
From the AMS Secretary

Report of the Treasurer (2012)

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.

When reviewing the financial results of the AMS, it is important to note that the financial support for its membership and professional programs is derived from multiple sources. First, a board-designated endowment fund named the Operations Support Fund (OSF) provided \$1,744,100 in operating support in 2012 to the membership and professional programs. The OSF is a fund that has grown throughout the years through net income from the operations of the AMS as well as investment gains. In addition, the membership and professional programs are supported through dues income and contributions. Finally, the margin from the publication programs supports these membership and professional services as well. Without the margin from publications and the OSF, dues and contributions alone would not provide enough to support the professional programs, such as Mathjobs, scholarships, fellowships, and the *Notices*.

The Society experienced a gain of \$2.5 million in net operating income in 2012. Publishing revenues, operating investment income, and lower-than-budgeted personnel costs and equipment costs were the major contributors to the bottom line. The Society's unrestricted net assets increased by \$11.9 million primarily due to a 15.5 percent

return on the long-term investments and the net operating income.

Market and Economic Conditions Affecting the Society

In 2012, changes in the publishing industry as well as other market conditions compelled the Society to review personnel costs. For example, the continuing shift from printed to electronic publication formats decreased the need for printing and distribution services within the Society. This and other market factors influenced management in making the decision to eliminate eight full-time equivalent positions in 2012. Although this change did not greatly change personnel costs in 2012, it is expected to reduce costs in 2013.

Investment markets fared well in 2012, recovering from sluggish returns in 2011. The S&P 500 stock index experienced a 16 percent return. The Society's long-term investments benefitted from the bull market, experiencing a 15.5 percent return overall. The Society's investments in foreign equity index funds experienced an 18.6 percent return, and the Society's investments in the bond market fared well with a 10.4 percent gain. The Society continues to experience low returns on short-term investments, as returns on Certificates of Deposits, money market funds, and other short-term investments remain close to 0 percent. However, intermediate-term investments had a 6.5 percent return, contributing \$460,000 to the Society net operating income for the year.

Although the Society experienced excellent returns on its endowment investments in 2012, longer-term investment results have not been high enough to sustain a 5 percent spending rate on endowment funds. At the end of 2012, the Board of Trustees decided to decrease the spending rate to 4 percent, so that endowment funds could recover purchasing power in the long-term. In the short-term, a board designated fund, the Endowment Income Stabilization Fund (EISF) was established to supplement endowment income in years when spendable income falls short of program needs.

Membership numbers at the American Mathematical Society continued to decline in 2012. This is a trend many

membership associations are experiencing across the United States. The Society's membership decreased by 4.5 percent in 2012. Within the international institutional membership category, membership increased slightly.

The majority of the Society's publishing revenues are derived from international sales, with a heavy emphasis on European sales. MathSciNet's European sales are primarily made to consortia, and many of the consortia, consisting of various European universities, struggled to maintain their subscriptions in 2012. However, despite Europe's economic struggles, most consortia found the means to continue to subscribe.

Inflation in 2012, as measured by the Consumer Price Index, increased 1.7 percent in 2012. In contrast, the Society's expenses rose 4.3 percent. The total cost for staff salaries rose by 3.5 percent, because positions that had been vacant in 2011 were filled by new employees in 2012, and there were also modest salary raises. Other expense increases and decreases are discussed later in this financial review.

Journal subscriptions to all AMS journals declined in 2012. In addition, the number of books published in 2012 decreased from 95 in 2011 to 78. These factors place increasing pressure on the Society to add new products and respond to new trends in the publishing industry to shore up declining sales. In response to these pressures, the Society has produced new electronic products. In 2012, the new electronic version of the Society's Contemporary Mathematics books series, eCONM, was introduced to great success, creating approximately \$460,000 in new book program sales. Despite these increased sales, when adjusted for inflation, publishing sales trends remain flat as shown in Table 1 below.

2012 Balance Sheets

The Society's financial statements, including balance sheets and statements of activities are shown at the end of this financial review. At the end of 2012, the balance sheets of the AMS indicated that the organization was financially healthy. Overall, assets increased \$13.8 million.

