

**SYSTEM DYNAMICS SOCIETY, INC.
FINANCIAL REPORT
DECEMBER 31, 2018**

SYSTEM DYNAMICS SOCIETY, INC.

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INDEPENDENT AUDITOR'S REPORT

Policy Council
System Dynamics Society, Inc.

We have audited the accompanying financial statements of the System Dynamics Society, Inc. (a Massachusetts not-for-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of System Dynamics Society, Inc. as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, System Dynamics Society, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Marvin and Company, P.C.

Latham, NY

July 2, 2019

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 110,338	\$ 159,100
Investments	815,422	969,555
Accounts receivable	59,690	80,966
Contributions receivable	-	22,601
Inventory	14,227	14,227
Prepaid expenses	43,976	87,320
Total Current Assets	1,043,653	1,333,769
Property and Equipment		
Office equipment	574	651
Less accumulated depreciation	(191)	(651)
Total Property and Equipment	383	-
Other Assets		
Investments-restricted	178,369	157,042
Contributions receivable, net of current portion	-	23,500
Total Other Assets	178,369	180,542
TOTAL ASSETS	\$ 1,222,405	\$ 1,514,311

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 211,859	\$ 22,668
Membership subscriptions liability	5,177	7,752
Deferred revenue	65,593	47,174
Custodial account liability	4,325	4,475
Total Current Liabilities	286,954	82,069
Net Assets		
Without donor restrictions		
Board designated	757,082	1,245,200
Total without donor restrictions	757,082	1,245,200
With donor restrictions	178,369	187,042
Total Net Assets	935,451	1,432,242
TOTAL LIABILITIES AND NET ASSETS	\$ 1,222,405	\$ 1,514,311

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenues		
Conferences	\$ 300,313	\$ 357,940
Publications	82,765	79,815
Membership dues and subscriptions	62,847	61,335
Educational products, net expenses of \$9,038 and \$11,660 in 2018 and 2017, respectively	38,185	44,526
E-books project	-	23,000
Contributions	11,376	127,841
Investment income, net	(72,007)	176,476
Net assets released from restrictions	-	2,000
Total Support and Revenues	<u>423,479</u>	<u>872,933</u>
Expenses		
Awards	7,847	7,850
Bank and credit card fees	13,693	16,902
Chapter development	1,988	11,155
Contract - University of New York at Albany	327,608	341,029
Conferences	152,844	144,857
Insurance	5,784	5,866
Publications	23,000	20,000
Marketing	1,000	2,000
Office expenses	14,054	6,379
Travel and training	8,434	7,832
Professional fees and consultants	306,552	111,842
Miscellaneous	2,501	446
Bad debt expense	46,101	-
Depreciation expense	191	-
Total Expenses	<u>911,597</u>	<u>676,158</u>
Change in Net Assets Without Donor Restrictions	<u>(488,118)</u>	<u>196,775</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Support and Revenues		
Contribution	-	30,000
Investment income, net	(8,673)	28,305
Net assets released from donor restrictions	-	(2,000)
Change in Net Assets With Donor Restrictions	<u>(8,673)</u>	<u>56,305</u>
Change in Net Assets	(496,791)	253,080
Net Assets, Beginning of Year	<u>1,432,242</u>	<u>1,179,162</u>
Net Assets, End of Year	<u>\$ 935,451</u>	<u>\$ 1,432,242</u>

See accompanying notes to financial statements.

**SYSTEM DYNAMICS SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>PROGRAM SERVICES</u>		<u>SUPPORTING SERVICES</u>		<u>Total</u>
	<u>System Dynamics</u>	<u>Management and General</u>	<u>Development and Fundraising</u>		
Awards	\$ 7,847	\$ -	\$ -	\$ 7,847	
Bank and credit card fees	5,733	7,960	-	13,693	
Chapter development	-	1,988	-	1,988	
Contract - University of New York at Albany	245,705	65,522	16,381	327,608	
Conferences	152,844	-	-	152,844	
Insurance	-	5,784	-	5,784	
Publications	23,000	-	-	23,000	
Marketing	-	1,000	-	1,000	
Office expenses	3,115	10,919	20	14,054	
Travel and training	1,270	7,139	25	8,434	
Professional fees and consultants	208,059	86,415	12,078	306,552	
Miscellaneous	1,326	1,175	-	2,501	
Bad debt expense	46,101	-	-	46,101	
Depreciation expense	191	-	-	191	
Total Expenses	<u>\$ 695,191</u>	<u>\$ 187,902</u>	<u>\$ 28,504</u>	<u>\$ 911,597</u>	

