

MEMORANDUM

TO: SSSP Board of Directors
FROM: Susan M. Carlson, Treasurer and Investment Advisor
DATE: July 14, 2019

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.” As part of this oversight responsibility, the Treasurer provides an annual report to the Board of Directors that gives an overview of the financial condition of the Society and its investments, reviews the results of the annual audit, and offers comments concerning any issues that affect the future financial wellbeing of the Society.

Financial Condition of the Society

The Society experienced a decline in net assets of \$86,210 in 2018, down from \$1,055,157 at the end of 2017 to \$968,947 at the end of 2018. Nearly all of this decline was due to an unrealized (paper) loss on investments of \$85,486, and this paper loss was caused by a sharp drop in the stock market on December 24, 2018. The market has more than recovered since then, with the S&P 500 increasing from its low of \$2,351.10 on December 24th, to \$3,313.77 on July 12th.

In August 2018, the Budget, Finance, and Audit Committee (BFA) projected a deficit of \$81,615 for 2018. Holding aside the paper loss on investments, expenses exceeded revenue by only \$724. There was a 6.5% decline in total revenue, including a 9% decline in membership dues, a 1.3% drop in journal income, a 10.3% drop in annual meeting income, and an 18.9% decrease in dividend and interest income. Total functional expenses, which include the paper loss on investments, increased by 24.2%. Executive officer and administrative office expenses increased by only 2.3% and 1.9%, respectively. Many thanks to Héctor, and Michele and her staff, for being such good stewards of the Society’s resources. Journal and publications and annual meeting expenses increased by 5.2% and 3.9%, respectively. Finally, committees and program of divisions expenses, board governance expenses, and board-restricted expenses increased by 21.6%, 10.7%, and 4.5%, respectively.

The BFA Committee is projecting a budget deficit of \$92,199 in 2019, down from the \$116,087 deficit projected last August. The drop is due to projected increased revenue from membership dues, journal and publications revenues, and higher dividends and interest income, and decreases in projected expenses for the executive officer, administrative office, and committees/program of divisions. It is important to keep in mind that the BFA Committee budgets conservatively, and the projected budget does not include unrealized gains on investments, which, if upward market trends hold, should offset the projected deficit, at least in part.

Investment Portfolio and Performance

The SSSP board-approved investment policy and guidelines for investing in community development financial institutions require that the Society's reserve funds be invested in diversified socially responsible/sustainable investment/environment, social, governance (SR/SI/ESG) 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 SR/SI/ESG mutual funds, two community development financial institutions, and a money market account with a local community bank. As of May 2019, 64.1% of the Society's reserve funds were invested with three SI/SR/ESG funds—the Walden Asset Management Fund (WSBFX, 21.1%), the Parnassus Fund (PARNX, 13.6%), and the Parnassus Core Equity Fund (institutional shares, PRILX, 29.4%). Another 21.8% of the reserve funds is invested with two community development financial institutions that provide banking and other services to low-wealth communities—the Self-Help Credit Union in North Carolina (a CD and a money market account) and City First Bank of DC in Washington, DC (a CD). The remaining reserves (14.1%) are deposited in a money market account with Home Federal Bank in Knoxville. Following the mid-year BFA meeting, the investment in the Parnassus Fund was moved to the Parnassus Endeavor Fund that has outperformed the Parnassus Fund over the short and long term.

The Gittler bequest is invested with the Self-Help Credit Union and will remain there since that institution tends to pay higher interest than comparable CDFIs. The investment with City First Bank of DC was made in November 2016 and will mature in November 2019. A three-year \$50,000 CD investment with the Latino Community Credit Union matured in March 2019. Over the past several years it has become more difficult to find CDFIs that will accept investments like the Society's from outside investors. The BFA is reconsidering how to make these community investments in the future, and to revise the guidelines for such investments accordingly. Many of the larger CDFIs that do accept outside investors, like Self-Help Credit Union, now are either regional or national, while smaller CDFIs either do not offer CDs, or restrict investment opportunities in CDs to their defined membership.

Fund prospectuses that detail the investment objectives and strategies of the Parnassus Funds and Walden Asset Management Fund are available from their respective websites:

<https://www.parnassus.com/> <https://waldenassetmgmt.com/> Differences in fund objectives and strategies provide some protection from market fluctuations, and are reflected in the following graphs.