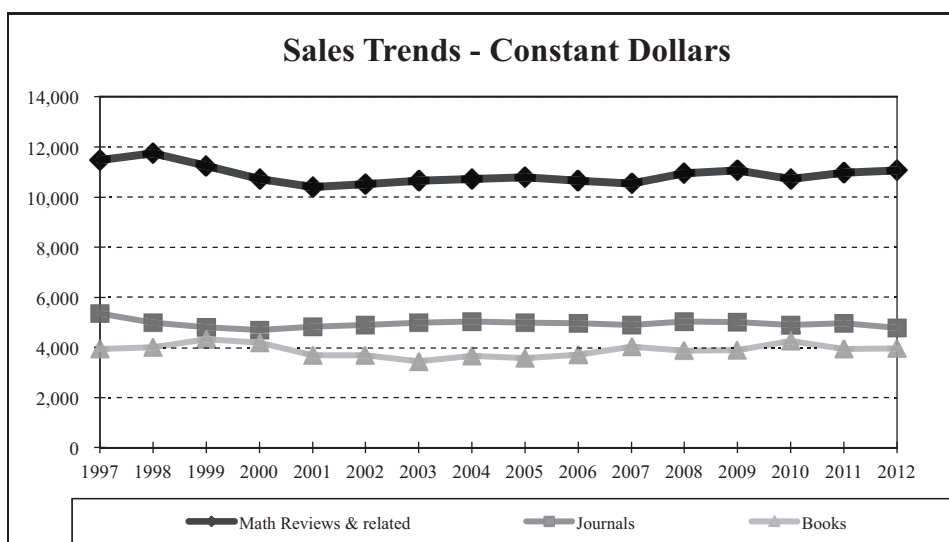


Table 1

The long-term investments increased by approximately \$12,500,000 due to a 15.5 percent return on these investments for 2012. Short-term investments as reported on the balance sheets grew by 13.5 percent during 2012, due to the transfer of approximately \$829,000 in cash to money market funds and \$460,000 in appreciation from interests and dividends. Certificates of Deposits (CDs) decreased by \$544,000, because interest on CDs is at historically low levels, and as CDs came due during the year, new CDs were not purchased.

Fixed assets and accounts receivable also increased significantly during 2012. Land, buildings and equipment assets increased by approximately \$538,000. There was \$1.15 million in additions to these assets, of which, \$808,000 was related to the new association management software, Personify. This was partially offset by approximately \$612,000 in current year depreciation expense. Customer receivables increased by approximately \$367,000 due to an increase in purchases of the new eCONM product at the end of the year as well as an increase in other receivables.

In 2012, the Society's liabilities increased by \$717,420. The biggest increase to the liabilities was an increase to the postretirement benefit obligation of \$662,000, because the discount rate used to actuarially determine the benefit obligation decreased from 4.3 percent in 2011 to 3.8 percent in 2012.

2012 Statements of Activities

The Society's 2012 net operating income of \$2.5 million is due to an unexpected 3 percent increase in revenues over 2011, and due to a lower-than-expected increase in expenses of 4.3 percent. Overall, the Society has an \$11.9 million increase in unrestricted net assets. This large increase is due mainly to the operating income and the income from unrestricted long-term investments of \$9.2 million. In addition, there is a one-time gain associated with capitalizing the expense of labor used to

develop the association management software, Personify. This capitalization of \$667,014 of labor expense is required by accounting standards, and the asset will be depreciated over a number of years. It is shown below the operating income line so that it does not create fluctuations in operating income from one year to the next. Offsetting these gains is a \$458,000 charge related to the post-retirement benefit plan. This large expense is being recognized due to an actuarial change in the discount rate used to calculate the present value of future benefit payments.

Major Expense Categories (in thousands of dollars)

	2011 Actual		2012 Actual		Variance 11 v. 12	
					inc(dec)	% chg
Personnel Costs	\$17,345	70.6%	\$18,107	70.6%	\$762	4%
Building and Equipment Related	1,682	6.8%	1,599	6.2%	(83)	-5%
Postage	777	3.2%	656	2.6%	(121)	-16%
Outside Print'g, Bind'g and Mail'g	587	2.4%	560	2.2%	(27)	-5%
Printing paper	378	1.5%	335	1.3%	(43)	-11%
Travel - Staff, Volunteers and Grants	681	2.8%	636	2.5%	(45)	-7%
All Other Expenses	3,132	12.7%	3,750	14.6%	618	20%
	<u>\$24,582</u>	<u>100%</u>	<u>\$25,643</u>	<u>100%</u>	<u>\$ 1,061</u>	<u>4%</u>

Table 2

Revenues were \$921,000 over budget, primarily due to publishing revenues and other miscellaneous revenues, such as temporary investment income, which was \$460,000 in 2012. Publishing revenues exceeded budget by \$466,000, because of MathSciNet and data access fee revenues as well as the revenues from the introduction of the new eCONM product. MathSciNet and data access fees increased due to price increases and new subscribers that partially offset the expected subscriber attrition. Other revenue categories that were over budget were dues (+\$87,954) and meetings (+\$153,055). Dues were over budget, because the attrition in dues-paying members was not as high as expected and the number of international institutional members increased slightly. Meetings revenues were over budget, because the Boston meeting in 2012 was very successful. The attendance at the Boston meeting was 6,608 participants, exceeding expectations by 20 percent.

