

MEMORANDUM

TO: SSSP Board of Directors

FROM: David R. Rudy, Treasurer

DATE: July 13, 2007

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, 2006, the Society had total net assets of \$429,378. These assets represent nearly 84 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 in 2005 and occasional past years.

During fiscal year 2006, the Society experienced a modest budget surplus. As a result, the Society's net unrestricted assets increased by \$27,540. However, over \$13,000 of this surplus was from unrealized paper gains in the value of the Society's investments—not cash that could be used to pay bills.

In general, income and expenses in budget categories were as expected. Membership dues continue to show a slight upward trend. Contributions and net journal income are up and the annual meeting deficit was significantly smaller in 2006 than 2005.

The Society's investments in socially responsible mutual funds (Pax World Balanced Fund and the Parnassus Equity Income Fund) performed well during the year. The Pax World Fund generated \$24,177 in income, and Parnassus yielded a gain of \$2,213. When combined with interest from other sources (Domini/ShoreBack money market, CD's, savings and checking accounts) total investment income of \$32,058 was earned by the Society.

At our May meeting, the Budget, Finance, and Audit Committee conducted a review of the performance of the Pax and Parnassus mutual funds with respect to the Standard and Poor (S&P) 500 Index. In short, both the PAX and Parnassus funds have performed well relative to the S&P 500. Differences between them reflect the PAX fund's primary objective of preservation of capital and income, with a secondary objective of capital appreciation, versus the Parnassus fund's objective of income and appreciation in the short term. 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, PC conducted the annual audit of the Society's financial statements. Their representatives, Jim McCollum and Bill Kelso, presented the findings of the audit to BFA at its May meeting in Knoxville. The results of the audit were clean with no unusual findings.

Other Issues

While the overall financial condition of the Society is good, BFA, past-treasurer Carlson and I believe a need remains for increased revenue. There are three reasons why the Society needs to increase its income.

First, in three of the past five years, the Society's cash income (i.e., income excluding paper gains on investments) has been below expenses. While the budget surplus of 2006 is a step in the right direction, it represents only about 40% of the budget deficit of 2005. With limited cash resources, the 2005 deficit was covered by the redemption of shares from the Domini Social Equity Fund. By reducing investments during a bull market we reduced our ability to generate additional interest income. 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 did in 2005.

Second, it is likely that Tom Hood will be stepping down as Executive Officer in August 2009. While it is impossible to predict what the exact arrangements will look like (UT or another university?), nor the full financial impact of the transition, it is certain that costs of running the Executive Office will increase.

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 \$350,000 (05/16/07). 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. In 2005, the Society had to redeem all but about \$12,000 of its investment in the Domini Fund. Should the Society continue to have frequent budget deficits, it will have to liquidate investment 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 and membership dues. Accordingly, we (BFA, current/past treasurer) have proposed a two-pronged strategy for increasing annual revenue to the BFA Committee.

First, we 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 \$175, *Social Problems* was among 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. Gray Cavender will present the BFA Committee's recommendation to the Board for the subscription price of \$192 starting in 2009.

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. Last year (May 2006), the BFA Committee reviewed the dues structure, and presented a recommendation (approved) to the Board to ask the Society's members to consider a dues increase. Details of the proposed \$20 across the board increase along with SSSP dues structure since 1989 are available on pages 32-33 in the Winter 2007 *Social Problems Forum*. The membership will be asked to consider this matter at the 2007 Business Meeting.