fund was established by the Board to supplement the funds raised in the Epsilon true endowment fund, whose purpose is to support educational programs for young people interested in mathematics. The remaining unrestricted net assets consist of \$4,271,000 invested in fixed assets and undesignated net assets of \$6,358,000.

II. Review of 2007 Operations

As indicated in the graph on the preceding page, the past five years have been very good years, financially, for the Society.

The returns on long-term investments have been volatile over this period, with the average annual rate of return for the five and ten year periods ending December 31, 2007, at 12% and 6%, respectively. These returns, net of spendable income, have helped the endowment funds (and the income they produce) keep up with inflation.

Since 2002, the Board of Trustees has appropriated investment income from the OSF, as well as those true endowment funds with income whose use is

unrestricted, to support operations. The total amounts of such appropriations that have been included in operating revenue are \$1,007,069 in 2007, \$899,630 in 2006, \$847,225 in 2005, \$792,870 in 2004 and \$865,696 in 2003.

This percentage relationship of operating income to total operating revenue has shown much more stability in the most recent eleven years compared to the first seventeen years, which is a positive financial indicator. General inflation is currently rising while investment returns are currently negative, so the larger of these percentages in the last eleven years may not be seen again for some time.

Sales Trends

The graphs on the preceding page show sales trends from 1996 through 2007, first in historical dollars and second in constant dollars (using 2007 as the base year and adjusting other years for inflation).

The trends shown in historical dollars are in general mildly upward, and this is partly due to pricing strategies that are intended to help counter the effects of inflation and attrition. When shown in constant dollars, most sources of revenue are fairly flat or declining over this period.

During the ten-year period from 1997 through 2007, the average annual inflation was 2.68%. During this same period, the Society's average annual expense growth was 1.77%, indicating that the Society was able to keep its expense growth about 0.9% below the rate of inflation for each year in this time period. This is indicative of the productivity gains experienced by the Society, due in large part to the improvements in the computing industry adopted by the Society. At the same time, the average annual growth in revenue was 2.01%. While the revenue growth did not keep up with inflation during this period, it was almost 25 basis points better than that of the expense growth rate. This positive differential was achieved during the same period of time when price increases on journals and MR products were lowered (the DAF had no price increase for one year), sectional meeting fees were held constant and individual dues were frozen for two years. In constant dollar terms, both revenues and expenses declined during this ten-year period, by an average annual rate of (0.53%) and (0.77%), respectively, in historical dollars. If the Board had not appropriated investment income to support operations (commencing in 2002), there would have been a negative difference between the growth of expenses and revenues of 0.17% annually during this ten-year period (expenses rising faster than revenues).

Mathematical Reviews. Total revenue from MR in its various forms increased from 2006, by approximately 3.2%. This is due to price increases effective in 2007, net of attrition (which was minor overall). Subscribers to paper MR products continue to decrease each year. Accordingly, the Society focuses its marketing efforts on its electronic delivery products, particularly concentrating on working with consortia, where costs can be spread over a larger number of institutions. This has the effect of providing the MR product line to a much wider audience than could afford it as individual institutions, as well as protecting the current revenue stream for future years. MR is currently financially healthy; however, as was seen in 2007,

it is probably unrealistic to expect significant increases in sales revenue from additional subscribers.

Journals. The increase in journal revenues for 2007 provided only slightly more revenue than in 2006 due to the effects of attrition in subscribers, on an overall basis. While attrition had been less than expected in the last few years, it picked up again in 2007. Given the current economic environment and the pressures that will likely increase on academic institutions with these deteriorating conditions, it is possible that attrition could accelerate in the next few years. The financial solvency of subscription agents continues to be a worry to scholarly publishers. We experienced the bankruptcy of one subscription agent in 2003 and in 2004 a subscription agent with significant market share required the infusion of additional capital from investors in order to meet its obligations to subscribers and publishers. In early 2007 a Korean subscription agent went into bankruptcy; but this caused no economic harm to the Society. We have noticed significantly later payments from subscription agents for the 2008 renewals, which could indicate cash flow problems for them. With the advent of electronically available content directly from publishers, as well as a tarnishing of their industry in general from those who have taken subscribers' money without providing the related subscriptions due to financial difficulties in recent years, subscription agents are struggling to re-define themselves in the scholarly publications marketplace.

Books. Book revenues increased by approximately \$401,000 or slightly over 12% in 2007 historical dollars, and by almost 8.6% in constant dollars. New titles produced totaled 100 versus 110 budgeted for 2007 and 102 in 2006. Sales of new and backlist titles continue to strengthen, with backlist sales comprising 35% of total sales on a unit basis. Unit sales climbed to 86,394 from 73,928 in 2005 while revenue per book sold remained steady over this period. This indicates the increased sales are not coming at the cost of deeper discounts. The Society continues to work with distributors and continues to improve marketing efforts in order to keep the book program as healthy as possible. It will move to a new European distributor in the latter part of 2008, which is expected to give the book program significantly more visibility in this market.

