

MEMORANDUM

TO: SSSP Board of Directors
FROM: Susan M. Carlson, Treasurer
DATE: July 12, 2013
RE: Financial Condition of the Society for the Study of Social Problems

Article IV, Section 8 of the SSSP By-laws 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 did very well in 2012. As of December 31, 2012, the Society had total net assets of \$561,921, up from \$465,303 in December 2011. These assets represent about 89% percent of the 2013 operating budget, and provide a cushion to cover unanticipated expenses.

In August 2012, the Budget, Finance, and Audit Committee (BFA) projected an \$11,924 budget surplus, yet at year's end there was a \$96,618 increase in net assets. This budget surplus was due to a number of factors. There was an unrealized gain on investments of just over \$40,000. Membership dues revenue increased by more than \$13,000 over 2011. There also was an increase in contributions to the Society. Last year's annual meeting made money for the second year running, with income exceeding expenses by over \$8,000, due in no small part to the professional expertise of Administrative Officer and Meeting Manager, Michele Smith Koontz. Finally, Michele and her staff exercised good stewardship by bringing the administrative office in at more than \$5,000 under budget for the year.

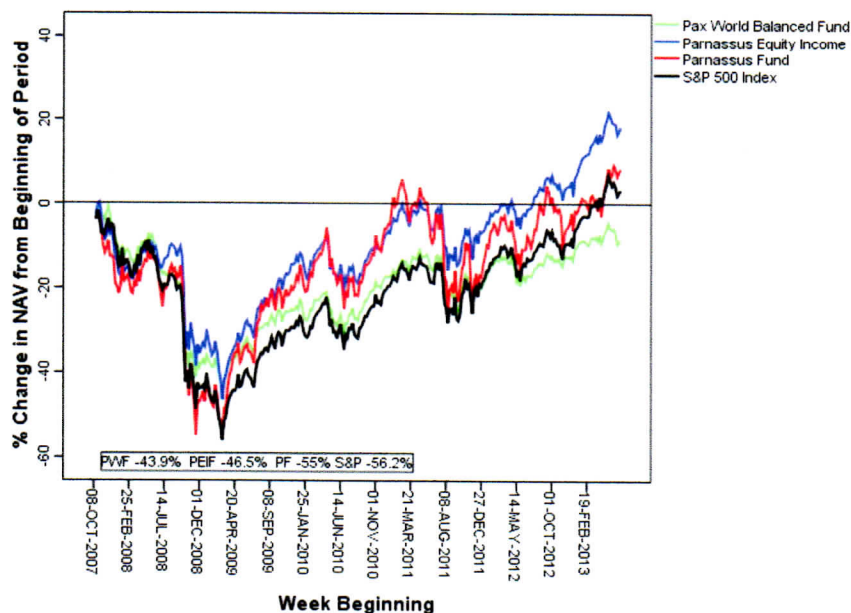
The BFA Committee is projecting a budget deficit of \$18,748 in 2013, down from the \$37,540 deficit projected last August. The reduction in the projected deficit is based on anticipated increases in membership dues and a profit on this year's annual meeting due to the considerable efforts of President R.A. Dello Buono, Program Committee Chair, David Fasenfest, and Local Arrangements Committee Chair, Angie Beeman, that resulted in exceptional meeting participation and attendance. Moreover, this is a conservative budget projection that does not include realized gains on investments that will result from selling off Pax Fund shares to diversify the Society's mutual fund investments. Given these circumstances, I am confident that

the Society will realize a budget surplus in 2013, and a net increase in overall assets.

Investment Performance

The Society's investments in socially responsible mutual funds have recovered from the \$143,000 paper loss that resulted from the market crash beginning in fall 2008. The following graph tracks the percentage change in net asset value of the Society's investments in the Pax World Balanced Fund, the Parnassus Equity Income Fund compared with the Standard & Poor 500 market index beginning with the week of the highest point in the market (week beginning October 8, 2007) through the week beginning July 1, 2013. The figure also compares the historical trend in the Parnassus Fund, the Society's newest socially responsible mutual fund investment. The graph shows that all socially responsible mutual funds lost less of their net asset value when the market bottomed out in the week beginning March 2, 2009—Pax -43.9%, Parnassus Equity Income -46.5%, and Parnassus -55%—than the market standard, S&P500 Index -56.2%. By July 1, 2013, Parnassus Equity Income exceeded its pre-crash market high value by 18.3%, Parnassus Fund 8.4%, and S&P 500 by 3.4%, while Pax had regained about 92% of its value. Thus, the Society's investments in socially responsible mutual funds performed as well as, or in most cases better than, the market standard during the period examined.

