

MEMORANDUM

TO: SSSP Board of Directors
FROM: Susan M. Carlson, Treasurer
DATE: August 4, 2011
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 wellbeing of the Society.

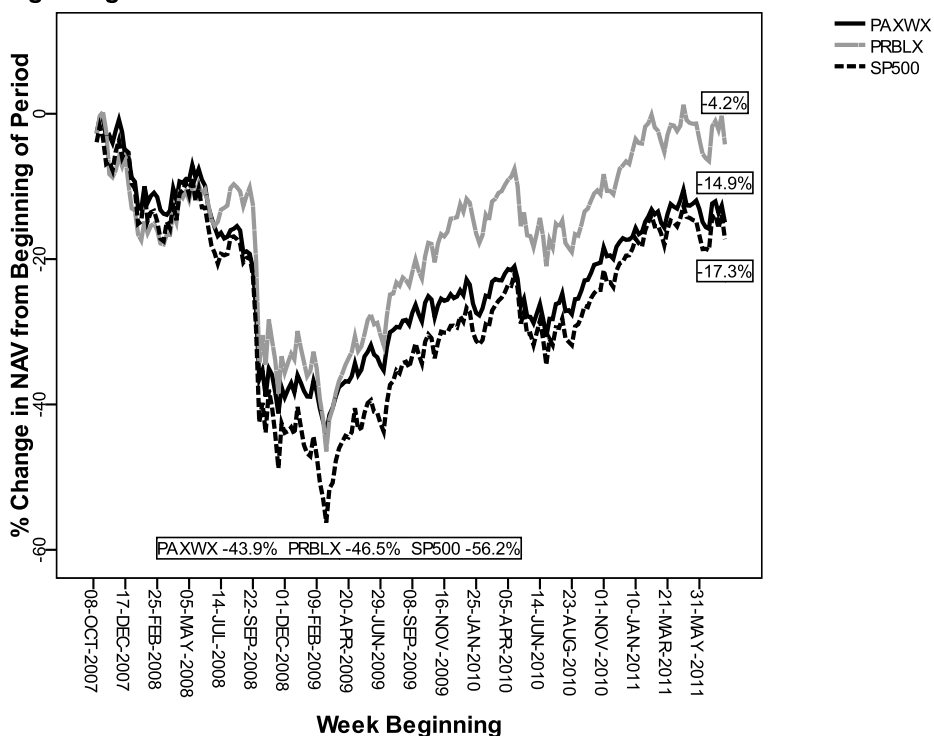
Financial Condition of the Society

The Society continues to break even financially, with sufficient income to cover expenses. As of December 31, 2010, the Society had total net assets of \$440,774 up from \$386,445 in December 2009. This increase of \$54,329 was mostly due a net unrealized gain on investments of \$36,474. These assets represent about 71% percent of the projected operating budget in 2011, and provide a cushion to cover unanticipated expenses.

Investment Performance

Our investments continue to recover from the \$143,000 paper loss that resulted from the market crash in fall 2008. Figure 1 tracks the net asset value of the Society’s investments in the Pax World Balanced Fund (PAXWX) and the Parnassus Income Equity Fund (PRBLX) compared with the Standard and Poor 500 market index (SP500) beginning with the week of the highest point in the market (week beginning October 8, 2007) through the week beginning July 25, 2011. The figure shows that both socially responsible mutual funds lost less of their net asset value, PAXWX -43.9% and PRBLX -46.5%, compared with the market standard, SP500 -56.2%. Likewise, these mutual funds had recovered more of their value as of July 29, 2011 than the market index, with PRBLX having recovered nearly 96% of its value and PAXWX having regained about 85% of its value, while the SP500 recouped about 83%.

Figure 1. Comparison of the % Change in the Net Asset Value (NAV) of the Pax World Balanced Fund (PAXWX), the Parnassus Equity Income Fund (PRBLX), and the S&P 500 Index (SP500) from Historical High: Week Beginning 10/08/2007-Week Beginning 07/24/11



Revenue and Expenses

In 2010, the Budget, Finance, and Audit Committee (BFA) projected a \$33,413 deficit, yet in the end the Society realized a \$17,855 increase in net assets (not counting \$36,474 paper gain on investments). The BFA is projecting a budget surplus of \$32,787 in 2011, due mostly to a \$30,000 one-time payment from JSTOR (discussed below), and a deficit of \$10,457 in 2012.

