

From the AMS Secretary

Report of the Treasurer (2011)

Introduction

When reviewing the annual financial results of the American Mathematical Society (AMS), it is important to note that the financial support for its membership and professional programs is derived from several sources: the margin from the publication programs, dues income and contributions, and a board-designated endowment fund named the Operations Support Fund (OSF), which in 2011 provided \$1,645,100 to operations. The OSF is a fund that has grown over the years through net income from the operations of the AMS as well as investment gains. Together these sources support the Society's widely used membership and professional programs and services, such as MathJobs, *Notices of the American Mathematical Society*, student programs, and fellowships.

In 2011, the American Mathematical Society experienced a net operating margin of approximately \$2.7 million. This positive net margin was offset by losses on investments and an actuarial change to the calculation of the postretirement benefit obligation, creating a loss of \$612,000 in the total net assets of the AMS for 2011. As explained below, the large net operating margin was due primarily to a reduction in expenses while revenue remained fairly flat.

The Statement of Activities

The AMS Statement of Activities identifies the direct revenues and expenses for the major AMS programs and services, including Mathematical Reviews, Journals, Books, Meetings, Grants, Prizes and Awards, Governance, and Member and Professional Services. The other expense categories on the statement show the overhead costs, and they include Publications

Indirect, Customer Services, Warehousing and Distribution, Other Publications-Related Expense, Member and Professional Services Indirect, and General and Administrative. The overhead expense activities are part of the true cost of each of the major programs.

The reason for the large net operating margin of \$2.7 million in 2013 was a 3% decrease in expenses. Tables 1 and 2 show key operating figures, and major expense categories for 2010 and 2011, including increases and decreases in major categories. The net operating margin for the AMS was expected to be much smaller for 2011, because expenses were expected to grow by approximately 3% while revenue growth remained relatively flat. However, expenses overall decreased. The reasons for this decline are associated with internal and external influences, which we explain briefly.

Two key factors affecting the reduction in expenses from 2010 to 2011 were accounting changes related to deferrals of prepaid expenses and a book inventory adjustment. The deferral of prepaid expenses to future years was largely due to external market influences in the AMS book program. During 2011, publications staff worked on future year publications to a greater extent than in prior years, because the publications departments were staffed to publish 108 books as compared to the 95 actually published. The reduction in number of books published meant that staff worked on other projects, such as future journal issues, so departmental expenses incurred for these projects were deferred to future years. These deferrals

	Key Operating Figures					
			Variance		Variance	
	2010 Actual	2011 Actual	Pos (Neg) 10A VS 11A	% chg	2011 Budget	Pos (Neg) 11A VS 11B
Total operating revenue	27,092,251	27,284,068	191,817	0.7%	26,673,610	610,458
Total operating expenses	25,283,224	24,581,779	701,445	2.8%	26,055,160	1,473,381
Operating income	1,809,027	2,702,289	893,262	49.4%	618,450	2,083,839
Income (loss) from unrestricted long-term investments	7,493,555	(1,874,771)	(9,368,326)		3,818,513	(5,693,284)
Post-retirement benefit changes	(119,765)	(1,102,350)	(982,585)		(150,000)	(952,350)
Change in unrestr. net assets	9,182,817	(274,832)	(9,457,649)		4,286,963	(4,561,795)

Table 1

Major Expense Categories (in 000's)

	2010 Actual		2011 Actual		Variance 10 v. 11 inc(dec)	% chg
Personnel Costs	\$17,200	68%	\$17,345	70.6%	\$145	1%
Building and Equipment Related	1,654	7%	1,682	6.8%	28	2%
Postage	814	3%	777	3.2%	(37)	-5%
Outside Print'g, Bind'g and Mail'g	610	2%	587	2.4%	(23)	-4%
Printing paper	433	2%	378	1.5%	(55)	-13%
Travel - Staff, Volunteers and Grants	670	3%	681	2.8%	11	2%
All Other Expenses	3,902	15%	3,132	12.7%	(770)	-20%
	<u>\$25,283</u>	<u>100%</u>	<u>\$24,582</u>	<u>100%</u>	<u>\$ (701)</u>	<u>-3%</u>

Table 2

combined with a book inventory adjustment are the major reason for large decrease in "All Other Expenses" expenses shown in Table 2. Also affecting the "All Other Expenses" category was the decrease in space charges and conference fees for the 2011 Joint Meeting, because it was held in a less expensive venue in New Orleans than in the prior year.