Comparison of the % Change in the Net Asset Value (NAV) of the Pax World Balanced, Parnassus Equity Income, and Parnassus Funds, and the S&P 500 Index: Week Beginning 10/08/2007-Week Beginning 07/01/2013



Review of the Annual Audit

Lattimore Black Morgan & Cain, PC conducted the annual audit of the Society's financial statements. Their representatives, Bill Kelso and Logan Laug, reviewed and discussed the findings of the audit with the members of the BFA Committee at its June meeting in Lexington, Kentucky via conference call. The results of the audit were clean with no unusual findings. There was one minor reclassification entry. The auditors reported on one issue that they raise on an annual basis regarding segregation of duties related to 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. The auditors noted additional segregation of certain duties surrounding cash have been improved in recent years due to increased involvement of the Treasurer, Administrative Assistant, and Executive Officer in the cash receipt and disbursement processes. However, they offer the following advice:

As the Executive Officer is located at an off-site location, it is important for the Budget, Finance, and Audit Committee to monitor controls over segregation of duties, and help to ensure that good working practices are developed and adhered to consistently, to ensure proper review of activities and protection of the Society's assets. Oversight from the Executive Officer and Budget, Finance, and Audit Committee, as well as the bonding of the Administrative Officer, are needed in order to insure from risk of loss and to mitigate the risks related to segregation of duties (Audit summary, page 3).

Other Issues

At the annual meeting in New York, board members will be asked to make two decisions that are of vital importance to the future financial wellbeing of the Society—selection of a publisher and an editor for *Social Problems*. Income from the journal is of critical importance to the long-term financial viability of the Society. Accordingly, selection of a publisher primarily is a business decision, and key issues concern marketing and sales growth of the journal. To place these decisions in a broader context, I have prepared a budget analysis for 2000-2012 that examines income and expenses associated with the journal as shown in Table 1.

The entries in the line for net journal income show total journal revenue minus editorial office expenses and the commission to UC Press. The table shows that net income from the journal has fluctuated, and in two years, 2005 and 2008, net journal revenue was very low (\$27,480 and \$68,184, respectively) due to excessively high commissions paid to UC Press (see last line of table). At the time the commissions were based on overhead plus 10% of overhead. UC Press representatives claimed at the time the Society was charged these extraordinarily high fees due to the timing of print runs and claimed the Society would see a reduction in following quarter(s). However, as shown in Table 1, there was only a slight reduction over previous trends in 2006, and none in 2009. UC Press has never explained these discrepancies to our satisfaction.

Table 1 also shows that the highest gross journal revenue was \$376,550 and highest net income ever realized was \$157,061 in 2012 (not counting monies from the UC Press JSTOR contract).

Yet, as shown in Table 2, UC Press estimates average revenue per year over the proposed new 5-year contract will be \$552,985, and average royalty income to the Society (which is equivalent to net journal income in Table 1 since UC Press will now cover editorial office expenses) will be \$304,142, nearly twice the net income in 2012. UC Press has proposed very little in the way of new marketing strategies or other factors that might explain these rosy projections.

Turning to editorial office expenses, Table 3 shows sharp increases in recent years. These expenses must be brought under control. Accordingly, the Budget, Finance, and Audit Committee recommends that increases in the budget for the editorial office be set by the increases offered by the publisher, as the publisher will now be covering the costs of the editorial office.