The Society has two primary sources of income that pay for day-to-day operations expenses—membership dues and proceeds from sale of journal subscriptions, subsidiary rights, etc. In 2010, the Society experienced a drop of 139 dues-paying members (38.1% student members) compared with 2009, resulting in a drop in membership dues revenue of 6.4%. Fluctuation in membership is closely related to where the annual meeting is held. Last year the annual meeting was held in Atlanta and attendance was (582), down substantially from the three previous

meetings held in New York (788), Boston (757), and San Francisco (688). This can account for some of the drop in membership dues revenue. The good news is that as of June 30, 2011, the total number of members has increased by 6.3% compared with June 30th last year. Membership numbers increased in 8 of the 14 dues categories, decreased in 4 categories, and remained the same in 2 categories. Increases of 20.6% in first-time professional members and 7.9% in student members bode well for the future of the Society. In addition, there was a substantial increase of 13.7% in the number of members in the highest dues category. In sum, we expect an overall increase in revenue from membership dues in 2011.

Institutional subscriptions to *Social Problems* have been declining. Table 1 presents the trend. Please note that the 2,122 figure for 1999 (unlike other years) is an estimate that includes the few individual subscriptions that may have existed at the time. Since most individuals obtain *Social Problems* by joining SSSP rather than through individual subscriptions to the journal, I believe the upward bias in the estimate is minimal. Also, I remember Tom Hood remarking that we had just over 2,000 institutional subscriptions in the year 2000, consistent with the estimate.

Table 1. Summary of Changes in Institutional Subscriptions Over Time

Volume	Year	Institutional Subscriptions	Change	% Change
46	1999	2,122 ^a	-	-
54	2007	1,791	-331	-15.60
55	2008	1,668	-123	-6.87
56	2009	1,602	-66	-3.96
57	2010	1,498	-104	-6.49
58	2011	1,371 ^b	-127	-8.48
Change 1999-2011			-751	-35.39
Change 2007-2011			-420	-23.45

Notes: ^aEstimate based on total paid circulation in August 1999 minus the number of SSSP members in August 1999

^bAs of 08/03/11, 1,370 of these orders had been fulfilled with one outstanding

Table 1 paints a grim picture. From 1999-2011, the Society lost 35.39% of its subscription base (31.45% if the more conservative estimate of 2,000 subscriptions is used). Since 2007, there has been a 23.5% attrition in institutional subscriptions to the journal, and the trend has been upward since 2009, with losses of 3.96%, 6.49%, and 8.48% in 2009, 2010, and 2011, respectively.

Initially, our representatives at the University of California Press (UC Press) argued that price elasticity was the primary criterion used by libraries in making decisions with regard to journal subscription retention. Their proposed solution to this Board was to reduce the 2012 price

increase from the approved 9% to 5% (despite the fact that *Social Problems* is one of the lowest-priced journals in the field). At first, in the absence of data to the contrary, I went along with this recommendation. However, I discovered, consistent with my suspicions, that more was to go on than reactions to cost. As libraries moved to cancel print subscriptions to academic journals and opt instead for providing the electronic access that their constituencies preferred, they discovered that their patrons had access to full-text .pdf content of *Social Problems* for all years via their JSTOR subscription to the archived material with a three-year embargo on current content, and their ProQuest subscription that supplied access to current content including the most recent issue on its day of publication. This eliminated the need for an electronic subscription to the journal, hence at least some of the attrition. As an aside, we also discovered that HeinOnline has full-text .pdf content of the journal with a three-year embargo unbeknownst to our UC Press representatives.

Convincing our UC Press representatives that our hypothesized explanation for the attrition in subscriptions was valid was an arduous process. They viewed ProQuest as not competing with institutional journal subscriptions. After several conference calls, good cop/bad cop, and finally obtaining data directly from ProQuest, they finally came around to our point of view and recommended that all of our full-text content be removed from ProQuest (which I had recommended a month earlier as soon as I discovered the problem, and something they claimed they could not do because of their contractual relationship with ProQuest). Long story short, after some glitches, all *Social Problems* full-text (.pdf and .html) has been removed for ProQuest and all that remains are abstracts. UC Press is also working on having full-text content removed from HeinOnline.

