

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

Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
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. (the "Society") as of December 31, 2011 and 2010, 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, 2011 and 2010, 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, PC

Knoxville, Tennessee
May 25, 2012

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Statements of Financial Position

December 31, 2011 and 2010

<u>Assets</u>		
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 112,050	\$ 82,331
Investments	498,310	538,065
Accounts receivable	173,787	59,850
Prepaid expenses	1,415	1,537
Equipment, net	11,660	11,832
Long-term deposit	<u>10,000</u>	<u>10,000</u>
Total assets	<u>\$ 807,222</u>	<u>\$ 703,615</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 69,231	\$ 74,670
Accrued expenses	8,651	-
Deferred revenue	<u>264,037</u>	<u>188,171</u>
Total liabilities	<u>341,919</u>	<u>262,841</u>
 Net assets:		
Unrestricted	368,701	348,931
Temporarily restricted	2,320	2,363
Permanently restricted	<u>94,282</u>	<u>89,480</u>
Total net assets	<u>465,303</u>	<u>440,774</u>
Total liabilities and net assets	<u>\$ 807,222</u>	<u>\$ 703,615</u>

See accompanying notes to the financial statements.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Statements of Activities

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets:		
Unrestricted revenues, gains and other support:		
Contributions	\$ 4,098	\$ 5,412
Annual meeting	97,428	65,830
Journals and publications	387,558	361,152
Membership dues	133,319	129,077
Dividends and interest income	7,243	7,739
Net unrealized gain (loss) on investments	(14,531)	36,474
Loss on disposal of equipment	(135)	(499)
Other income	50	-
Net assets released from restrictions	<u>690</u>	<u>690</u>
Total unrestricted revenues, gains and other support	<u>615,720</u>	<u>605,875</u>
Expenses:		
Executive officer and administrative office	217,081	198,888
Annual meeting	94,805	73,528
Journals and publications	224,017	224,010
Board governance	5,228	7,032
Committees	28,093	25,467
Awards, scholarships and related expenses	<u>26,726</u>	<u>24,574</u>
Total expenses	<u>595,950</u>	<u>553,499</u>
Increase in unrestricted net assets	<u>19,770</u>	<u>52,376</u>
Changes in temporarily restricted net assets:		
Temporarily restricted revenue	647	1,014
Net assets released from restrictions	<u>(690)</u>	<u>(690)</u>
Increase (decrease) in temporarily restricted net assets	<u>(43)</u>	<u>324</u>
Changes in permanently restricted net assets:		
Contributions - sustaining memberships	4,800	1,600
Contributions - Joseph B. Gittler award	<u>2</u>	<u>29</u>
Increase in permanently restricted net assets	<u>4,802</u>	<u>1,629</u>
Increase in net assets	24,529	54,329
Net assets at beginning of year	<u>440,774</u>	<u>386,445</u>
Net assets at end of year	<u>\$ 465,303</u>	<u>\$ 440,774</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 24,529	\$ 54,329
Adjustments to reconcile changes in net assets to cash flows provided by operating activities:		
Depreciation	7,162	7,958
Loss on disposal of equipment	135	499
Net unrealized (gain) loss on investments	14,531	(36,474)
Permanently restricted contributions received	(4,802)	(1,629)
Changes in operating assets and liabilities:		
Accounts receivable	(113,937)	154,820
Prepaid expenses	122	(1,537)
Long-term deposit	-	(5,000)
Accounts payable	(5,439)	(21,832)
Accrued expenses	8,651	-
Deferred revenue	<u>75,866</u>	<u>(96,623)</u>
Net cash provided by operating activities	<u>6,818</u>	<u>54,511</u>
Cash flows from investing activities:		
Purchases of equipment	(7,125)	(6,820)
Proceeds from sale of investments	51,003	19,000
Purchases of investments	<u>(25,779)</u>	<u>(14,171)</u>
Net cash provided (used) by investing activities	<u>18,099</u>	<u>(1,991)</u>
Cash flows from financing activities:		
Collection of restricted contributions	<u>4,802</u>	<u>1,629</u>
Increase in cash and cash equivalents	29,719	54,149
Cash and cash equivalents at beginning of year	<u>82,331</u>	<u>28,182</u>
Cash and cash equivalents at end of year	\$ <u>112,050</u>	\$ <u>82,331</u>

See accompanying notes to the financial statements.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(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 from its journal and publications.

