

MEMORANDUM

TO: SSSP Board of Directors
FROM: Susan M. Carlson, Treasurer and Investment Advisor
DATE: July 17, 2020
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

In August 2019, the Budget, Finance, and Audit Committee (BFA) projected a deficit of \$82,619 for 2019. However, the Society finished the year with an increase in net assets of \$96,887, up from \$968,947 at the end of 2018 to \$1,065,835 at the end of 2019. This increase was due to an unrealized (paper) gain on investments of \$154,284. However, holding aside the paper gain on investments, expenses exceeded revenue by \$59,583.

Ignoring paper gains/losses on investments, there was a \$17,350 (2.8%) increase in revenue in 2019 over 2018. Increases in revenue were in three categories—membership dues (+13.9%), annual meeting revenue (+12.7%), and contributions (+17.3%). Decreases in revenue were recorded for journal income (-1.0%) and income on investments (-22.3%). Functional expenses increased by \$72,677 (11.6%) resulting from an increase in general and administrative expenses of 13.6% (\$46,327), due in part to hiring a new full-time staff member for the administrative office, and a 20.3% (\$35,636) increase in annual meeting and awards expenses in New York. Finally, journals and publications expenses decreased by 8.3% (\$9,286).

Overall, 2019 was a good year for the Society’s finances as net assets experienced a healthy increase. However, the budget surplus was due to the paper increase in investments. Revenues increased but did not keep pace with increases in expenses.

The BFA Committee is projecting a budget deficit of \$90,272 in 2020, down from the \$104,828 deficit projected last August. This deficit is due to fallout from cancellation of the in-person annual meeting due to COVID-19 resulting in a projected loss in membership dues of \$48,802 (-30.2%) and the \$26,115 estimated cost of the complimentary virtual annual meeting. Revised estimates of journal revenue are also down by \$10,549 (-3.5%). It is important to keep in mind that the BFA Committee budgets conservatively, and the projected budget does not include unrealized gains/losses on investments, which are uncertain given the pandemic. However, as of the last week of June, investment losses earlier this year have seen a substantial rebound (see below). Nonetheless, I believe that the Society will experience a substantial budget deficit in

2020. Fortunately, there are sufficient reserve funds for the Society to weather the storm. The BFA Committee and I will be monitoring the financial condition of the Society over the coming year very closely. Should it appear that the annual meeting will need to be canceled in 2021, the Board should be prepared to receive recommendations for substantial budget cuts from the BFA Committee.

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/environmental, 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, one community development financial institution, and a money market account and miscellaneous savings accounts with a local community bank. Of the Society’s \$1,097,240 reserve and restricted funds as of June 30, 2020, 70.5% are invested with three SI/SR/ESG funds—the Walden Balanced Fund (WSBFX, 20.8%), the Parnassus Endeavor Fund (PARWX, 15.3%), and the Parnassus Core Equity Fund (institutional shares, PRILX, 34.4%). Another 20.8% of the reserve and restricted funds is invested with one community development financial institution that provides banking and other services to low-wealth communities—the Self-Help Credit Union in North Carolina (a CD [Gittler bequest] and a money market account). The remaining reserves (8.7%) are deposited in a money market account and contributions savings accounts with Home Federal Bank in Knoxville.

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 graphs in the following section.

Investment Performance

Figures 1 through 4 compare the performance of the Walden Balanced Fund (blue lines), the Parnassus Core Equity Fund (red lines), Parnassus Endeavor Fund (green lines) and the Standard and Poor 500 Index (black lines) in 2019, and for one year+, five years+, and ten years+ as of the week beginning June 29, 2020. Overall, these graphs show that the funds performed relatively well compared with the S&P 500 market standard in the short term, but less well over the longer term. Differences in the performance of the mutual funds are consistent with the investment objectives of the funds—long-term capital growth and income for the Walden Balanced Fund, capital appreciation and current income for the Parnassus Core Equity Fund, and capital appreciation for the Parnassus Endeavor Fund. More specifically, Figure 1 shows the solid performance of all funds in 2019, with the two Parnassus funds doing very well relative to the

market standard S&P 500. Figure 2 clearly shows the COVID-19 drop in the market, and its partial rebound by the week beginning June 29, 2020. The value of all investments on December 31, 2019 was \$1,181,834.94, and on June 30, 2020 the total value was \$1,097,240, a drop of 7.7%. Figures 3 and 4 show the longer-term performance of the funds.