Dues. Dues, the sum of individual and institutional, have shown a slight upward slope on the historical dollars chart and a flat or slightly decreasing line in constant dollars. A flat constant dollar line is expected for institutional dues, as the number of members generally varies little from year to year and the dues rates have been set so that dues will increase at about the same level as inflation. There has been a decline in individual dues from their high in 1998. To date, the various programs implemented by the Society to improve its individual membership population have not been successful enough to overcome the steady erosion in members, and the annual dues increase has not maintained steady dues revenue in constant dollars.

Major Expense Categories.

The table above right shows the major expenses for 2005, 2006, and 2007, in thousands of dollars. There has not been much change from year to year in the types of

Major Expense Categories

	2005		2006		2007	
Personnel Costs	\$14,608	66%	\$15,471	67%	\$15,607	68%
Building and equipment related	1,389	6%	1,359	6%	1,453	6%
Postage	865	4%	904	4%	982	4%
Outside printing, binding, and mailing	806	4%	876	4%	654	3%
Travel: staff, volunteers, grant supported	972	4%	1,131	5%	735	3%
All other expenses	3,557	16%	3,371	14%	3,400	16%
TOTAL	<u>\$22,197</u>	<u>100%</u>	<u>\$23,112</u>	<u>100%</u>	<u>\$22,831</u>	<u>100%</u>

expenses incurred by the Society, which is expected as there have been no major changes in the way the Society operates.

Operating expenses can also be associated with the various activities of the Society, and this is how our audited financial statements are presented (see Section 4). The Society has accounting systems in place to capture the identifiable direct costs of its publishing and member and professional services activities, as well as indirect costs associated with these two major functions. General and administrative costs are those that cannot be directly associated with either of its two main functions or any activity therein. The following is a summary presentation that matches the revenue and costs of the major activities of the Society, derived directly from its audited financial statements.

Some points worth noting in the presentation below are that the *Mathematical Reviews* activities and the

Providence publications produce similar margin (in dollars) after identifiable direct costs associated with these products. The indirect costs associated with the overall publishing activities of the Society (taking orders, shipping and storing goods, marketing and sales efforts, etc.) reduces this margin by 37%. If general and administrative were allocated to the publishing activities, this margin would be reduced even further. But there would still be significant margin from Publications, available to spend on services and outreach activities.

The member and professional services activities use resources of the Society, which are then supported, or "paid for" by member dues, spendable income from reserve and endowment funds, and the margin from publishing activities. While the various activities in this functional area do have revenue streams, such as fees, grant support, prize fund spendable income, etc., the costs incurred by

**2007 Operating Revenue and Expenses by Major Activity,
in Thousands of Dollars**

	Revenue	Expense	Net
Publications:			
<i>Mathematical Reviews</i>	\$ 9,747	\$ 6,116	\$ 3,631
Providence publications (books, journals, etc.)	8,725	4,552	4,173
Publications indirect (customer services, marketing, distribution and warehousing, etc.)		2,908	(2,908)
Total publications	<u>18,472</u>	<u>13,576</u>	<u>4,896</u>
Member and professional services:			
Services and outreach programs	1,320	3,350	(2,030)
Grants, prizes and awards	550	754	(204)
Meetings	909	941	(32)
Divisional indirect		555	(555)
Governance		400	(400)
Total before spendable income and dues revenue	<u>2,779</u>	<u>6,000</u>	<u>(3,221)</u>
Spendable income from investments	918		918
Dues	2,290		2,290
Total member and professional services	<u>5,987</u>	<u>6,000</u>	<u>(13)</u>
Other	1,056	57	999
General and administrative		3,197	(3,197)
Total	<u>\$25,515</u>	<u>\$22,830</u>	<u>\$ 2,685</u>

these activities are significantly greater than the revenues generated.

III. Assets and Liabilities

So far, this report has dealt with revenues 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 below 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 constitute 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 Market Value of Invested Funds shows the market value of each endowment and Board designated (quasi-endowment) fund, including any reinvested earnings.

The Society's fiscal year is the calendar year and thus 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 approximately \$17,309,000 and \$18,614,000 at December 31, 2007, and 2006, respectively. The corresponding liability for the revenues received in advance was approximately \$12,336,000 and \$12,908,000 at December 31, 2007, and 2006, respectively.