Internally, there was only a slight increase in personnel costs (less than 1%), because management has controlled wage and benefit costs. During the year, approximately 10.25 full-time equivalent positions were held open by management. Also, benefit plans experienced smaller increases than expected due to careful management of the plans over the past few years.

Both internal and external influences affected postage and printing paper expenses. Postage costs were lower than they have been in more than 10 years, because of the trend to use email rather than mail for conducting business, the industry-wide increase in electronic subscriptions, and planned changes in shipping vendors. The amount spent on printing paper is the lowest it has been since 2006, due to a lower-than-average number of books published, lower journal page counts, and the gradual change from paper to electronic journal subscriptions.

As a result of market pressures, publishing revenues continue to be flat as shown in Table 3 (adjusted for inflation). Publications revenues exceeded budget by \$434,000, but they increased by only 2% over 2010. Even though the AMS did not publish 108 books as budgeted, book revenues exceeded expectations due to strong backlist sales primarily from monographs. MathSciNet revenues exceeded budget as well, because of an increase in the number of consortium subscribers. Another notable revenue variance is a \$199,755 positive variance for new grant revenues, such as those from the Simons Foundation, that were not budgeted. These revenues were offset by related travel expenses for grant participants. Offsetting positive growth in other revenues, the investment income from the operating portfolio was \$130,000 below budget due to the poor performance of the mutual funds in the portfolio.

The Balance Sheets

The AMS had a healthy balance sheet as of December 31, 2011, with a ratio of assets to liabilities of nearly 5 to 1. Cash and cash equivalents increased from 2010 to 2011 because of the positive operating margin. Short-term investments decreased during the year, primarily because

\$2,000,000 was transferred to the long-term portfolio. The long-term investments increased by approximately \$1,800,000 because of the transfer from the short-term investments, partially offset by losses on the investments. When there is surplus cash available, funds are transferred from short-term to long-term investments in order to continue to build the OSF, which is an important source of funding for the AMS operations and programs. The largest increase on the liability portion of the balance sheet was a \$1.2 million increase in the postretirement benefit obligation associated

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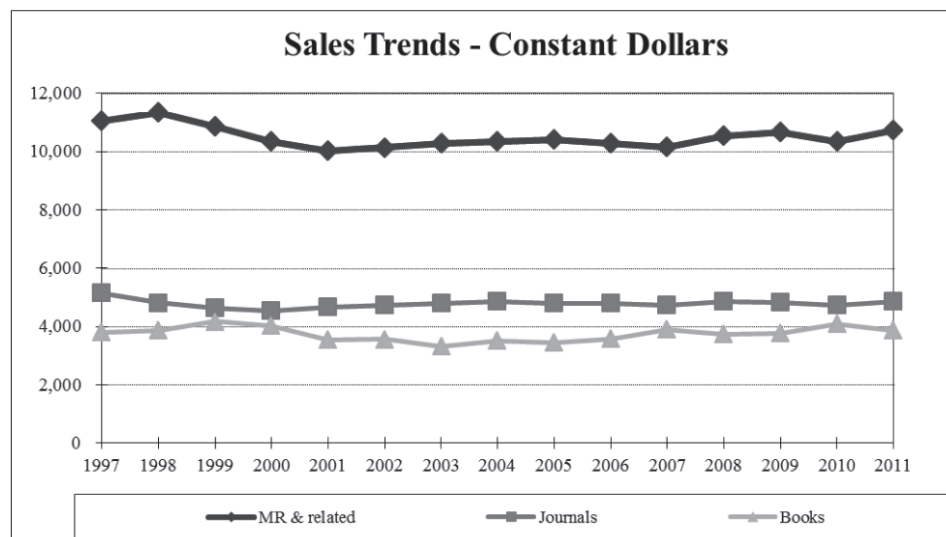


