

**THE SOCIETY FOR THE STUDY
OF SOCIAL PROBLEMS, INC.**

Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

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INDEPENDENT AUDITORS' REPORT

**The Board of Directors of
The Society for the Study of Social Problems, Inc.:**

We have audited the accompanying statements of financial position of The Society for the Study of Social Problems, Inc. as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Society for the Study of Social Problems, Inc. as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan & Cain P.C.

**Knoxville, Tennessee
April 8, 2005**

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THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Statements of Financial Position

December 31, 2004 and 2003

	<u>Assets</u>	
	<u>2004</u>	<u>2003</u>
Cash	\$ 30,051	\$ 65,750
Investments	529,052	434,158
Accounts receivable	135,076	130,681
Prepaid expenses	55,371	61,972
Equipment, net	<u>7,054</u>	<u>8,162</u>
Total assets	<u>\$ 756,604</u>	<u>\$ 700,723</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable	\$ 55,988	\$ 46,174
Deferred revenue	<u>222,614</u>	<u>217,632</u>
Total liabilities	<u>278,602</u>	<u>263,806</u>
Net assets:		
Unrestricted	450,502	410,517
Permanently restricted	<u>27,500</u>	<u>26,400</u>
Total net assets	<u>478,002</u>	<u>436,917</u>
Total liabilities and net assets	<u>\$ 756,604</u>	<u>\$ 700,723</u>

See accompanying notes to the financial statements.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Statements of Activities

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets:		
Unrestricted revenues, gains, and other support:		
Contributions	\$ 7,048	\$ 3,901
Annual meeting	57,002	50,754
Journals and publications	282,688	271,457
Membership dues	103,720	94,882
Dividends and interest income	5,886	5,935
Investment income	43,398	59,852
Miscellaneous income	<u>393</u>	<u>284</u>
Total unrestricted revenues, gains, and other support	<u>500,135</u>	<u>487,065</u>
Expenses:		
Executive office	120,257	115,671
Annual meeting	65,138	58,270
Journals and publications	223,685	207,493
Board governance	5,002	5,562
Committees	24,769	18,396
Awards, scholarships, and related expenses	<u>21,299</u>	<u>21,431</u>
Total expenses	<u>460,150</u>	<u>426,823</u>
Increase in unrestricted net assets	<u>39,985</u>	<u>60,242</u>
Changes in permanently restricted net assets:		
Contributions - Life membership program	<u>1,100</u>	<u>2,800</u>
Increase in net assets	41,085	63,042
Net assets at beginning of year	<u>436,917</u>	<u>373,875</u>
Net assets at end of year	<u><u>\$ 478,002</u></u>	<u><u>\$ 436,917</u></u>

See accompanying notes to the financial statements.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Statements of Cash Flows

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase in net assets	\$ 41,085	\$ 63,042
Adjustments to reconcile changes in net assets to cash flows provided by operating activities:		
Depreciation	4,551	4,577
Gain on disposal of equipment	(100)	(100)
Investment income	(43,398)	(59,852)
Permanently restricted contributions received	(1,100)	(2,800)
Changes in operating assets and liabilities:		
Accounts receivable	(4,395)	11,235
Prepaid expenses	6,601	2,587
Accounts payable	9,814	12,387
Deferred revenue	4,982	(3,430)
Net cash provided by operating activities	<u>18,040</u>	<u>27,646</u>
Cash flows from investing activities:		
Proceeds from disposal of equipment	100	100
Purchases of equipment	(3,443)	(9,800)
Proceeds from sale of investments	1,000	101,000
Purchases of investments	(52,496)	(75,858)
Net cash provided (used) by investing activities	<u>(54,839)</u>	<u>15,442</u>
Cash flows from financing activities:		
Collection of restricted contributions for life membership	<u>1,100</u>	<u>2,800</u>
Net cash provided by financing activities	<u>1,100</u>	<u>2,800</u>
Increase (decrease) in cash and cash equivalents	(35,699)	45,888
Cash at beginning of year	<u>65,750</u>	<u>19,862</u>
Cash at end of year	<u>\$ 30,051</u>	<u>\$ 65,750</u>

See accompanying notes to the financial statements.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Notes to the Financial Statements

December 31, 2004 and 2003

(1) **Nature of operations**

Founded in 1951, The Society for the Study of Social Problems, Inc. (the "Society") promotes research on and serious examination of problems of social life. The Society works to solve these problems and develop social policy based on knowledge. The Society is primarily supported through membership dues and subscriptions for its journal and publications.