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows Provided (Used) By Operating Activities		
Change in net assets	\$ (496,791)	\$ 253,080
Adjustments to reconcile change in net assets to net cash used by operating activities		
Bad debt expense	46,101	-
Net loss (gain) on investments	99,323	(185,185)
Depreciation expense	191	-
Change in operating assets and liabilities		
Accounts receivable	21,276	(26,439)
Contributions receivable	-	(46,101)
Inventory	-	7,805
Prepaid expenses	43,344	(41,828)
Accounts payable and accrued expenses	189,191	(11,792)
Membership subscriptions liability	(2,575)	35
Deferred revenue	18,419	4,024
Custodial account liability	(150)	(150)
Net Cash Used By Operating Activities	<u>(81,671)</u>	<u>(46,551)</u>
Cash Flows Provided (Used) By Investing Activities		
Proceeds from sales of investments	839,962	368,779
Purchases of investments	(806,479)	(228,994)
Purchase of property and equipment	(574)	-
Net Cash Provided By Investing Activities	<u>32,909</u>	<u>139,785</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(48,762)	93,234
Cash and Cash Equivalents, Beginning of Year	<u>159,100</u>	<u>65,866</u>
Cash and Cash Equivalents, End of Year	<u>\$ 110,338</u>	<u>\$ 159,100</u>

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

System Dynamics Society, Inc. (SDS) was incorporated in the State of Massachusetts in November 1985. SDS is a not-for-profit organization devoted to encouraging the development and use of system dynamics and systems thinking around the world. System dynamics is a computer-aided approach to policy analysis and design. SDS provides a forum in which researchers, educators, consultants, and practitioners in the corporate and public sectors interact to introduce newcomers to the field, keep abreast of current developments, and build on each other's work. SDS is primarily supported through conference revenue and investment income.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and reflect all significant receivables, payables, and other liabilities. Revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC). SDS is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions based on the existence or absence of donor-imposed restrictions on the use of net assets.

Adoption of New Accounting Standard

For the year ended December 31, 2018, SDS adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented, except for the statement of functional expenses which was permitted by the ASU to be presented for the current year only in the year of implementation. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously report as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to conform to the 2018 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ.

Income Taxes

SDS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, is classified as an organization that is not a private foundation, and qualifies for the charitable contribution deduction for individual donors. Management believes there are no sources of unrelated business taxable income and no uncertain tax positions. Accordingly, no provision for income taxes has been made in the accompanying financial statements. SDS is required to file Federal Form 990 "Return of Organization Exempt from Income Tax" with the Internal Revenue Service, and similar information returns with certain states.

Revenue Recognition

Conference Revenue

SDS receives revenue for conferences held and recognizes this revenue when earned.

Contributions and Investment Income

Contributions and investment income are recorded as without donor restrictions or with donor restrictions depending on the existence of donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restrictions imposed that are met in the same year they are received are included in net assets without donor restrictions.

Contributed Services

SDS generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform tasks that assist SDS with its activities. This volunteer time is not recognized in the financial statements.

Cash and Cash Equivalents

SDS defines cash and cash equivalents as amounts readily convertible into cash and includes deposit accounts with banks and money market accounts with investment companies.