Table 3

Balance Sheets

	<i>December 31,</i>	
	<i>2011</i>	<i>2010</i>
Assets		
Cash and cash equivalents	\$ 1,753,474	\$ 1,084,237
Certificates of deposit	2,064,000	2,090,000
Short-term investments	11,675,319	13,807,241
Accounts receivable, net of allowances of \$344,066 and \$347,279 in 2011 and 2010, respectively	470,880	853,254
Deferred prepublication costs	765,162	632,570
Completed books	1,453,931	1,328,076
Prepaid expenses and deposits	1,677,164	1,256,912
Land, buildings and equipment, net	4,828,711	5,031,887
Long-term investments	<u>81,186,072</u>	<u>79,406,346</u>
Total assets	<u>\$ 105,874,713</u>	<u>\$ 105,490,523</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,128,241	\$ 2,960,535
Accrued study leave pay	741,400	829,582
Deferred revenue	12,515,534	12,822,888
Postretirement benefit obligation	<u>5,994,557</u>	<u>4,770,464</u>
Total liabilities	<u>22,379,732</u>	<u>21,383,469</u>
Net assets:		
Unrestricted:		
Undesignated	1,739,111	4,146,972
Designated	<u>71,018,071</u>	<u>68,885,038</u>
	72,757,182	73,032,010
Temporarily restricted	5,753,285	6,207,920
Permanently restricted	<u>4,984,514</u>	<u>4,867,124</u>
Total net assets	<u>83,494,981</u>	<u>84,107,054</u>
Total liabilities and net assets	<u>\$ 105,874,713</u>	<u>\$ 105,490,523</u>

Statements of Activities

	<i>Years Ended December 31,</i>	
	<i>2011</i>	<i>2010</i>
Changes in unrestricted net assets:		
Operating revenue, including net assets released from restrictions:		
Mathematical Reviews	\$ 10,735,499	\$ 10,307,693
Journals	4,822,189	4,716,428
Books	3,982,668	4,093,467
Dues, services, and outreach	3,688,175	3,885,074
Investments appropriated for spending	1,674,100	1,480,151
Other publications-related revenue	450,928	372,322
Grants, prizes and awards	1,083,719	1,101,874
Meetings	1,034,109	1,143,373
Short-term investment income	270,132	626,227
Other	47,853	60,299
	<u>27,789,372</u>	<u>27,786,908</u>
Total operating revenue	<u>27,789,372</u>	<u>27,786,908</u>
Operating expenses:		
Mathematical Reviews	6,807,854	6,855,152
Journals	1,421,642	1,523,701
Books	3,395,094	3,791,325
Publications indirect	1,062,353	904,832
Customer services, warehousing and distribution	1,313,110	1,363,163
Other publications-related expense	192,610	216,322
Membership, services and outreach	3,842,817	4,116,641
Grants, prizes and awards	1,300,955	1,198,463
Meetings	950,212	1,181,320
Governance	432,498	428,949
Member and professional services indirect	714,527	569,596
General and administrative	3,593,104	3,752,580
Other	60,302	75,839
	<u>25,087,078</u>	<u>25,977,883</u>
Total operating expenses	<u>25,087,078</u>	<u>25,977,883</u>
Excess of operating revenue over operating expenses	2,702,294	1,809,025
Investment returns less investment returns available for spending	(1,874,771)	7,493,555
Postretirement benefit-related changes other than net periodic cost	(1,102,350)	(119,765)
	<u>(274,827)</u>	<u>9,182,815</u>
Change in unrestricted net assets	<u>(274,827)</u>	<u>9,182,815</u>
Changes in temporarily restricted net assets:		
Contributions	172,731	271,547
Investment returns less investment returns appropriated for spending	(19,603)	1,322,495
Net assets released from restrictions	(607,763)	(732,496)
	<u>(454,635)</u>	<u>861,546</u>
Change in temporarily restricted net assets	<u>(454,635)</u>	<u>861,546</u>
Change in permanently restricted net assets:		
Contributions	117,390	114,475
	<u>117,390</u>	<u>114,475</u>
Change in permanently restricted net assets	<u>117,390</u>	<u>114,475</u>
Change in net assets	(612,072)	10,158,836
Net assets, beginning of year	84,107,054	73,948,218
	<u>84,107,054</u>	<u>73,948,218</u>
Net assets, end of year	<u>\$ 83,494,982</u>	<u>\$ 84,107,054</u>