(2) **Summary of significant accounting policies**

The financial statements of the Society are presented on the accrual basis. The significant accounting policies followed are described below.

(a) **Basis of presentation**

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Society and/or the passage of time. The Society does not currently have any temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classifications. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Society reports the support as unrestricted.

(b) **Investments**

Investments consist primarily of mutual funds with readily determinable fair values and certificates of deposit, which are shown at their fair values in the statements of financial position. Investment income consists of interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income is reported in the period earned as an increase in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Notes to the Financial Statements

December 31, 2004 and 2003

(c) Accounts receivable

Accounts receivable relate primarily to amounts due from the University of California Press ("UC Press") and are uncollateralized obligations due under the terms as set forth in the UC Press agreement (Note 6), in which UC Press collects the subscription fees and remits them to the Society approximately two months from the receipt of the subscription fees. Late or interest charges on delinquent accounts are not recorded until collected. The carrying amount of accounts receivable is reduced by a valuation allowance, if necessary, which reflects management's best estimate of the amounts that will not be collected. It is the Society's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management has not recorded an allowance for doubtful accounts as of December 31, 2004 and 2003.

(d) Equipment

Equipment is stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method, generally three to five years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When equipment is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(e) Deferred revenue

Subscription and membership dues received in advance are recorded as deferred revenues and recognized as income when earned.

(f) Income taxes

The Society is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

(g) Revenue recognition

Revenues for journals and publications and membership dues are recognized ratably throughout the subscription or membership period. Other revenues are recognized as earned.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Notes to the Financial Statements

December 31, 2004 and 2003

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Concentrations

The Society occasionally maintains cash on deposit at banks in excess of federally insured amounts. The Society has not experienced any losses in such accounts and management believes the Society is not exposed to any significant credit risk related to cash.

(4) Investments

A summary of investments, stated at fair value, as of December 31, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Mutual funds	\$ 429,052	\$ 384,158
Certificates of deposit	<u>100,000</u>	<u>50,000</u>
	<u>\$ 529,052</u>	<u>\$ 434,158</u>

(5) Equipment

A summary of equipment as of December 31, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Computer equipment	\$ 17,894	\$ 16,258
Accumulated depreciation	<u>(10,840)</u>	<u>(8,096)</u>
	<u>\$ 7,054</u>	<u>\$ 8,162</u>

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Notes to the Financial Statements

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(6) Contractual agreements

The Society has entered into an agreement with the University of Tennessee, Knoxville, Department of Sociology of the College of Arts and Sciences (the "University"), whereby the Society agrees to serve as an intellectual and professional resource in exchange for access to the University's resources, free office space, and overhead expenses for the Society's executive office. This agreement is renewable on an annual basis each January. The current agreement expires on December 31, 2005 and is expected to be renewed when due.

The Society uses the University's purchasing and disbursing services. Unreimbursed expenses owed to the University from the Society were \$22,239 and \$12,517 at December 31, 2004 and 2003, respectively. These amounts are included in accounts payable.

The Society has entered into an agreement with UC Press. Under this agreement, UC Press serves as the publisher of *Social Problems*, a quarterly journal sponsored by the Society. The Society currently utilizes UC Press as the sole publisher of *Social Problems*. Management believes that, if necessary, an alternate publisher could be obtained. However, unexpected events could cause a delay in publication, and accordingly, a possible loss of revenues.

Subscriptions to *Social Problems* are charged on an annual basis. *Social Problems* is distributed to library subscribers and Society members. Library subscriptions are administered and collected by UC Press and remitted to the Society, less the agreed upon UC Press fee, approximately two months after receipt. Accordingly, accounts receivable from UC Press relate to subscriptions collected before year end, which will not be remitted to the Society until the following year. Subscription revenues collected in the current year for the following year are appropriately deferred and recognized as earned. Society memberships, which include a one year subscription to *Social Problems*, are remitted directly to the Society. The Society is billed for the direct operating expenses incurred in publishing the journals for members. These expenses for the final publication of the current year are not paid until the following year, and thus are included in accounts payable at December 31, 2004 and 2003.

The current UC Press agreement expires on December 31, 2009. This agreement will be automatically extended for subsequent periods of five years each unless request for revisions or notice of termination is submitted in writing by either party to the other not later than the first of July, eighteen months preceding the date of expiration.

