

MEMORANDUM

TO: SSSP Board of Directors
FROM: Susan M. Carlson, Treasurer and Investment Advisor
DATE: July 31, 2015
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 that affect the future financial wellbeing of the Society. This report also includes a summary of investment performance.

Financial Condition of the Society

The Society had another excellent year in 2014. As of December 31, 2014, the Society had total net assets of \$820,396, up from \$675,140 in December 2013, an increase of \$145,255. These assets represent over 100 percent of the 2015 operating budget, and provide a cushion to cover unanticipated expenses and provide an opportunity to expand the good works of the Society, as I will elaborate on below.

In August 2014, the Budget, Finance, and Audit Committee (BFA) projected a small \$8,714 deficit, yet at year’s end there was, as noted, a \$145,255 increase in net assets. This budget surplus was due to many factors, among them increases over budget of \$35,106 in investment income, \$18,482 in journal and publication income, and an unrealized gain on investments of \$11,843. In addition, for the fourth year in a row, the Society realized a profit on the annual meeting of \$21,018, due to Michele’s efforts as the Society’s meeting manager. On the expense side, all categories came in under budget. In particular, journal and publication expenses were under budget by nearly \$55,000, and the Administrative Office was under budget by over \$5,000. Many thanks to Michele and her staff for being such good stewards of the Society’s resources.

The BFA Committee is projecting a budget surplus of \$47,425, up from \$29,623 surplus projected last August. However, it is important to keep in mind that the BFA Committee budgets conservatively, and the projected budget does not include investment income and unrealized gains on investments, which, if upward market trends hold, should result in a more substantial surplus.

Investment Portfolio and Performance

The SSSP investment policy and guidelines for investing in community development financial institutions requires that the Society’s reserve funds be invested in diversified socially responsible mutual funds and community development financial institutions (CDFIs). The

community development investments are rotated on a three-year basis to benefit low-wealth communities around the nation.

In accord with this policy and the guidelines for CDFI investments, the current investment portfolio consists of investments in three socially responsible mutual funds, three community development financial institutions, and a money market account with a community bank. Approximately 65% of the Society's reserve funds are invested equally with three socially responsible mutual funds—the Pax World Balanced Fund, the Parnassus Fund, and the Parnassus Core Equity Fund (institutional shares). Fund prospectuses that detail the investment objectives and strategies of the Pax World Balanced Fund, the Parnassus Fund, and Parnassus Core Equity Funds are available from their respective websites: www.paxworld.com www.parnassus.com. Another 16% of the Society's reserve funds are invested equally with three community development financial institutions that provide banking and other services to low-wealth communities—the Self-Help Credit Union in North Carolina, the Carver Federal Savings Bank in New York City, and the Urban Partnership Bank in Chicago. The remaining reserve funds are deposited in a money market account with Home Federal Bank in Knoxville.

Figures 1 through 4 compare the performance of the Pax World Balanced Fund (blue lines), the Parnassus Core Equity Fund (magenta lines), the Parnassus Fund (cyan lines), and the Standard and Poor 500 Index (black lines) in 2014, and for one year, five years, and ten years, respectively. Overall, these graphs show that the funds performed well relative to the market standard, and differences in performance are consistent with the investment objectives of the funds—capital preservation and current income with a secondary emphasis on capital appreciation for the Pax World Balanced Fund, capital appreciation and current income for the Parnassus Core Equity Fund, and capital appreciation for the Parnassus Fund. Morning Star gives the Pax World Balanced Fund a three-star rating (out of five), the Parnassus Core Equity Fund a four-star rating, and the Parnassus Fund a four-star rating, when compared with all funds in their respective fund categories.

One noteworthy trend in these graphs is most evident in Figures 1 and 2. The Pax fund tracks below and with the market over most of the timeframes in these graphs. However, there is a marked decline in NAV in mid-December in 2013 and 2014 that is not reflected in the overall market trend. This is because of the objective of providing current income. When market conditions warrant, fund managers liquidate and distribute some of the fund asset appreciation to shareholders in the form of dividend and capital gains income. These figures also show smaller dips in mid-to-late June that also reflect distributions. The Parnassus Core Equity Fund does not follow this strategy, but instead emphasizes investment in companies that pay regular dividends that are distributed to shareholders.