Figure 1. SR/SI/ESG Mutual Fund Performance FY 2018

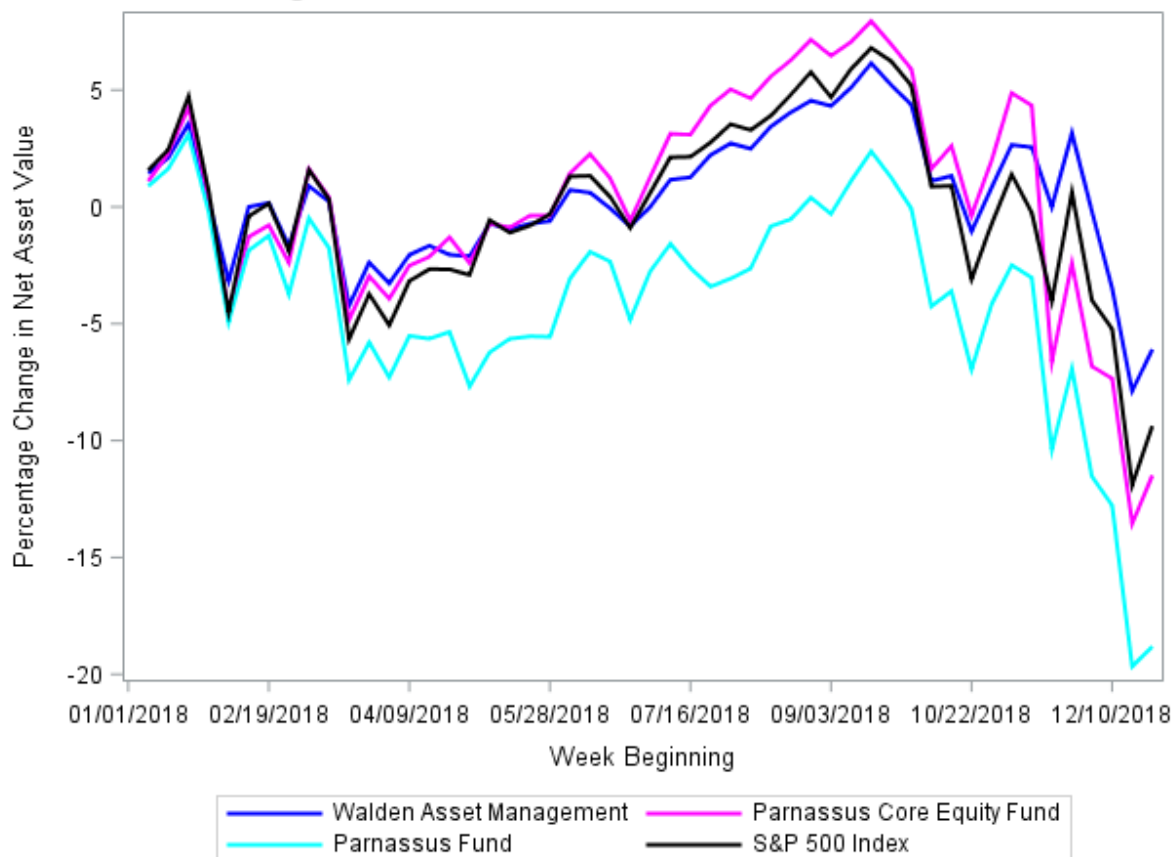


Figure 2. One-Year Comparison of SR/SI/ESG Mutual Fund Performance

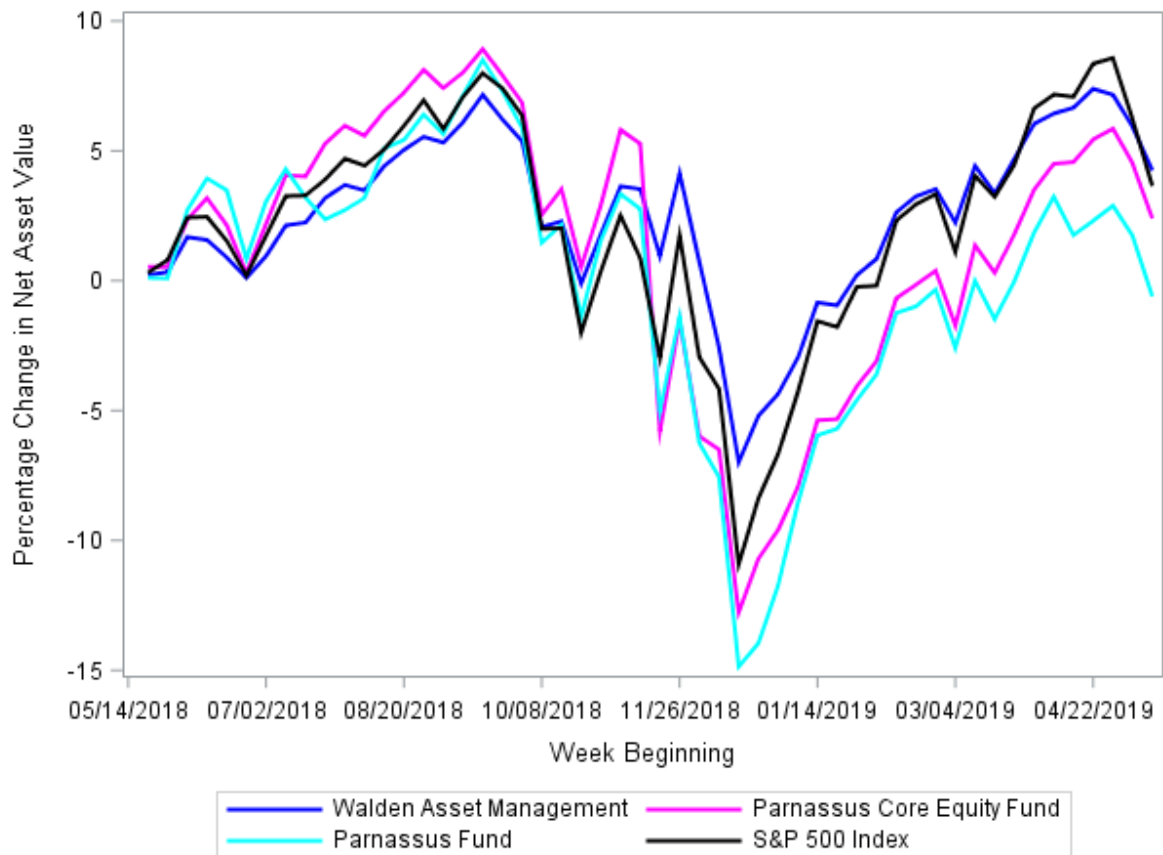


Figure 3. Five-Year Comparison of SR/SI/ESG Mutual Fund Performance

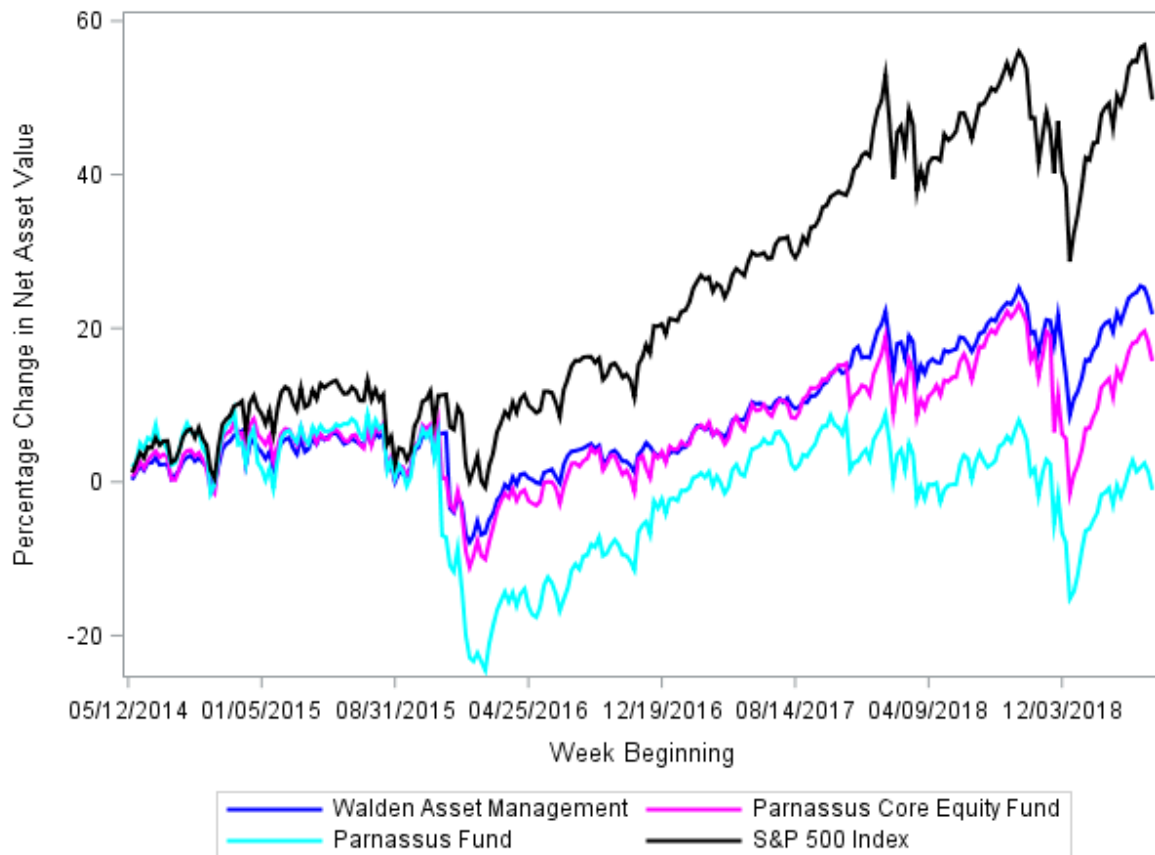