(7) Board designated assets

The Erwin O. Smigel Fund was established in 1976 to expand employment opportunities in the field of sociology. The designated funds and future contributions will be used to develop information for unemployed and underemployed colleagues in their efforts to find work and to enable such colleagues to attend the annual meeting.

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The Lee Founders Award Fund was established in 1981. This annual award recognizes significant achievements that consistently promote the ideals of the founders of the Society and especially the humanistic tradition, as exemplified in the contributions of Alfred McClung Lee and Elizabeth Briant Lee. The designated funds and future contributions will be used to purchase a plaque for the winner.

The Social Action Award Fund was established in 1990. This award is given annually to an organization in the area where the Society holds their annual meeting. The designated funds and future contributions will be used to pay an award to the organization selected that has a history of challenging social inequalities, promoting social change, or working toward the empowerment of marginalized people.

The Lee Student Support Fund (formerly the Alfred McClung Lee Support Fund) was established in 1992. The designated funds and future contributions will be used to help defray the cost of conference participation for student members.

The Lee Scholar-Activist Support Fund (formerly the Scholar-Activist Support Fund) was established in 1992. The designated funds and future contributions will be used to emphasize support for scholars in countries whose economies are weak and activists who have limited funds to attend the Society's annual meetings.

The C. Wright Mills Award Fund was established in 1964. This annual award is given to the author of the book published in the past year that best exemplifies outstanding social science research and an understanding of the individual and society in the tradition of the distinguished sociologist, C. Wright Mills. The designated funds and future contributions will be used to pay a stipend to the author.

The Racial/Ethnic Minority Graduate Scholarship Fund (formerly the Minority Graduate Scholarship Fund) was established in 1995. This annual fund is given for support of graduate study and commitment to a career of scholar activism. The designated funds and future contributions will be used to provide scholarships to the winners.

The respective board designated assets as of December 31, 2004 are as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Erwin O. Smigel Fund	\$ 2,858	\$ -	\$ 2,858
Lee Founders Award Fund	8,494	-	8,494
Social Action Award Fund	-	10,905	10,905
Lee Student Support Fund	344	-	344
Lee Scholar-Activist Support Fund	451	-	451
C. Wright Mills Award Fund	2,749	-	2,749
Racial/Ethnic Minority Graduate Scholarship Fund	<u>-</u>	<u>288,476</u>	<u>288,476</u>
	<u>\$ 14,896</u>	<u>\$ 299,381</u>	<u>\$ 314,277</u>

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The respective board designated assets as of December 31, 2003 are as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Erwin O. Smigel Fund	\$ 2,810	\$ -	\$ 2,810
Lee Founders Award Fund	6,782	-	6,782
Social Action Award Fund	-	10,337	10,337
Lee Student Support Fund	166	-	166
Lee Scholar-Activist Support Fund	238	-	238
C. Wright Mills Award Fund	2,436	-	2,436
Racial/Ethnic Minority Graduate Scholarship Fund	<u>-</u>	<u>255,962</u>	<u>255,962</u>
	<u>\$ 12,432</u>	<u>\$ 266,299</u>	<u>\$ 278,731</u>

All of the above board designated amounts are included in unrestricted net assets on the statements of financial position for each respective year.

(8) Permanently restricted net assets

In 2000, the Society established the Life Membership Fund. This fund allows members the opportunity to pay \$1,200 for a life membership. One hundred dollars of the \$1,200 is recorded as a payment of dues in the year that the individual becomes a life member. The remaining \$1,100 is placed in an interest and/or dividend bearing account and is not refundable or transferable to another person. The yearly dues of life members will be paid from the account's earnings.

Permanently restricted net assets at December 31, 2004 and 2003 consist of cumulative contributions to the Life Membership Fund of \$27,500 and \$26,400, respectively. The investments held in the Life Membership Fund have a fair market value of \$30,521 and \$26,193 as of December 31, 2004 and 2003, respectively, which is net of an unrealized gain (loss) in fair market value of \$3,021 and \$(207), respectively, for the years then ended. The unrealized gain (loss) has been recorded in the statement of activities in unrestricted revenues, gains and other support as a portion of investment income.

Interest and/or dividend income from the Life Membership Fund for the years ended December 31, 2004 and 2003 was \$281 and \$255, respectively, and is included in unrestricted revenue since the Society's policy is to record income as unrestricted if any restrictions related to it are met in the same year as the income is earned.