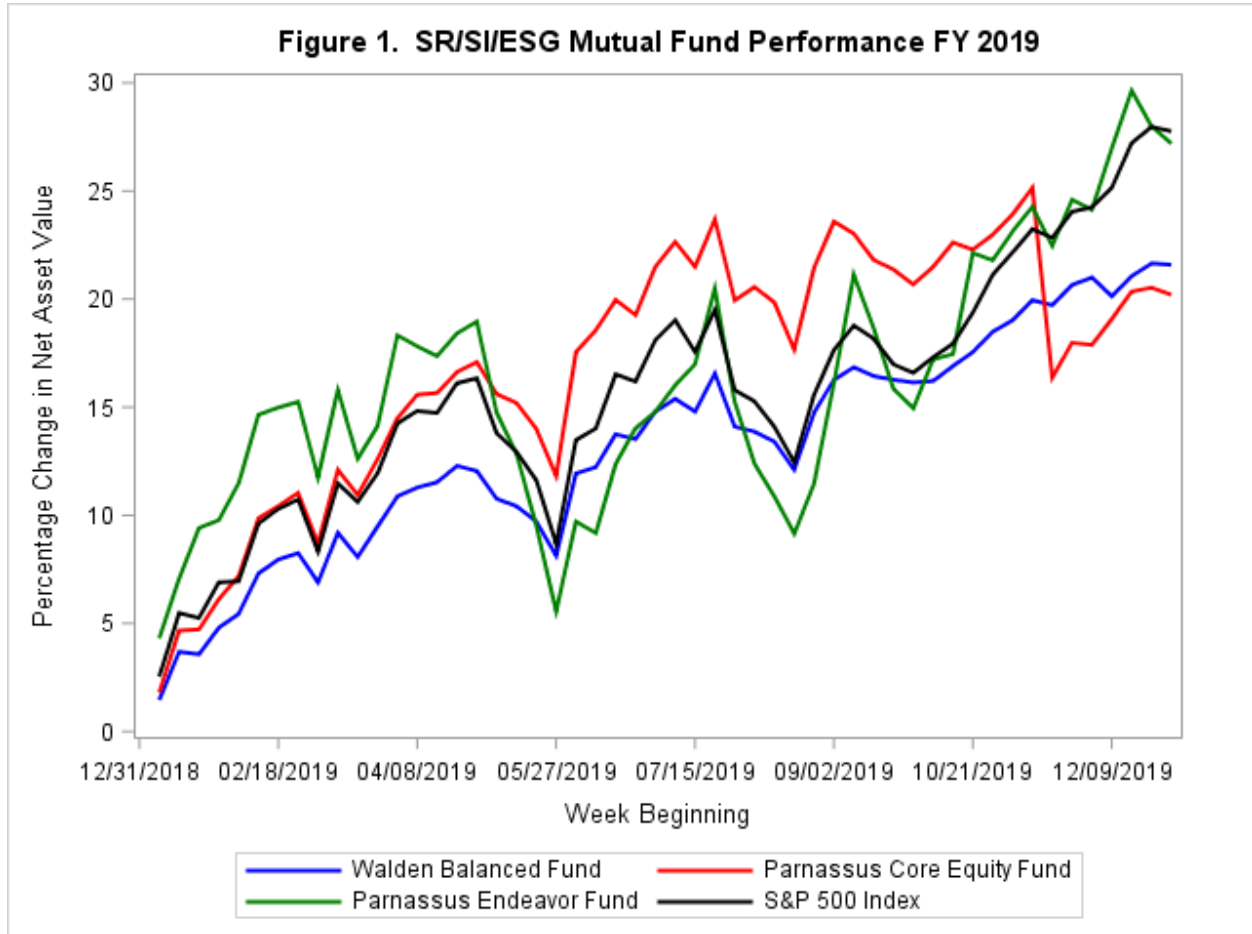


Figure 2. One-Year+ Comparison of SR/SI/ESG Mutual Fund Performance

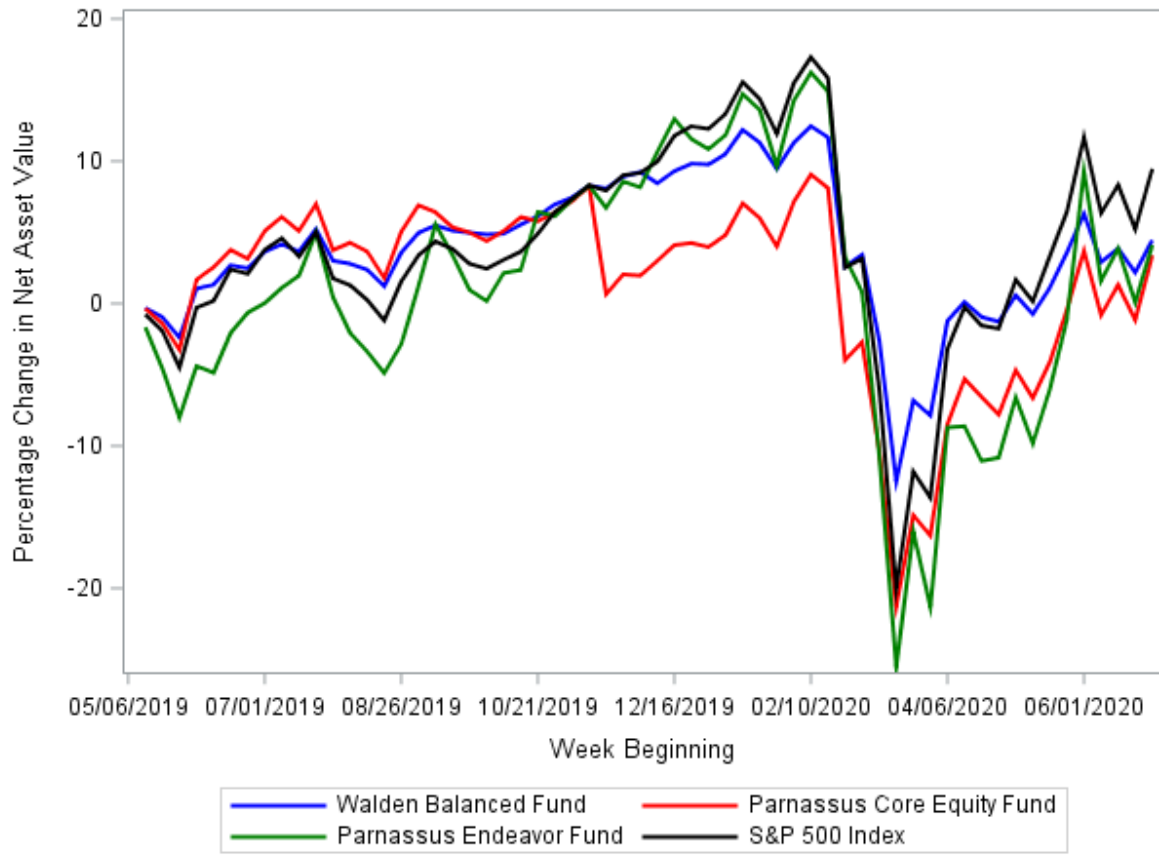
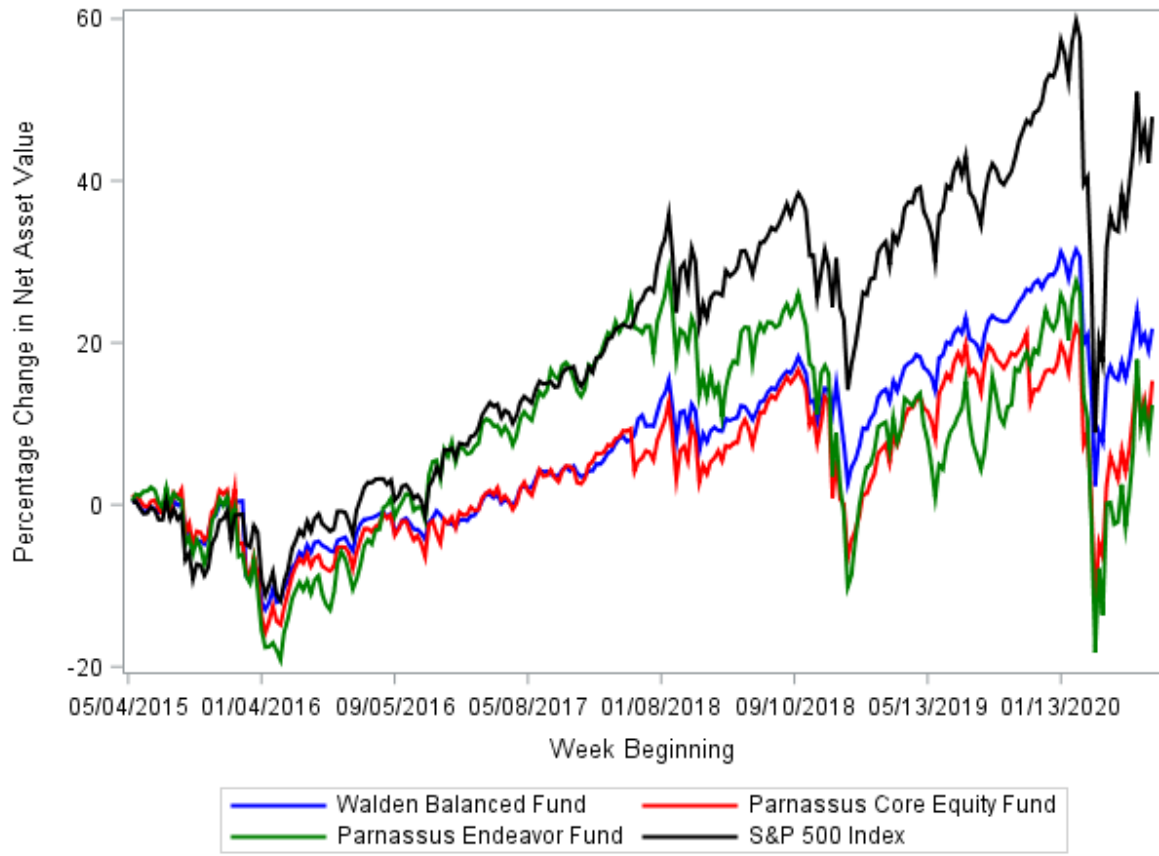
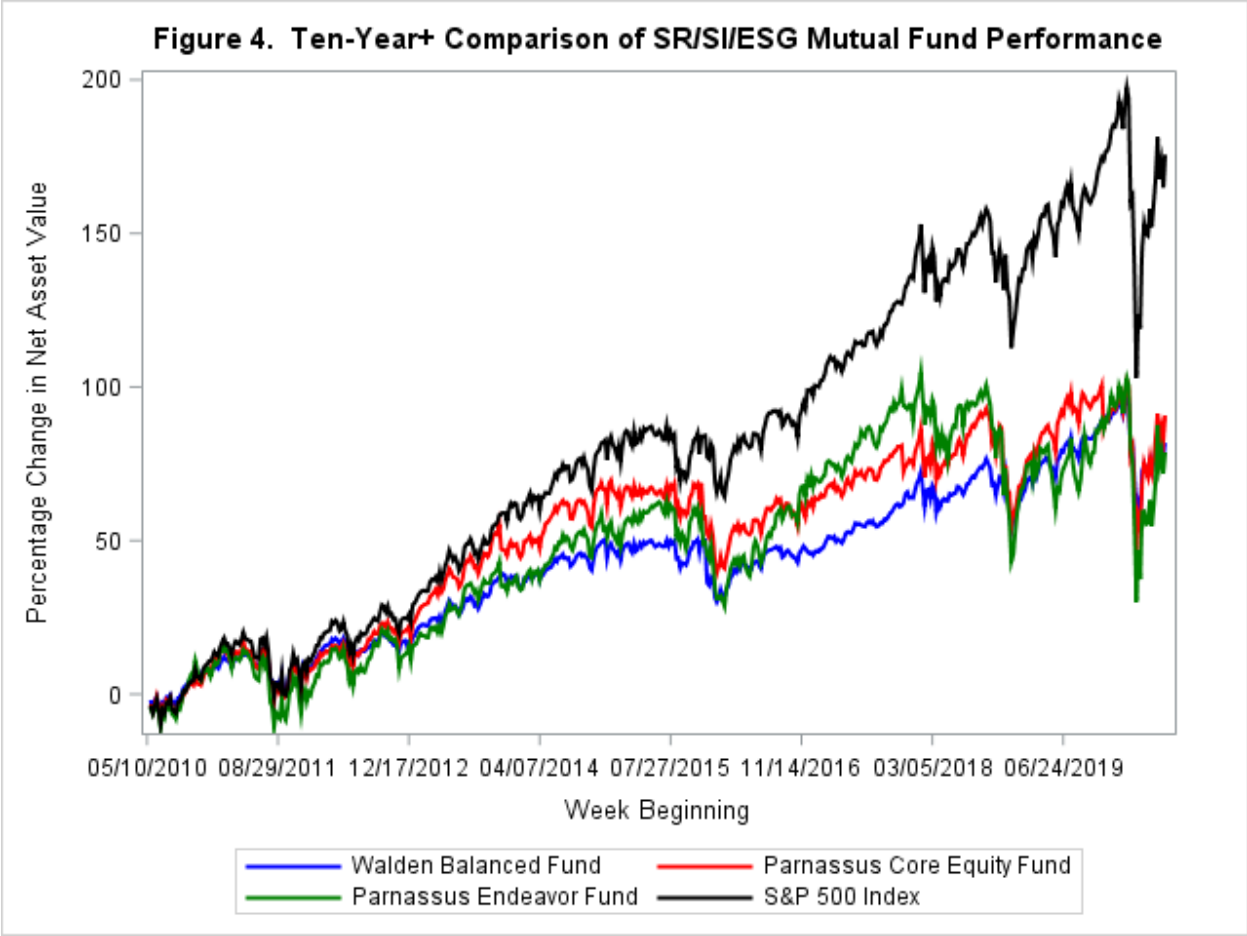


Figure 3. Five-Year+ Comparison of SR/SI/ESG Mutual Fund Performance





Review of the Annual Audit

Lattimore Black Morgan & Cain, PC in Knoxville Tennessee conducted the annual audit of the Society’s financial statements for the year ended December 31, 2019. Bill Kelso, Audit & Advisory Shareholder, and Lawrence Alexander, Senior Manager, Audit & Advisory, LBMC, reviewed and discussed the findings of the audit with the members of the BFA Committee at its May 29th online meeting. 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.