**Statements of Invested Funds
As of December 31, 2011 and 2010**

Income Restricted:		12/31/2011	12/31/2010
	Original Gift	Total Value	Total Value
Research Prize Funds			
Steele	145,009	552,719	579,538
Birkhoff	50,112	69,424	72,792
Veblen	29,773	36,824	38,611
Wiener	29,773	36,824	38,611
Bocher	32,557	37,409	39,224
Conant	9,477	36,862	38,650
Cole Number Theory	33,063	38,136	39,462
Cole Algebra	33,063	38,136	39,462
Satter	43,212	55,091	57,764
Doob Prize	45,000	45,572	47,783
Robbins Prize	41,250	42,408	44,466
Eisenbud Prize	40,000	40,000	41,611
Other Prize and Award Funds			
Morgan	25,000	40,114	42,061
Albert Whiteman	93,618	95,893	100,546
Arnold Ross Lectures	70,000	71,401	74,865
Trjitzinsky	196,030	444,400	465,962
C.V. Newsom	100,000	206,799	216,834
Centennial	56,100	106,033	111,178
Menger	97,250	100,473	105,348
Ky Fan (China)	366,757	366,757	371,133
2011 Addition	10,000	10,000	
Epsilon	1,652,259	1,698,148	1,669,024
Einstein Lecture	100,000	102,836	107,826
Exemplary Program	100,000	102,207	107,166
Mathematical Art	<u>20,000</u>	<u>20,441</u>	<u>21,433</u>
Total (Income Restricted)	3,419,303	4,394,907	4,471,351
Income Unrestricted:			
Endowment	100,310	681,420	715,176
Morita	100,000	122,449	128,521
Henderson	548,223	3,651,371	3,832,423
Schoenfeld/Mitchell	573,447	692,284	726,610
Laha	189,309	232,581	244,114
Ritt	51,347	217,543	228,330
Moore	<u>2,575</u>	<u>20,506</u>	<u>21,523</u>
Total (Income Unrestricted)	<u>1,565,211</u>	<u>5,618,155</u>	<u>5,896,697</u>
Total Endowment Funds	<u>4,984,514</u>	<u>10,013,061</u>	<u>10,368,047</u>
Board-Designated Funds:			
Journal Archive Fund		920,784	873,003
Young Scholars		614,004	642,864
Economic Stabilization Fund		24,430,891	23,732,898
Operations Support Fund		<u>45,052,391</u>	<u>43,636,272</u>
Total Board-Designated Funds		71,018,071	68,885,038
Total All Funds		<u>81,031,132</u>	<u>79,253,085</u>

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with actuarial changes made to the postretirement plan. The AMS sets aside funding for the benefit obligation within its long-term investment portfolio as part of its Economic Stabilization Fund (ESF), and this amount was increased to insure that the retirement funds will be available for AMS retirees in the future.

Market and Economic Conditions Affecting the Society

The investment markets fluctuated wildly in 2011, and the AMS long-term portfolio sustained a small loss for the year. The fluctuations in the market affect the AMS financial health, as a poor return on operating investments affects the operating bottom line, and a negative return on the long-term portfolio affects the funds available for spending from the endowment and the Operations Support Fund. The historically low certificate of deposit and money market interest rates of less than 1% translated to very low returns on the short-term portion of the operating portfolio. The intermediate-term portion of the portfolio fared better with a 4% return. Despite the lower-than-normal combined return of 2% on the operating portfolio investments, the organization had a healthy net income.

The majority of the American Mathematical Society's publishing revenues come from international sources. For example, 67% of MathSciNet customers and sales revenues are international. The European Union debt crisis has affected our customers in Europe, where 20% of the Society's overall publishing sales occur. Consortium customers in some European countries struggled to maintain their MathSciNet and journal subscriptions, but AMS staff worked with university libraries to find ways to save on their subscriptions. The majority of AMS European customers have continued with their subscriptions, and the European recession has not yet had a significant effect on the bottom line. While the AMS has lost subscriptions in some developed countries, business has increased in emerging markets. In the United States, the downward pressure on subscription prices for academic publishers is increasing as university libraries reduce their budgets. The AMS continues to experience subscription attrition, but this is counteracted by subscription price increases and additions of international and consortium subscribers.

The publishing industry continues to change at a fast pace, affecting the AMS in many ways. For example, AMS book sales distribution channels have changed dramatically in recent years, and although the number of units sold has increased by a modest 9% over the past five years, margins through newer channels, such as electronic bookstore retailers, have decreased. In addition, the AMS continues to experience movement from printed to electronic journal subscriptions at an increasing rate. Also, the AMS is investing in digitization of its backfile to take advantage of electronic book sales.

Summary Financial Information

The Statements of Activities and Balance Sheets are from the audited annual financial statements of the AMS, and the Statement of Invested Funds is from the internal financial records of the AMS. A copy of the audited financial statements will be sent from the Providence Office to any member who requests it from the Treasurer. As Treasurer I will be happy to answer any questions members may have regarding the financial affairs of the AMS.

*Respectfully Submitted,
Jane Hawkins
Treasurer*