Concentration of Credit Risk

Financial instruments that potentially subject SDS to concentrations of credit risk consist principally of cash accounts in financial institutions which, from time to time, may exceed the Federal depository insurance coverage limit of \$250,000. No amounts exceeded federally insured limits at December 31, 2018 and 2017.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Investments principally consist of exchange traded products (equity and fixed income products) and mutual funds (equity funds) which are carried at fair value. Fair value is determined based on quoted market prices. Investment gains and losses are recognized in the statement of activities. Investment income is reported as an increase in net assets without donor restrictions unless a donor or law restricts its use.

Accounts Receivable

Management has concluded all accounts receivable will be collected and that no allowance is necessary at December 31, 2018 and 2017.

Inventory

Inventory is stated at the lower of FIFO (first-in, first-out method) cost and net realizable value.

Property and Equipment

Property and equipment are recorded at cost at date of acquisition or estimated fair value at date of donation. SDS' policy is to capitalize property and equipment with a unit value equal to or greater than \$1,000 and a useful life greater than one year. Depreciation is computed under the straight-line method over the estimated useful lives of property and equipment (5 years).

2. UNIVERSITY OF NEW YORK AT ALBANY/CAPITOL HILL MANAGEMENT SERVICES

SDS had a contract with the University of New York at Albany (University) for administrative support services through December 31, 2018. Support services included sharing common facilities, personnel services, and the use of property and equipment owned by the University. SDS incurred \$327,608 and \$341,029 in costs for support services during the years ended December 31, 2018 and 2017, respectively. There were no amounts receivable from the University at December 31, 2018 and 2017. Amounts payable to the University totaled \$67,000 and \$-0- at December 31, 2018 and 2017, respectively. Prepaid contract costs totaled \$6,000 and \$39,183 at December 31, 2018 and 2017, respectively.

Effective January 2018, SDS retained Capitol Hill Management Services, Inc. (CHMS) to provide financial management, administrative support, and other services through December 2019. This includes sharing common facilities, personnel services, and the use of property and equipment owned or rented by CHMS. SDS incurred \$170,600 and \$25,500 in costs for these services during the years ended December 31, 2018 and 2017, respectively. These costs are included in professional fees and consultants expense on the statement of activities. There were no amounts receivable from CHMS at December 31, 2018 and 2017. Amounts payable to CHMS totaled \$39,112 and \$-0- at December 31, 2018 and 2017, respectively. Prepaid contract costs totaled \$27,333 and \$-0- at December 31, 2018 and 2017, respectively. Minimum contract commitments during the year ended December 31, 2019 are \$328,000.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

3. INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES

SDS regularly monitors liquidity required to meet the operating needs of the organization. For purposes of analyzing resources available to meet general expenditures over a 12 month period, SDS considers all expenditures related to its ongoing activities of providing benefits to its members and takes this into consideration during the annual budget process. SDS has reserve funds that are invested for long term appreciation but are available and may be spent at the discretion of the Board of Directors. In cases when expenses exceed the income for a period of time, the Board of Directors will assess and make the determination if it is necessary to withdraw funds from investment reserves for operating expenses.

The following table reflects SDS's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of external restrictions or internal board designations.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 110,338	\$ 159,100
Accounts receivable	59,690	80,966
Investments	<u>993,791</u>	<u>1,126,597</u>
Total Financial Assets	1,163,819	1,366,663
Net assets with donor restrictions	(178,369)	(187,042)
Board designated net assets	<u>(757,082)</u>	<u>(1,245,200)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 228,368</u>	<u>\$ (65,579)</u>

As part of its liquidity management, SDS has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. SDS has a goal to maintain financial assets to meet 60 days of normal operating expenses, and SDS reserves cash and investments in excess of those requirements with a goal of building investments available for current use to \$600,000. SDS drew down those reserves over the past two years as part of transitioning operations from the University of New York at Albany to Capitol Hill Management Services (Note 2).

