M E M O R A N D U M

TO: SSSP Board of Directors
FROM: Susan M. Carlson, Treasurer
DATE: June 21, 2006
RE: Financial Condition of the Society for the Study of Social Problems

Section 8 of the SSSP Bylaws states that, "The Treasurer shall oversee the funds of the Society, subject to expenditures, at the instruction of the Board of Directors." Accordingly, it is customary for the Treasurer to provide an annual report to the Board of Directors which gives an overview of the financial condition of the Society, reviews the results of the annual audit, and offers comments concerning any issues which affect the future financial well-being of the Society.

Financial Condition of the Society

The financial condition of the Society continues to be good. As of December 31, 2005, the Society had total net assets of $399,638. These assets represent about 80 percent of the Society's annual operating costs, and provide a substantial cushion when SSSP has to weather any short-term financial crises as it did last year.

During fiscal year 2005, the Society experienced a sizable budget deficit. As a result, the Society's net assets decreased by $78,364. This deficit mostly was due to two unique, one-time events. First, the Society had to pay the Stanford Court Hotel in San Francisco a penalty of $26,235 for canceling its contract when the ASA moved the site of its 2005 annual meeting from San Francisco to Montreal. Second, the auditors found a reporting error dating back to 1998, when, due to a change in our contract with University of California Press, the Society paid only ten months of press fees, with two months carried forward to FY 1999, which amounted to $40,355. This amount had been carried forward every year since, and reflected assets that we did not in fact own. The auditors performed a one-time adjustment to correct for the error. They reported that this resulted in no true net cash expense or expenditure, but was done only to correct the reporting error. The remaining $11,774 shortfall resulted from lower than expected revenue from the journal (gross subscriptions and reprint permission/subsidiary rights). The budget shortfall was covered through redemption of shares from the Domini Social Equity Fund.

Income and expenses in other budget categories were as expected. One positive trend is in membership dues. In 2004, I reported a large decrease in membership dues revenue between 2002 and 2003. Between 2003 and 2004, membership dues income rebounded, and this trend has continued during the 2004-2005 period. Last year the income from membership dues increased by about $2,400 over the previous year. As of May 31st of this year, membership dues income is over $3,000 ahead of last year.

The Society's investments in socially responsible mutual funds (Pax World Balanced Fund and the Domini Social Equity Fund) performed well during the year compared with market indices. The Pax

World Fund performed better than both the S&P 500 and NASDAQ indices, particularly the latter. The Domini Social Equity Fund's performance was below that of the S&P 500 for most of the period, but substantially better than the NASDAQ index.

At our May meeting, the Budget, Finance, and Audit Committee conducted an in-depth review of the performance of the Pax and Domini mutual funds. We examined five-year and longer-term comparisons with market indicators. Over the five-year period, the Pax Fund consistently performed better than the S&P 500, while the Domini Fund tracked closely with this index, which is expected due to the fact that the Domini Fund invests in a socially-responsible set of companies derived from the S&P 500. Over the long run, the Domini Fund, as a growth fund, outperformed the Pax Fund. However, the Domini Fund's net asset value exhibits more volatility.

The Domini Social Equity Fund is an excellent choice for long-term investments. However, the part of the Society's reserves invested in the Domini Fund are the ones used to pay the bills when the Society experiences a budget shortfall, as it did last year. Consequently, the BFA Committee decided to move these funds, as well as those from the Gittler bequest and Lee Founders account, to a more balanced socially responsible mutual fund–the Parnassus Equity Income Fund. The fund has a solid performance record, and, like the Pax Fund, its short-term performance meets or exceeds market indices. Like the Pax World Balanced Fund, it includes capital preservation as one of its objectives, yet fund managers use a different investment strategy than the Pax Fund. Investing the Society's reserves in two socially responsible mutual funds meets the stipulation in the board-approved investment policy that these investments be diversified.

Review of the Annual Audit

Lattimore Black Morgan & Cain conducted the annual audit of the Society's financial statements. Their representatives, Jim McCollum and Bill Kelso, reviewed the findings of the audit and discussed several issues with the members of the BFA Committee at its May meeting in Knoxville. The results of the audit were clean with no unusual findings. The auditors reported on two issues raised in 2005–designated contributions and restricted net assets; long-term deposits; and segregation of duties. They also explained the reporting error with respect to the recording of the University of California press fees and how it had been corrected. Finally, they discussed the handling of prepaid memberships.

Other Issues

While the overall financial condition of the Society is good, there is one additional issue that deserves consideration–the need for increased revenue. There are three reasons why the Society needs to increase its income.

First, over the past several years, the Society's cash income (i.e., income excluding paper gains on investments) has either been below expenses, or only marginally more than expenses. Last year, the Society experienced nearly an $80,000 budget deficit. However, nearly $15,000 of the Society's revenue was from unrealized paper gains in the value of its investments–not cash that could be used to pay the bills. In 2004, the Society spent $3,413 more than it received in cash revenue. In 2003, income exceeded expenses by only $390, while in 2002 expenses exceeded cash revenue by $343. In the future, I believe it is important for the Society to generate adequate cash income to cover its annual bills without having to dip into its reserves as it had to this past year.

Second, as noted in the Permanent Organization and Strategic Planning Committee report, it is likely that Tom will be stepping down as Executive Officer in August 2009. It is likely that the new Executive Officer will be at an institution other than the University of Tennessee, while the Administrative Officer will remain in Knoxville. Should this scenario hold, the Society will be faced with increased operating costs. The University of Tennessee has been a very generous host, and it is unlikely that the Society will be able to negotiate a contract as favorable as the present one elsewhere. In addition, there will be a need for two assistants, one working with the Administrative Officer in Knoxville, and the other employed at the institution of the Executive Officer. While it is impossible to predict what the exact arrangements will look like, nor the full financial impact of the transition, it is prudent to plan ahead by increasing revenue now.

Third, the Board has designated the income from one of its Pax Fund investments to pay for the minority scholarship. This investment has grown in value to over $300,000. On average, over the long-term, the Pax Fund is expected to yield a return of almost ten percent per year, and should eventually allow the Society to award two scholarships per year. It is important to preserve the value of this investment. This past year, the Society had to redeem all but about $12,000 of its investment in the Domini Fund. Should the Society continue to have annual budget deficits, it will have to liquidate these remaining funds, the certificates of deposit with community development financial institutions, and, finally, the minority scholarship Pax Fund investment. Increasing revenues now will reduce the likelihood of such an undesirable situation.

The Society's revenues come from two primary sources. Income from the journal accounts for 61.6% of the Society's gross revenues, and membership dues account for 22.6%. Accordingly, I have proposed a two-pronged strategy for increasing annual revenue to the BFA Committee.

First, I propose that the Society take a more aggressive stance in setting the institutional subscription price for *Social Problems*. The BFA Committee reviewed prices of comparable sociology and social science journals–those owned by professional organizations and published by non-profit presses. At $144 ($156) next year, *Social Problems* was the lowest priced. The Society publishes an excellent, high-quality journal, and it is important not to undervalue the scholarship of its authors by setting the subscription price too low. David Rudy will present the BFA Committee's recommendation for the subscription price increase for 2007-2008 to the Board. It is my hope that over the next several years, the subscription price for *Social Problems* more in line with similar sociology journals.

Second, membership dues have not been increased since 1999. Since then, the costs of running the Society have increased, and the value of the membership has increased without a comparable increase in the cost of membership. The BFA Committee has reviewed the dues structure, and David Rudy will present the committee's recommendation to the Board.