Table 1. SSSP Income Statement Summary, 2000-2012

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
REVENUE													
Membership Dues	101,294.00	98,082.00	100,524.00	94,882.00	102,976.00	102,271.00	101,811.00	110,637.00	143,628.00	137,959.00	129,077.00	133,319.00	146,426.00
Journal and Publications	248,405.47	260,283.38	282,167.57	271,457.24	283,432.03	280,037.29	289,748.85	309,358.68	330,143.62	356,655.88	361,151.58	387,557.49	385,032.12
Annual Meeting	36,298.25	36,741.40	38,545.92	50,754.00	57,001.50	58,739.00	68,184.79	83,119.00	81,690.00	70,433.00	65,830.00	97,427.68	97,563.27
Contributions	4,293.23	3,143.84	3,646.43	3,901.01	7,047.81	4,434.73	4,740.77	54,566.05	7,128.54	9,176.87	7,041.00	8,900.14	17,525.00
Investment Income	41,104.28	23,484.74	7,779.86	5,934.76	5,885.55	7,154.27	32,057.85	32,170.89	15,663.48	9,965.28	8,752.63	7,889.48	9,042.27
Other Income	1,181.76	602.87	471.68	285.00	393.50	0.00	-231.84	142.00	225.00	685.00	-499.20	-84.78	0.00
Total Revenue	432,576.99	422,338.23	433,135.46	427,214.01	456,736.39	452,636.29	496,311.42	589,993.62	578,478.64	584,875.03	571,353.01	635,009.01	655,588.66
EXPENSES													
Executive/Administrative Office	107,417.08	103,875.03	110,768.07	115,670.84	120,256.90	125,783.71	126,962.71	137,894.28	162,293.84	185,459.38	198,886.89	217,079.55	219,036.41
Journal Expense	196,977.41	189,330.72	202,272.21	177,756.48	195,092.78	252,557.54	189,748.19	204,422.17	261,959.66	214,762.39	207,211.47	211,518.19	219,488.88
Newsletters	25,236.90	26,175.53	26,512.44	29,736.70	28,592.42	24,807.63	25,909.08	28,796.48	25,351.59	21,875.12	16,801.19	12,500.00	12,500.00
Annual Meeting	48,245.09	49,041.61	51,726.15	58,270.44	65,138.11	90,372.00	72,029.33	92,349.30	82,183.50	83,328.24	73,529.57	94,804.52	89,409.22
Committees/Divisions	17,970.53	16,467.23	19,509.20	18,396.17	24,768.51	23,454.61	35,636.75	32,968.08	38,251.05	32,269.75	25,465.92	28,093.21	25,788.45
Board Governance	3,383.11	5,064.07	4,110.69	5,562.26	5,001.57	4,600.74	5,434.82	26,197.90	8,458.81	7,315.37	7,031.46	5,227.16	5,324.80
Investment Gain/Loss	34,947.28	55,838.82	49,301.43	-59,851.51	-43,397.69	-14,792.94	-13,064.61	-13,499.98	142,678.49	-60,328.67	-36,473.63	14,530.18	-40,301.98
Board Restricted Expense	19,743.03	30,764.00	18,529.59	21,431.01	21,299.04	25,315.48	26,118.00	28,160.00	27,307.00	27,423.52	24,574.36	26,725.40	27,724.72
Total Expenses	453,920.43	476,557.01	482,729.78	366,972.39	416,751.64	532,098.77	468,774.27	537,288.23	748,483.94	512,105.10	517,027.23	610,478.21	558,970.50
Change in Net Assets	-21,343.44	-54,218.78	-49,594.32	60,241.62	39,984.75	-79,462.48	27,537.15	52,705.39	-170,005.30	72,769.93	54,325.78	24,530.80	96,618.16
Net Journal Income	51,428.06	70,952.66	79,895.36	93,700.76	88,339.25	27,479.75	100,000.66	104,936.51	68,183.96	141,893.49	153,940.11	176,039.30	165,543.24
Journal Revenue without JSTOR Funds												357,557.49	376,549.80
Net Journal Income without JSTOR Funds												146,039.30	157,060.92
UCPress Fee (Commission)	57,620.63	57,603.80	63,662.22	62,385.17	64,189.88	111,016.26	59,027.03	66,439.51	99,058.33	73,045.07	79,522.23	84,892.30	78,411.24
Commission based on:	Overhead plus 10% of Overhead					?				?	25% of Total Income		