In addition to removing *Social Problems* full-text content from ProQuest and HeinOnline, UC Press has taken two steps to retain and re-establish electronic subscriptions to the journal and to offset the loss of revenue the Society experienced due to subscription attrition in 2011. First, they have agreed to contact existing and past subscribers to inform them that electronic access to current content is only available by an institutional subscription to the journal via JSTOR's Current Scholarship Program (again something I had requested when I first discovered the problem at the beginning of May). Second, under a contractual arrangement UC Press has with the JSTOR Risk Sharing Program for 2011, JSTOR has made a one-time payment of \$30,000 to compensate for lost subscriptions. The Society will receive these funds this month. Thus, the good news is that positive steps have been taken to stem the loss of institutional subscriptions, and the Society has been compensated for some lost revenue. Only time will tell if these actions will be sufficient to recoup lost subscriptions and retain the existing subscription base, and hence revenue.

On the expense side, the Administrative Office once again is to be commended for running a "lean and mean" operation. In 2010, the Administrative Office finished under budget by \$7,806, and over \$2,000 less than was spent in 2009. This attests once again to the excellent financial management skills of our Administrative Officer, Michele Smith Koontz, and the exemplary actions of her staff in keeping a lid on spending. Journal and publications expenses came in slightly under budget. While annual meeting expenses came in under budget by over \$8,000, the

annual meeting deficit (income-expenses) was \$7,700. The remaining budget expense categories came in less than budgeted.

In sum, seeing large increases in revenue from our primary income sources is unlikely, at least in the near term. This coupled with a projected deficit in 2012 means that any increased expenses will have to be paid for from other sources, either new revenue streams or by liquidating long-term investments of the Society's reserve funds that the Board has restricted for such purposes as the minority scholarship. Accordingly, the Society will need to avoid increased expenses, cut expenses when possible, and seek out new sources of income.

The Revenue Generating Committee has had some e-mail conversations this summer regarding the potential for raising additional income to offset potential falling revenue from the journal. Based on these conversations, I feel that we might pursue foundation support for specific projects such as the minority scholarship or other such initiatives. However, I do not think such a strategy will work in raising money to cover operating expenses. Instead, for this purpose, I think our best approach would be to launch a capital campaign targeting the membership. There has been some discussion about hiring a professional firm to run such a campaign. If we pursue such a strategy, we need to be sure that administrative costs are kept at a minimum with most of the donated funds going to the Society.

Review of the Annual Audit

Lattimore Black Morgan & Cain conducted the annual audit of the Society's financial statements. Their representative, Bill Kelso, reviewed the findings of the audit and discussed several issues with the members of the BFA Committee at its June meeting in La Verne via conference call. The results of the audit were clean with no unusual findings. The auditors noted two items that offer "opportunities for improving internal controls and operating efficiency."

First, the auditors reported on one issue that they raise on an annual basis regarding segregation of duties related to the cash receipt and disbursement processes. SSSP has only one full-time employee, the Administrative Officer, and currently she performs most of the financial duties for the Society. However they noted there have been improvements in segregation of certain duties surrounding cash due to increased involvement of "the Treasurer, Executive Officer, and Administrative Assistant in the cash receipt and disbursement processes." In addition, "oversight from the Executive Officer and Budget, Finance, and Audit Committee and the bonding of the Administrative Officer to insure risk of loss appear to help mitigate the risks related to segregation of duties."

The second issue concerns the Society's 501(c) (3) tax exempt status. During the IRS audit (see below), many of the questions posed to Michele probed the Society's political activity with respect to lobbying to influence legislation. While doing some lobbying is allowed, doing too much can lead to loss of the 501(c) (3) tax exempt status. The problem is in establishing what is

“too much lobbying” as this is left to the interpretation of the IRS agent as to whether influencing legislation constitutes “a substantial part of [the organization’s] activities.” Accordingly, the auditors have cautioned the Society to be vigilant in educating the membership about what constitutes lobbying and how to avoid activity that might jeopardize the Society’s 501(c) (3) tax exempt status. The auditors have defined lobbying, legislation, and given examples in their letter to management (page 3). My recommendation is that the Board take action to implement the auditors’ recommendation with respect to this issue.

IRS Audit of 2008 Taxes

In March, the Society’s 2008 tax returns were audited. The outcome of the audit was positive. The Society’s tax exempt status remains intact, and there were no penalties or tax adjustments. However, there were issues regarding the reporting of advertising income which will need to be done differently in the future, including the forms filed and the records maintained. The Executive Officer, Administrative Officer, and Treasurer are working with the auditors to come up with a strategy that will be compliant so as not to jeopardize the Society’s tax exempt status. In addition, tickets for fund-raising events need to include language that states all proceeds from the event will go to a non-profit organization/charity. While not directly addressed as a concern in the IRS Follow-up Memo, the number of questions regarding political activity of the organization prompted the Society’s auditors to recommend more vigilance in this area (see above).