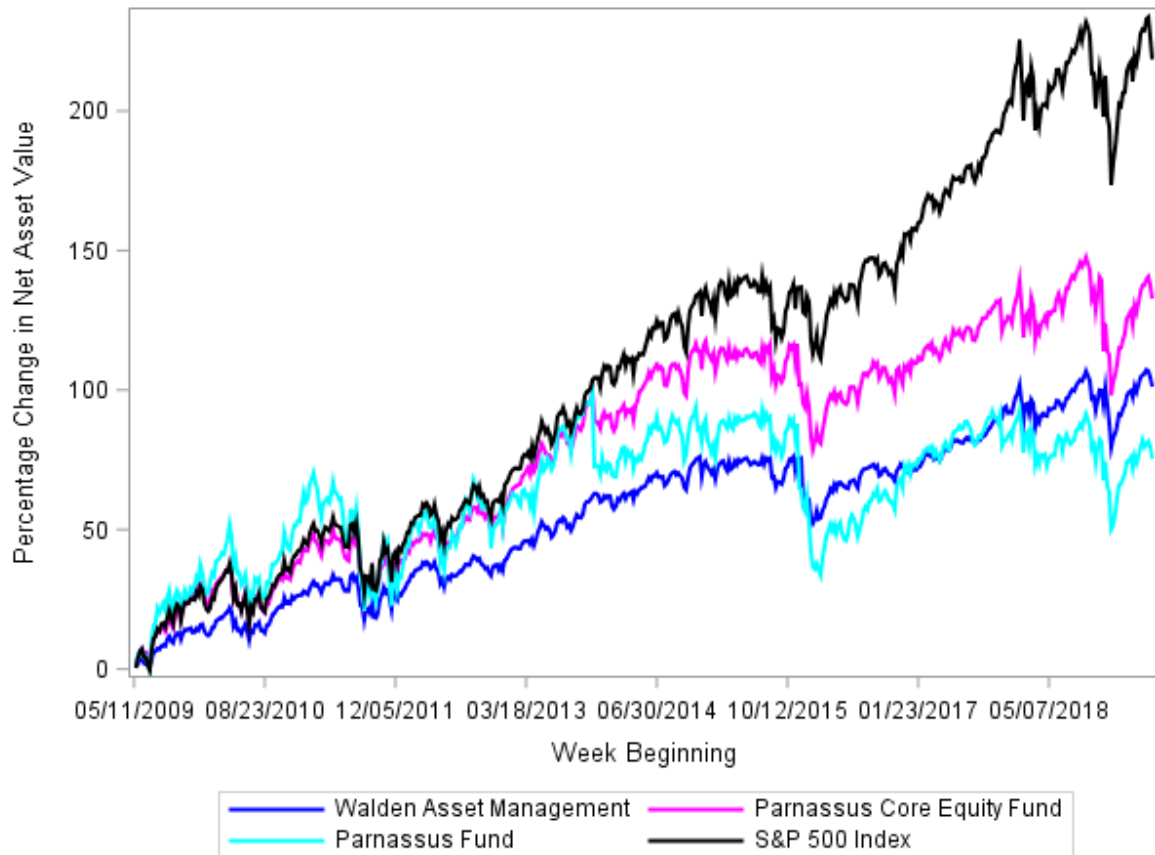


Figure 4. Ten-Year Comparison of SR/SI/ESG Mutual Fund Performance



Review of the Annual Audit

Lattimore Black Morgan & Cain, PC conducted the annual audit of the Society's financial statements for the year ended December 31, 2018. Lawrence Alexander, Manager, Audit Services, LBMC, reviewed and discussed the findings of the audit with the members of the BFA Committee at its May 31st meeting in Knoxville. The results of the audit were clean with no unusual findings. LBMC deems the financial statements to fairly represent the financial position of the Society for the Study of Social Problems, and the changes in net assets and cash flows.