Table 2. Estimated Mean Annual Journal Revenue, Royalty Income Based on Revenue, and Editorial Office Support Under Five-Year Proposed Contracts

Publisher	Estimated Mean Total Revenue[†]	Royalty Percentage[‡]	Estimated Mean Annual Royalty Income to SSSP[§]	Guaranteed Mean Royalty Income to SSSP	Mean Annual Editorial Office Support	Estimated Mean Annual Cash Return to SSSP[‡]	Signing Bonus[#]
Oxford University Press	\$454,586	50%	\$227,293	\$170,470	\$106,183	\$333,476	\$0
Routledge	\$468,813	50%	\$234,406	\$180,000	\$114,489	\$348,895	\$0
SAGE	\$470,396	50%	\$235,198	\$150,000	\$100,000	\$335,198	\$100,000
University of California Press	\$552,985	55%	\$304,142	\$225,000	\$94,080	\$398,222	\$0

[†]Total revenue from all sales based on 5% (OUP), 4.5% (Routledge), 6% (SAGE), and 9% (UC Press) annual subscription price increases.

[‡]Percentage of total revenue SSSP will receive as income

[§]Annual estimated income to SSSP

[‡]This includes only estimated royalty income plus editorial office stipend. Publishers offer various other small amounts for other purposes.

[#]Both Oxford and Routledge initially offered \$100,000 signing bonuses, but much lower royalty percentages (35% and 40%, respectively) Higher royalty percentages were negotiated in lieu of signing bonuses with these publishers. SAGE offered the signing bonus only in their final offer.

Table 3. Editorial Office Expense, 2000-2012

Year	Approved															Revised	
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013
Editor's Stipend	6,300.00	6,300.00	6,300.00	6,300.00	6,300.00	6,300.00	7,500.00	7,500.00	8,000.00	8,000.00	9,000.00	9,000.00	9,000.00	9,000.00	9,000.00	9,000.00	\$9,000
Honoraria	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,000.00	1,000.00	1,500.00	1,500.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000
Travel	2,000.00	2,000.00	2,493.80	1,366.82	795.08	1,078.80	1,548.93	1,863.03	2,497.90	373.80	1,246.89	1,222.36	717.09	2,267.49	1,419.25	1,500.00	1,500
Salaries	29,472.34	34,616.19	45,547.68	41,249.56	33,542.52	33,999.27	38,889.50	48,457.26	44,758.00	45,452.00	62,605.29	56,916.75	53,538.25	50,541.15	62,375.40	63,742.00	71,262.00
Fringe Benefits	1,806.28	2,193.00	5,474.88	4,194.55	1,318.20	0.00	0.00	1,726.32	4,618.30	14,866.48	8,952.18	810.65	540.47	5,385.12	15,116.52	16,376.00	17,514.00
Supplies	1,141.42	890.62	1,207.34	854.44	2,361.87	1,106.22	1,602.89	2,446.14	2,676.49	758.31	40.22	0.00	0.00	456.05	199.61	342.00	400.00
Telephone	549.64	922.56	952.80	780.68	789.85	0.00	0.00	39.95	0.00	0.00	0.00	0.00	0.00	0.00	36.45	120.00	120.00
Copying	0.00	330.00	1,040.00	1,880.00	1,040.00	1,256.00	1,285.40	857.42	45.59	41.84	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Postage	3,530.32	2,574.97	2,941.37	3,519.90	3,132.54	3,713.64	3,512.07	1,815.23	558.86	406.43	228.59	0.00	0.00	0.00	10.38	0.00	0.00
Computer Consultant	0	0.00	0.00	0.00	1,198.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	46,300.00	51,327.34	67,457.87	61,645.95	51,978.59	48,953.93	55,838.79	66,205.35	64,155.14	70,898.86	83,573.17	69,449.76	66,795.81	70,649.81	91,157.61	94,080.00	102,796.00
Editor	Best	Best	Smith	Smith	Smith	Holstein	Holstein	Holstein	Wharton	Wharton	Wharton	Chiricos	Chiricos	Chiricos	Pettit	Pettit	Pettit