Table 2 provides a view of the Society's major expense categories in 2012 as compared to 2011. The Society's largest expense is personnel costs. As discussed previously, salaries increased by 3.5 percent partially due to modest raises, and to personnel that were hired in 2011 and 2012 to fill positions that were vacant for at least part of the year in 2011. In a time when benefit costs are rising rapidly, the Society managed to keep benefit increases low at 1.6 percent. This is attributable to actual decreases in some health insurance premiums and a decrease in the utilization of a plan that covers the high deductible on one of the Society health insurance plans. Other benefit plans experienced modest cost increases. The net periodic benefit expense for the post-retirement benefit plan increased by 45 percent due to actuarial changes in the way the expense is calculated.

There was a 5 percent decrease in building and equipment-related costs in 2012. The costs to maintain the Society's buildings have dropped 14 percent since 2008, primarily due to projects that have improved the buildings' energy-efficiency. Costs associated with printing decreased by a combined 16 percent for outside printing, binding, mailing, and printing paper primarily due to the drop in the number of books published from 95 in 2011 to 78 in 2012.

The expense category, all other expenses, increased 20 percent over 2011. A decrease in book inventory in 2012 is partly responsible for this 20 percent change. Inventory increased in 2011, because 95 books were published. In 2012, only 78 books were published and the inventory used was greater than the inventory created, resulting in a large increase in inventory expense as compared to 2011. Another accounting adjustment related to prepaid expenses for work in progress occurred in 2012, also contributing to the 20 percent increase in all other expenses.

Another large increase from 2011 to 2012 in the "all other expense" category in 2012 was in awards, prizes, and grants attributable to increased awards to university departments for the Simons travel grant and awards for the Math in Moscow program. These additional awards amounted to \$70,000. In addition, space charges and conference fees were about \$90,000 higher, because the Boston meeting was held in a space that was more expensive than the prior year's venue.

2012 Statement of Invested Funds

The Statement of Invested Funds of the Society's endowments and quasi-endowments contains two new funds as of 2012. These board-designated funds are the Endowment Income Stabilization Fund (EISF) and the Backfile Digitization Fund. The EISF was established to financially support true endowment funds that fail to produce enough income to cover prizes, awards, lectures, and scholarships. The Backfile Digitization Fund was established to cover the costs of digitizing the Society's backfile of books. Digitized books will be used to create new electronic products.

Summary Financial Information

The following 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. Any member may contact the AMS to request the full audited statements of the Society.

American Mathematical Society—Balance Sheets

	<i>December 31,</i>	
	<i>2012</i>	<i>2011</i>
Assets		
Cash and cash equivalents	\$ 1,094,226	\$ 1,753,474
Certificates of deposit	1,520,000	2,064,000
Short-term investments	13,255,356	11,675,319
Accounts receivable, net of allowances of \$338,805 and \$344,066 in 2012 and 2011, respectively	912,349	470,880
Deferred prepublication costs	728,923	765,162
Completed books	1,384,432	1,453,931
Prepaid expenses and deposits	1,614,823	1,677,164
Land, buildings and equipment, net	5,367,801	4,828,711
Long-term investments	<u>93,748,205</u>	<u>81,186,072</u>
Total assets	<u>\$ 119,626,115</u>	<u>\$ 105,874,713</u>
Liabilities		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,260,488	\$ 3,128,240
Accrued study leave pay	803,202	741,400
Deferred revenue	12,376,468	12,515,534
Postretirement benefit obligation	<u>6,656,993</u>	<u>5,994,557</u>
Total liabilities	<u>23,097,151</u>	<u>22,379,731</u>
Net assets:		
Unrestricted:		
Undesignated	2,261,743	1,739,112
Designated	<u>82,388,405</u>	<u>71,018,071</u>
	84,650,148	72,757,183
Temporarily restricted	6,782,825	5,753,285
Permanently restricted	<u>5,095,991</u>	<u>4,984,514</u>
Total net assets	<u>96,528,964</u>	<u>83,494,982</u>
Total liabilities and net assets	<u>\$ 119,626,115</u>	<u>\$ 105,874,713</u>

American Mathematical Society—Statements of Activities

	<i>Years Ended December 31,</i>	
	<i>2012</i>	<i>2011</i>
Changes in unrestricted net assets:		
Operating revenue, including net assets released from restrictions:		
Mathematical Reviews	\$ 11,087,637	\$ 10,735,499
Journals	4,829,242	4,822,189
Books	4,023,584	3,982,668
Dues, services, and outreach	3,696,895	3,688,175
Investment returns appropriated for spending	1,772,400	1,674,100
Other publications-related revenue	419,591	450,928
Grants, prizes and awards	1,171,264	1,083,719
Meetings	1,229,138	1,034,109

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American Mathematical Society—Statements of Activities cont'd.