Figure 1. Socially Responsible Mutual Fund Performance FY 2014

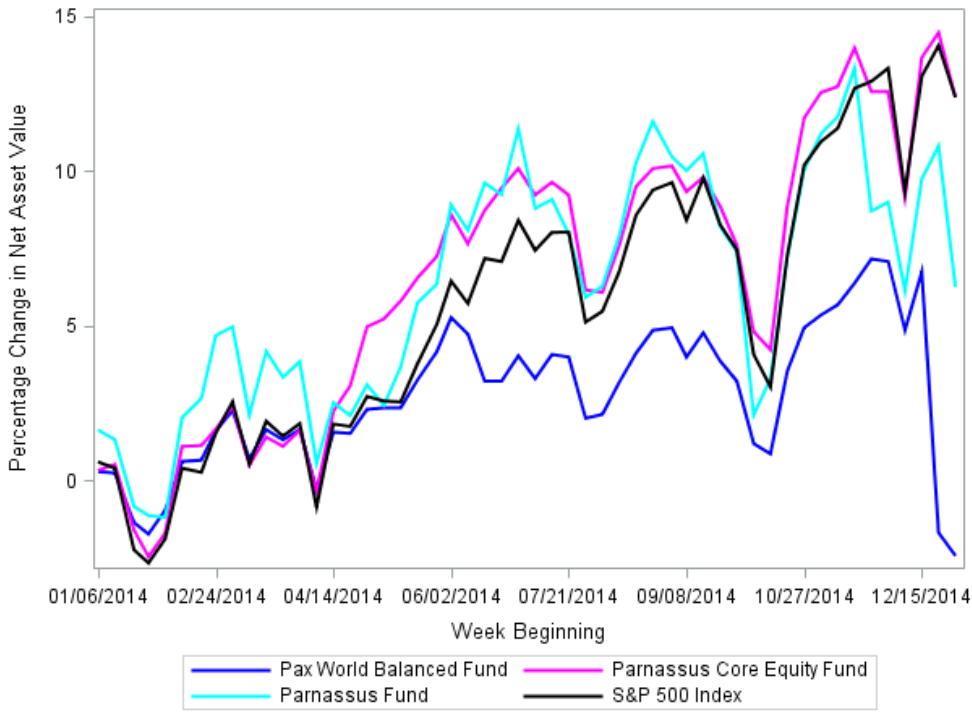


Figure 2. One-Year Comparison of Socially Responsible Mutual Fund Performance

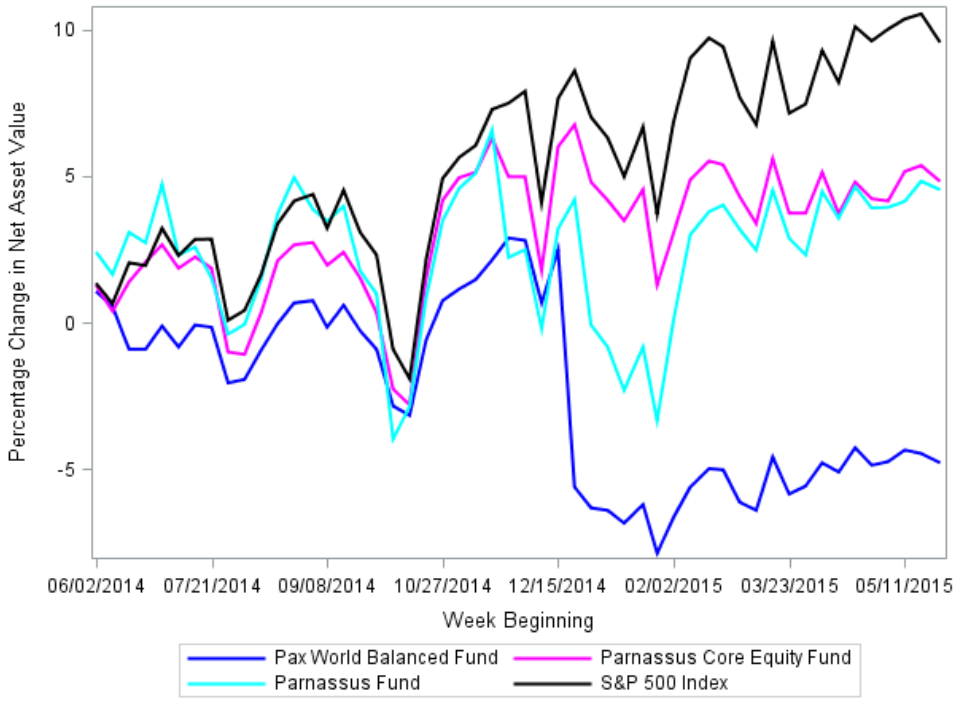


Figure 3. Five-Year Comparison of Socially Responsible Mutual Fund Performance

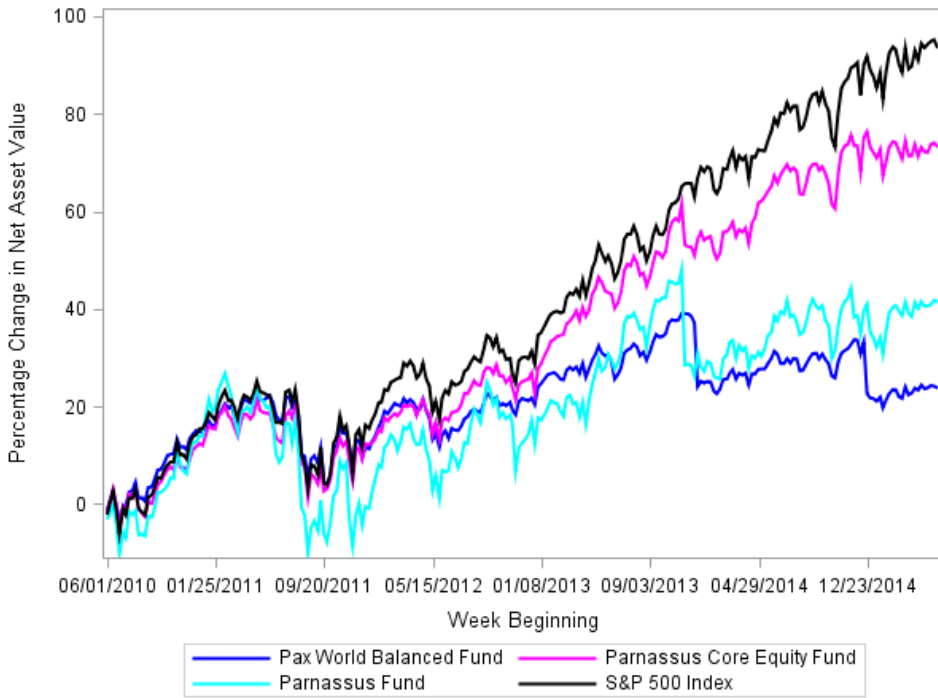
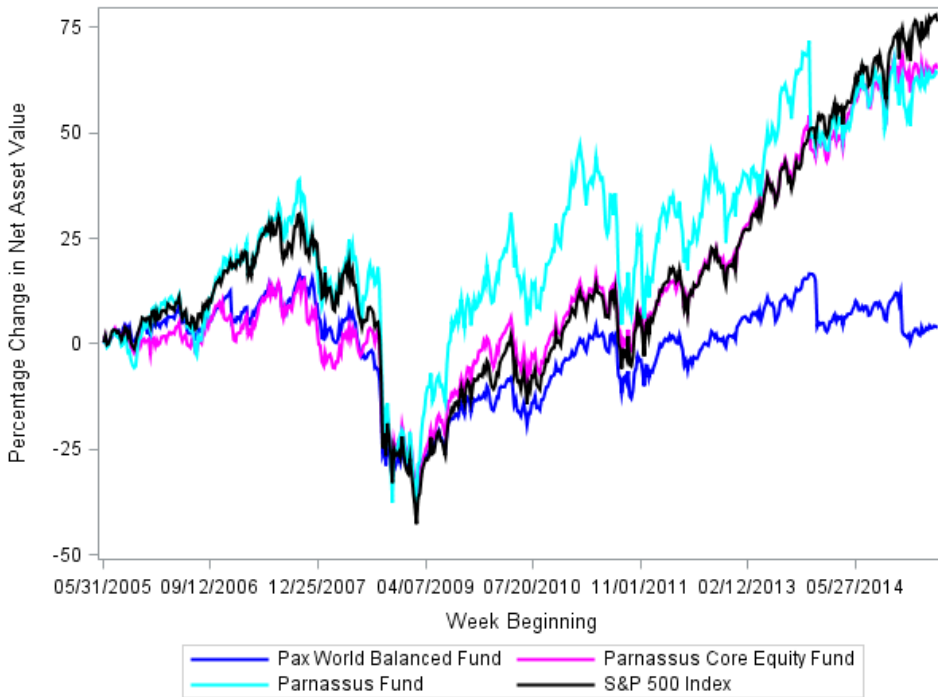


Figure 4. Ten-Year Comparison of Socially Responsible Mutual Fund Performance



Using the Society's Good Fortune to Expand Its Good Works

The Society's net assets have grown from \$440,774 in 2010 to \$820,396 at the end of 2014. As noted, the Society's net assets now exceed over one year's operating budget. I believe it is now possible to invest some of the Society's assets in furthering its good works. Accordingly, at our June meeting, I recommended that the BFA Committee include the following in the 2016 budget:

- Increase the number of Racial/Ethnic Minority Graduate Scholarships awarded to two, and increase the stipend from \$12,000 to \$15,000
- Increase the Thomas C. Hood Social Action Award from \$1,000 (which it has been for years) to \$5,000
- Increase the Lee Student Support Fund budget from \$11,000 to \$15,000

The BFA Committee unanimously voted to approve these recommendations and incorporated them in the 2016 proposed budget. The Board will vote on these increases to the 2016 budget at its Sunday meeting.

Review of the Annual Audit

Lattimore Black Morgan & Cain, PC conducted the annual audit of the Society's financial statements. Their representatives, Bill Kelso, Partner, and Lawrence Alexander, Manager, reviewed and discussed the findings of the audit with the members of the BFA Committee via conference call at its June meeting in La Verne, California. The results of the audit were clean with no unusual findings. They indicated there were no procedural concerns from an audit perspective. They noted that the largest differences appear in the accounts receivable increases and deferred revenue decreases which they attribute to the change in the publisher of the journal. Bill Kelso noted that the Financial Accounting Standards Board (FASB) is proposing some changes in the non-profit accounting procedures. These changes have not yet been made, but those that are adopted will probably not go into effect until at least 2017. The Society is already complying with many of the proposed changes.

Action Item: Board needs to vote on the seconded motion from the BFA Committee to approve the audit.