The Society's property and equipment include land, buildings and improvements, office furniture and equipment, and 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. Generally accepted accounting principles require that investments in property, plant, and equipment used for operations be stated at cost, less accumulated depreciation. It is likely that the value of the land and buildings owned by the Society is significantly greater than the net amount recorded as assets (approximately \$4,271,000 at December 31, 2007).

Capital additions increased from approximately \$333,000 in 2006 to slightly over \$752,000 in 2007, and are expected to be approximately \$1,011,000 in 2008. Investments are being made in the Society's facilities such as replacements to the heating, ventilation and air conditioning equipment, roof replacement, renovations to working space, and upgrading its management software applications to current technology.

An important feature to note on the Society's balance sheet is that the Society owes no debt to third parties, other than the normal liabilities incurred in operations such as those owed to employees, vendors, and the deferred revenue for payments received in advance from members, subscribers, and other customers. This means

that the Society owns all of its assets free and clear of any encumbrances, liens, or other types of impairments typically associated with debt. This is not expected to change, despite the significant planned internal investments in the next few years and the deteriorating economic conditions.

The Society's endowment is managed under the "total return concept". Under this management policy, income in excess of a reasonable amount (set by the Board of Trustees) is reinvested and increases the value of the fund. This allows for growth in income over time, intended to maintain the "purchasing power" of the original gifts steady over the long term. As discussed previously, in 2002 the Board of Trustees established a policy of annually appropriating investment income from those true endowment funds whose use of income is unrestricted and from the Operations Support Fund to support operations. The amount of such appropriations included in operating revenue is \$1,007,069 and \$899,630 in 2007 and 2006, respectively.

IV. Summary Financial Information

The following Balance Sheets and Statements of Activities are from the audited annual financial statements of the Society, and the Statement of Invested Funds is from the internal financial records of the Society. Each year, the Audit Committee of the Board of Trustees meets with the Society's auditors to review the conduct of the audit, the Society's financial statements, and the auditors' report on the financial statements. Pursuant to the recommendation of the Audit Committee, the Board of Trustees has accepted the audited financial statements. 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.

—Respectfully submitted,

John M. Franks
Treasurer

BALANCE SHEETS

December 31, 2007, and 2006

Assets	2007	2006
Cash and cash equivalents	\$ 921,425	\$ 1,518,285
Short-term investments	16,387,716	17,095,580
Receivables, less allowances of \$260,000 and \$250,000 respectively	1,409,424	1,607,714
Deferred prepublication costs	608,723	580,769
Completed books	1,153,060	1,060,636
Prepaid expenses and deposits	1,323,430	1,172,409
Land, bldgs. and equipment, less accumulated depreciation	4,270,952	3,734,674
Long-term investments	<u>74,065,208</u>	<u>68,461,186</u>
Total assets	<u>\$100,139,938</u>	<u>\$95,231,253</u>

Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,446,840	\$ 1,534,995
Accrued expenses:		
Severance and study leave pay	1,213,114	1,147,066
Payroll, benefits, and other	1,167,720	994,608
Deferred revenue	12,335,892	12,907,692
Postretirement benefit obligation	<u>4,079,327</u>	<u>4,706,688</u>
Total liabilities	<u>20,242,893</u>	<u>21,291,049</u>
Net assets:		
Unrestricted	74,152,965	59,769,368
Temporarily restricted	1,908,841	1,794,484
Permanently restricted	3,835,239	3,473,711
Total net assets	<u>79,897,045</u>	<u>65,037,563</u>
Total liabilities and net assets	<u>\$100,139,938</u>	<u>\$84,704,245</u>

STATEMENTS OF ACTIVITIES*Years Ended December 31, 2007, and 2006***Changes in unrestricted net assets:**

Operating Revenue	2007	2006
Publication:		
<i>Mathematical Reviews</i> and related activities	\$ 9,747,337	\$ 9,444,936
Journals (excluding MR)	4,481,903	4,407,455
Books	3,693,828	3,293,020
Sale of services	411,763	385,855
Other	<u>137,369</u>	<u>142,632</u>
Total publication revenue	<u>18,472,200</u>	<u>17,673,898</u>
Membership and professional services:		
Dues, services, and outreach	3,609,792	3,583,116
Grants, prizes, and awards	550,202	881,496
Investment earnings available for spending	917,949	819,630
Meetings	<u>908,836</u>	<u>893,202</u>
Total membership and professional services revenue	<u>5,986,779</u>	<u>6,177,444</u>
Short-term investment income	895,022	756,686
Other	<u>161,156</u>	<u>152,355</u>
Total operating revenue	<u>\$25,515,157</u>	<u>\$24,760,383</u>