Operational efficiencies are expected to reduce expenses. As a result, a smaller draw against reserves is anticipated in 2019 and 2020. In addition, SDS has board-designated funds that can be drawn upon during the year for specific operational expenses. Most expenditures from these funds are approved by a board-appointed committee, and the targeted spending rate on each designated fund is no more than 5% in a given year. Although SDS does not intend to spend from its board-designated funds for operating expenses, other than amounts appropriated for specific expenditures as part of its normal committee review and awarding process, amounts from its board-designated funds could be made available if necessary.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

4. INVESTMENTS

A summary of investments at December 31, 2018 and 2017 is set forth below:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Exchange traded products	\$ 236,681	\$ 236,075	\$ 237,641	\$ 256,824
Mutual funds	<u>454,275</u>	<u>757,716</u>	<u>446,742</u>	<u>869,773</u>
	<u>\$ 690,956</u>	<u>\$ 993,791</u>	<u>\$ 684,383</u>	<u>\$ 1,126,597</u>

Net investment income for the years ending December 31, 2018 and 2017 consists of:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 20,803	\$ 21,405
Net gain (loss) on investments	(99,323)	185,185
Investment fees	<u>(2,160)</u>	<u>(1,809)</u>
	<u>\$ (80,680)</u>	<u>\$ 204,781</u>

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 38,101	\$ 22,601
One to five years	<u>8,000</u>	<u>23,500</u>
	46,101	46,101
Less: Write-offs	<u>(46,101)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 46,101</u>

During 2017, management believed all amounts would be received when due, therefore, no allowance for uncollectible contributions had been recorded. During 2018 and 2019, management was informed by donors that amounts promised would not be honored. Management has written off the contributions receivable at December 31, 2018. This has been recorded as bad debt expense on the statement of activities.

6. FUNCTIONAL REPORTING OF EXPENSES

SDS is required to present its expenses by functional classification, which shows the amount spent for program and supporting services. Expenses that can be specifically identified as a program or supporting service are charged directly to the respective program or supporting service. The statement of functional expenses reports certain categories of expenses that are attributable to more than one program or supporting service (i.e. common to both functions). These expenses are allocated. The expenses that are allocated include bank and credit card fees which are allocated based on income, and contract – University of New York at Albany, office expenses, travel and training, professional fees and consultants, and miscellaneous which are allocated based on estimates of time and effort.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

7. NET ASSETS

Net Assets Without Donor Restrictions - Board Designated

Net assets have been designated by the Board of Directors for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Capital reserve	\$ 112,677	\$ 392,173
Legacy campaign	24,405	71,947
Executive Director salary reserve	-	118,580
Buffer funds	100,000	100,000
Transition costs	-	42,500
Chapter development	400,000	400,000
Jay Wright Forrester Award	100,000	100,000
PhD luncheon	20,000	20,000
	<u>\$ 757,082</u>	<u>\$ 1,245,200</u>

Net Assets With Donor Restrictions

The restriction on net assets relates to funds established to honor the late Dana Meadows and encourage the next generation of students in the field of system dynamics. Net assets with donor restrictions available to fund the Dana Meadows Award are summarized as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 187,042	\$ 130,737
Contribution	-	30,000
Investment income	(8,673)	28,305
Award provided	-	(2,000)
Ending balance	<u>\$ 178,369</u>	<u>\$ 187,042</u>

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The fair value of assets measured on a recurring basis at December 31, 2018 and 2017, using Level 1 inputs, follows:

	<u>2018</u>	<u>2017</u>
Cash equivalents	\$ 20,959	\$ 13,832
Investments		
U.S. stocks	726,062	851,682
Non U.S. stocks	72,687	177,111
U.S. Treasury notes	174,859	53,377
Corporate bonds	-	33,781
Other	<u>20,183</u>	<u>10,646</u>
Total Investments	<u>993,791</u>	<u>1,126,597</u>
	<u>\$ 1,014,750</u>	<u>\$ 1,140,429</u>

Cash, accounts receivable, contributions receivable and current liabilities - carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

9. RISKS AND UNCERTAINTIES

Investments are exposed to risks, such as interest rate, market and credit risks. Due to these risks, it is at least reasonably possible that changes in the near term would materially affect the amounts reported in the statements of financial position and activities.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 2, 2019, the date on which the financial statements were available to be issued, and determined that there are no subsequent events that require recording or disclosure.