(2) Summary of significant accounting policies

The financial statements of the Society are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP). 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.

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) Cash equivalents

The Society considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

(c) Investments

Investments consist primarily of mutual funds with readily determinable fair values and certificates of deposit, which are shown at their cost which approximates fair value 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.

(d) 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 7), in which UC Press collects the subscription fees and remits them to the Society approximately one month 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, 2011 and 2010.

(e) Equipment

Equipment is stated at cost, and includes office equipment, computer software and web design costs. 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.

(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.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Society has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

THE SOCIETY FOR THE STUDY OF SOCIAL PROBLEMS, INC.

Notes to the Financial Statements

December 31, 2011 and 2010

As of December 31, 2011 and 2010, the Society has accrued no interest and no penalties related to uncertain tax positions. It is the Society's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Society files a U.S. Federal information tax return. The Society remains open to audit under the statute of limitations by the IRS for the years ended December 31, 2009 through 2011.

(g) Revenue recognition

Revenues from journals and publications and membership dues are recognized ratably throughout the subscription or membership period. Other revenues are recognized as earned, which is generally when received.

Subscription and membership dues received in advance are recorded as deferred revenues and recognized as income over the subscription and membership period.

(h) Advertising and promotion costs

Advertising and promotion costs are expensed as incurred. Such expenses were minimal during 2011 and 2010.

(i) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(j) Use of estimates

The preparation of financial statements in conformity with GAAP 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.

(k) Events occurring after reporting date

The Society has evaluated events and transactions that occurred between December 31, 2011 and May 25, 2012 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

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December 31, 2011 and 2010

(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) Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Company does not have any fair value measurements using significant other unobservable inputs (Level 3) as of December 31, 2011 and 2010.

(a) Financial instruments

The carrying amount of financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value due to their relatively short maturities. Certificates of deposit are valued at cost, which approximates fair market value. Mutual funds are valued based on quoted prices.

(b) Non-financial assets

The Society's non-financial assets, which includes equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Society is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at fair value. During the years ended December 31, 2011 and 2010, the Society did not measure any non-recurring, non-financial assets at fair value or recognize any revenue or expenses related to changes in fair value.

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Notes to the Financial Statements

December 31, 2011 and 2010

The following tables set forth by level, within the fair value hierarchy, the Society's assets at fair value as of December 31, 2011 and 2010:

Fair Value Measurements as of
December 31, 2011 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds:				
Balanced fund	\$ 389,790	\$ 389,790	\$ -	\$ -
Equity fund	<u>8,520</u>	<u>8,520</u>	<u>-</u>	<u>-</u>
Total mutual funds	398,310	398,310	-	-
Certificates of deposit	<u>100,000</u>	-	<u>100,000</u>	-
	\$ <u>498,310</u>	\$ <u>398,310</u>	\$ <u>100,000</u>	\$ <u>-</u>

Fair Value Measurements as of
December 31, 2010 using the following inputs

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ 388,062	\$ 388,062	\$ -	\$ -
Certificates of deposit	<u>150,003</u>	<u>-</u>	<u>150,003</u>	<u>-</u>
	\$ <u>538,065</u>	\$ <u>388,062</u>	\$ <u>150,003</u>	\$ <u>-</u>

(5) Investments

A summary of investments, stated at fair value, as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Mutual funds	\$ 398,310	\$ 388,062
Certificates of deposit	<u>100,000</u>	<u>150,003</u>
	\$ <u>498,310</u>	\$ <u>538,065</u>

The Society utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

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(6) Equipment

A summary of equipment as of December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 51,228	\$ 46,482
Accumulated depreciation	<u>(39,568)</u>	<u>(34,650)</u>
	<u>\$ 11,660</u>	<u>\$ 11,832</u>

(7) 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 administrative office. This agreement is renewable on an annual basis each January. The current agreement expires on December 31, 2016, but may be terminated early by either party giving sixty days written notification. No in-kind revenue or expense is recorded as the amount was not considered material to the Society during 2011 or 2010.

The Society uses the University's purchasing and disbursing services. Unreimbursed expenses owed to the University from the Society were \$23,064 and \$20,333 at December 31, 2011 and 2010, 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 sole publisher of *Social Problems*, a quarterly journal sponsored by the Society. 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 approximately one month 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 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 subscribers and Society 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, 2011 and 2010.

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The current UC Press agreement expires on December 31, 2014. 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 eighteen months preceding the date of expiration.