Operating Expenses

Publication:		
<i>Mathematical Reviews</i> and related activities	\$ 6,115,797	\$ 6,133,098
Journals (excluding MR)	1,351,788	1,293,764
Books	2,957,073	2,926,057
Publication-divisional indirect	955,416	805,909
Warehousing and distribution	889,903	857,274
Customer services	814,685	848,861
Marketing and sales	248,330	232,922
Sale of services	<u>243,109</u>	<u>251,747</u>
Total publication expense	<u>13,576,101</u>	<u>13,349,632</u>

Membership and professional services:		
Dues, services, and outreach	3,350,117	3,539,475
Grants, prizes, and awards	754,103	1,190,011
Meetings	940,853	916,111
Governance	400,390	417,497
Divisional indirect	<u>554,806</u>	<u>441,759</u>
Total membership and professional services expense	<u>6,000,269</u>	<u>6,504,853</u>
Other	57,384	142,711
General and administrative	<u>3,196,735</u>	<u>3,114,916</u>
Total operating expenses	<u>\$22,830,489</u>	<u>\$23,112,112</u>
Excess of operating revenue over operating expenses	\$2,684,668	\$1,648,271
Long-term investment return in excess of investment earnings available for spending	2,420,182	6,879,748
Effect of adoption of SFAS 158	<u>750,728</u>	<u>—</u>
Change in unrestricted net assets	<u>5,855,578</u>	<u>8,528,019</u>

2007 2006

Changes in temporarily restricted net assets:

Contributions and grants	53,952	52,971
Long-term investment income (loss)	200,215	420,472
Net assets released from restrictions	(310,704)	(302,549)
Change in temporarily restricted net assets	<u>(56,537)</u>	<u>170,894</u>
Change in permanently restricted net assets—		
Contributions	<u>157,800</u>	<u>203,728</u>
Change in net assets	5,956,841	8,902,641
Net assets, beginning of year	<u>73,940,204</u>	<u>65,037,563</u>
Net assets, end of year	<u>\$79,897,045</u>	<u>\$73,940,204</u>

STATEMENTS OF INVESTED FUNDS*As of December 31, 2007, and 2006*

	Dec. 31, 2007		Dec. 31, 2006
	Original Gift(s)	Market Value	Market Value
Endowment Funds:			
Prize Funds:			
Steele	\$145,009	\$ 654,511	\$ 647,897
Birkhoff	40,076	70,675	39,195
Veblen	2,000	13,372	13,237
Wiener	2,000	13,372	13,237
Bôcher	1,450	9,725	9,627
Conant	9,477	43,650	43,209
Cole	5,550	22,965	22,732
Satter	15,000	34,764	34,412
Morgan	25,000	47,502	47,022
Whiteman	63,468	71,837	71,111
Doob Book Prize	45,000	50,867	52,504
Robbins Prize	40,500	46,719	47,719
Eisenbud	40,000	43,920	43,476

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Department of Mathematics
University of Nebraska-Lincoln
203 Avery Hall
Lincoln, NE 68588-0130

**Deadline for registration
December 12, 2008**



From the AMS Secretary

STATEMENTS OF INVESTED FUNDS, CON'T.

As of December 31, 2007, and 2006

	Dec. 31, 2007		Dec. 31, 2006
	Original Gift(s)	Market Value	Market Value
Arnold Ross Lectures	70,000	79,932	79,125
Trjitzinsky Scholarships	196,030	526,243	520,924
C. V. Newsom Centennial Fellowship	100,000	244,885	242,410
Menger	56,100	125,561	124,292
Ky Fan (China)	9,250	12,288	12,164
Epsilon	366,757	387,085	383,173
Total Income Restricted Funds	<u>1,037,431</u>	<u>1,167,541</u>	<u>1,030,659</u>
	\$2,270,098	\$3,667,413	\$3,478,125
Endowment Morita	100,240	805,476	797,059
Henderson Schoenfeld/ Mitchell	100,000	143,694	142,234
Laha	548,223	4,316,561	4,272,703
Ritt	573,447	809,829	801,601
Moore	189,309	273,133	270,358
Total Income Unrestricted Funds	<u>51,347</u>	<u>257,174</u>	<u>254,561</u>
	1,565,141	6,630,110	6,562,512
Total Endowment Funds	<u>\$3,835,240</u>	<u>\$10,297,523</u>	<u>\$10,040,637</u>
Board-Restricted Funds:			
Journal Archive		677,039	599,289
Young Scholars		689,014	653,985
Economic Stabilization		21,326,742	21,302,648
Operations Support		40,830,813	35,571,266
Total Board-Restricted Funds		63,523,608	58,127,188
Total Funds		\$73,821,130	\$68,167,825