	<i>Years Ended December 31,</i>	
	2012	2011
Changes in unrestricted net assets:		
Short-term investment income	460,062	270,132
Other	54,202	47,853
	<u>28,744,015</u>	<u>27,789,372</u>
Total operating revenue		
Operating expenses:		
Mathematical Reviews	7,055,203	6,807,854
Journals	1,426,643	1,421,642
Books	3,421,212	3,395,094
Publications indirect	1,138,659	1,062,353
Customer services, warehousing and distribution	1,227,921	1,313,110
Other publications-related expense	204,347	192,610
Membership, services and outreach	3,727,374	3,842,817
Grants, prizes and awards	1,329,423	1,300,955
Meetings	1,130,959	950,212
Governance	472,553	432,498
Member and professional services indirect	704,489	714,527
General and administrative	4,364,657	3,593,104
Other	83,619	60,302
	<u>26,287,059</u>	<u>25,087,078</u>
Total operating expenses		
Excess of operating revenue over operating expenses	2,456,956	2,702,294
Investment returns less investment returns available for spending	9,227,195	(1,874,771)
Effect of capitalization of labor for in house software development	667,014	
Postretirement benefit-related changes other than net periodic cost	(458,200)	(1,102,350)
	<u>11,892,965</u>	<u>(274,827)</u>
Change in unrestricted net assets		
Changes in temporarily restricted net assets:		
Contributions	\$ 79,860	\$ 172,731
Investment returns less investment returns appropriated for spending	1,562,537	(19,603)
Net assets released from restrictions	(612,858)	(607,763)
	<u>1,029,539</u>	<u>(454,635)</u>
Change in temporarily restricted net assets		
Change in permanently restricted net assets:		
Contributions	111,477	117,390
	<u>111,477</u>	<u>117,390</u>
Change in permanently restricted net assets		
Change in net assets	13,033,981	(612,072)
Net assets, beginning of year	83,494,982	84,107,054
Net assets, end of year	\$ 96,528,963	\$ 83,494,982

**American Mathematical Society—Statements of Invested Funds
As of December 31, 2012 and 2011**

Income Restricted:		12/31/2012	12/31/2011
	Original Gift	Total Value	Total Value
Research Prize Funds			
Steele	145,009	613,521	552,719
Birkhoff	50,112	77,061	69,424
Veblen	29,773	40,875	36,824
Wiener	29,773	40,875	36,824
Bocher	32,557	41,524	37,409
Conant	9,477	40,917	36,862
Cole Number Theory	33,063	42,320	38,136
Cole Algeria	33,063	42,320	38,136
Satter	43,212	61,151	55,091
Doob Prize	45,000	50,585	45,572
Robbins Prize	41,250	47,073	42,408
Eisenbud Prize	40,000	44,086	40,000
Other Prize and Award Funds			
Morgan	25,000	44,527	40,114
Albert Whiteman	93,618	106,442	95,893
Arnold Ross Lectures	70,000	79,255	71,401
Trjitzinsky	196,030	493,285	444,400
C.V. Newsom	100,000	229,548	206,799
Centennial	56,100	117,697	106,033
Menger	97,250	111,526	100,473
Ky Fan (China)	366,757	394,304	366,757
Gross	20,000	21,100	10,000
Epsilon	1,753,737	1,989,005	1,698,148
Einstein Lecture	100,000	114,148	102,836
Exemplary Program	100,000	113,450	102,207
Mathematical Art	<u>20,000</u>	<u>22,690</u>	<u>20,441</u>
Total (Income Restricted)	3,530,781	4,979,285	4,394,907
Income Unrestricted:			
Endowment	100,310	754,974	681,420
Morita	100,000	135,667	122,449
Henderson	548,223	4,045,510	3,651,371
Schoenfeld/Mitchell	573,447	767,010	692,284
Laha	189,309	257,687	232,581
Ritt	51,347	241,025	217,543
Moore	2,575	22,720	<u>20,506</u>
Total (Income Unrestricted)	<u>1,565,211</u>	<u>6,224,593</u>	<u>5,618,155</u>
Total Endowment Funds	<u>5,095,992</u>	<u>11,203,878</u>	<u>10,013,061</u>
Quasi-Endowment Funds:			
Journal Archive Fund		1,113,204	920,784
Young Scholars		680,247	614,004
Economic Stabilization Fund		25,888,951	24,430,891
Backfile Digitization Fund		400,000	
Endowment Income Stabilization Fund (EISF)		500,000	
Operations Support Fund (OSF)		<u>53,806,003</u>	<u>45,052,391</u>
		82,388,405	71,018,071
Total Invested Funds		<u>93,592,283</u>	<u>81,031,132</u>