(8) Board designated assets

The Erwin O. Smigel Award 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.

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 Thomas C. Hood 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 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 Support Fund was established in 1992. The designated funds and future contributions will be used to emphasize support for scholars from economically disadvantaged countries, where access to foreign exchange is often more limited to attend the annual meeting.

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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 was established in 1995. This annual fund is given for support of graduate study and commitment to a career of scholarly activism. The designated funds and future contributions will be used to provide scholarships to the winners.

The Social Equity Fund was designed to preserve the Society in pursuit of its goal of social equity. The Social Equity Fund monies are from the Society and are not attached to a particular award or scholarship.

The Lee Legacy Fund was designed to preserve the Society in pursuit of its goals. The Lee Legacy Fund monies were contributed by Alfred McClung Lee and Elizabeth Briant Lee and are not attached to a particular award or scholarship.

The Accessibility Services Fund was established in 2010. The designated funds and future contributions will be used to help meet accessibility needs at the annual meeting.

The board has designated assets as of December 31, 2011 as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Erwin O. Smigel Fund	\$ 1,885	\$ -	\$ 1,885
Lee Founders Award Fund and Social Action Award Fund	-	8,520	8,520
Lee Student Support Fund	3,832	-	3,832
Lee Scholar Support Fund	1,540	-	1,540
C. Wright Mills Award Fund	3,844	-	3,844
Racial/Ethnic Minority Graduate Scholarship Fund	-	315,942	315,942
Social Equity Fund	-	14,751	14,751
Lee Legacy Fund	-	11,315	11,315
Accessibility Services Fund	<u>1,234</u>	<u>-</u>	<u>1,234</u>
	\$ <u>12,335</u>	\$ <u>350,528</u>	\$ <u>362,863</u>

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The board has designated assets as of December 31, 2010 as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Erwin O. Smigel Fund	\$ 2,856	\$ -	\$ 2,856
Lee Founders Award Fund and Social Action Award Fund	-	8,062	8,062
Lee Student Support Fund	3,389	-	3,389
Lee Scholar Support Fund	1,468	-	1,468
C. Wright Mills Award Fund	4,059	-	4,059
Racial/Ethnic Minority Graduate Scholarship Fund	-	307,585	307,585
Social Equity Fund	-	14,475	14,475
Lee Legacy Fund	-	11,675	11,675
Accessibility Services Fund	<u>1,178</u>	<u>-</u>	<u>1,178</u>
	<u>\$ 12,950</u>	<u>\$ 341,797</u>	<u>354,747</u>
Designations in excess of net assets			<u>(5,816)</u>
			<u>\$ 348,931</u>

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

(9) Permanently restricted net assets

In 2000, the Society established the Sustaining Membership Fund. This fund allows members the opportunity to pay \$1,700 (\$1,200 prior to 2007) for a sustaining membership. One hundred dollars of the membership is recorded as a payment of dues in the year that the individual becomes a sustaining member. The remaining funds are placed in an interest and/or dividend bearing account and are not refundable or transferable to another person. The yearly dues of sustaining members will be paid from the account's earnings.

Permanently restricted net assets at December 31, 2011 and 2010 consist of cumulative contributions to the Sustaining Membership Fund of \$44,233 and \$39,433, respectively. The restricted and unrestricted investments held in the Sustaining Membership Fund have a fair market value of \$47,782 and \$46,265 as of December 31, 2011 and 2010, respectively. Unrealized gains (losses) in fair market value for those funds amounted to \$(1,683) and \$4,135, respectively, for the years ended December 31, 2011 and 2010. The unrealized gains (losses) have 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 Sustaining Membership Fund for the years ended December 31, 2011 and 2010 was \$626 and \$644, 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.

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The Society has received permanently restricted contributions to the Joseph B. Gittler award in the amount of \$50,049 and \$50,047 through December 31, 2011 and 2010, respectively. The earnings from this permanently restricted contribution will be used to fund an annual Joseph B. Gittler Award for a most scholarly contribution in the area of ethical components in the resolution of social problems. The investment is made in a certificate of deposit, which earned \$647 and \$1,014 in interest for the years ended December 31, 2011 and 2010, respectively. Interest earned on the permanently restricted contributions and other temporarily restricted contributions to the Joseph B. Gittler award are recorded in temporarily restricted net assets until used for the award and total \$2,320 and \$2,363 at December 31, 2011 and 2010, respectively.