

To: Policy Council of the System Dynamics Society
From: David Andersen, VP Finance
Subject: VP Finance Narrative Report for Fiscal Year 2015
Date: July 2016

*Summary: I expect that this will be my last report to the Policy Council as Vice President for Finance. I am pleased to be able to turn over my Vice Presidency with the Society in overall sound financial condition. That said, 2015 was a challenging year financially for the System Dynamics Society. We posted a net income of **\$-84,763** and our overall equity dropped from \$1,299,111 at the opening of our fiscal year to \$1,214,348 at the close of the fiscal year. Our more usual recent pattern has been for a modest loss in net ordinary income to be made up by gains in our investments. However, in 2015 our investments also declined. Our budget for 2017 projects a very slight surplus with a Net Ordinary Income loss of **\$76,503** being more than offset by projected gains in our investment portfolio.*

My report this year again has two parts. The first part covers a number of general issues that frame the discussion of the several attachments that are described in Part II.

Part I: Some General Issues

How Did the Society Do Overall in 2015? In 2015, we posted a loss in Net Income of **\$84,763** and our Total Assets declined by **\$76,057**. When viewed by cost centers, Core Operations posted a loss of **\$113,367**, Publications posted a loss of **\$6,414**, and this year our investments posted a loss of **\$24,818**. These losses were countered by Net Income gains of \$26,090 in Sales (sum of book sales and non-book sales) and \$37,008 in Conferences (sum of all years as shown on attachment 5).

This is our First Year of a Full Audit. In the past, our CPA has reviewed our finances, but this year we conducted a full audit as required by state and federal law in the United States. Our operations have grown to the size where this is now a requirement. Our CPA recommended and we have implemented some changes in our financial controls consistent with our status as a larger and more differentiated organization.

David Andersen Announced his Intention to Step Down “in an orderly fashion”. After 20 years as serving as Vice President for Finance, I have announced my intention to step down “in an orderly fashion.” At the winter meeting of the Policy Council, the Administrative Committee reported that a transition committee of six members has been formed to look into a range of transition issues currently facing the Society. I am a member of that Transition Committee and am looking forward to helping to shape an orderly transition over the next several years. We are in good shape financially and I am looking forward to a smooth transition.

Part II: Discussion of Society Financial Reports

(1) Key Trends in Society Finances 1984 to Present This plot of key variables over time shows long term financial growth and the overall financial situation. This year’s downturn in

Total Income and Unrestricted Net Assets reflects poorer performance of our investments. (A mini repeat of the same pattern around 2008.)

(2) Revenues and Expenses Budget Comparison for 2015 This page shows how well I am doing predicting our various classes of expenses and expenses through the budgeting process. When I look at this report I see several things. First, last year I under predicted both conference income and conference expenses by about 14% and 19% respectively. However, when both of these move together, the net impact on the Society's budget stays about the same. Second, I totally misestimated income from our investments. It is always a bit tricky trying to predict the performance of invested assets.

(3) Balance Sheet, Previous Year Comparison for 2015. We ended 2015 with Total Assets of **\$1,303,280**. This represents a decline of **\$76,057**, mostly due to poor performance of our invested assets between 2014 and 2015.

(4) Revenues and Expenses, Previous Year Comparison for 2015. Net Income for the year was **\$-84,763**, down from \$37,832 in 2014. The main difference between 2014 and 2015 is relatively weaker performance of our investments.

(5) Society Revenues and Expenses, Fiscal Year, by Cost Centers This page is quite informative because it shows how Society operations break down by cost centers (it is also hard to read on the printed page without magnification). If you are able to read the detail, you can see that Core Operations posted a loss of **\$113,367**, Publications posted a loss of **\$6,414**, and this year our investments posted a loss of **\$24,818**. These losses were countered by Net Income gains of \$26,090 in Sales and \$37,008 in Conferences (sum of all years).

(6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2015 (final statements from our CPA) Attachment 6 reproduces the CPA *audit* of our books. This is the first year that the Society has been required to go through a complete audit, as opposed to financial review. The format of the CPA report is somewhat different from the QuickBooks reports that I have presented above. If you examine closely the column labeled "audit" under the Cost Center breakdown in attachment 5, you can see the full range of reposted figures that align our QuickBooks accounts with this audit.

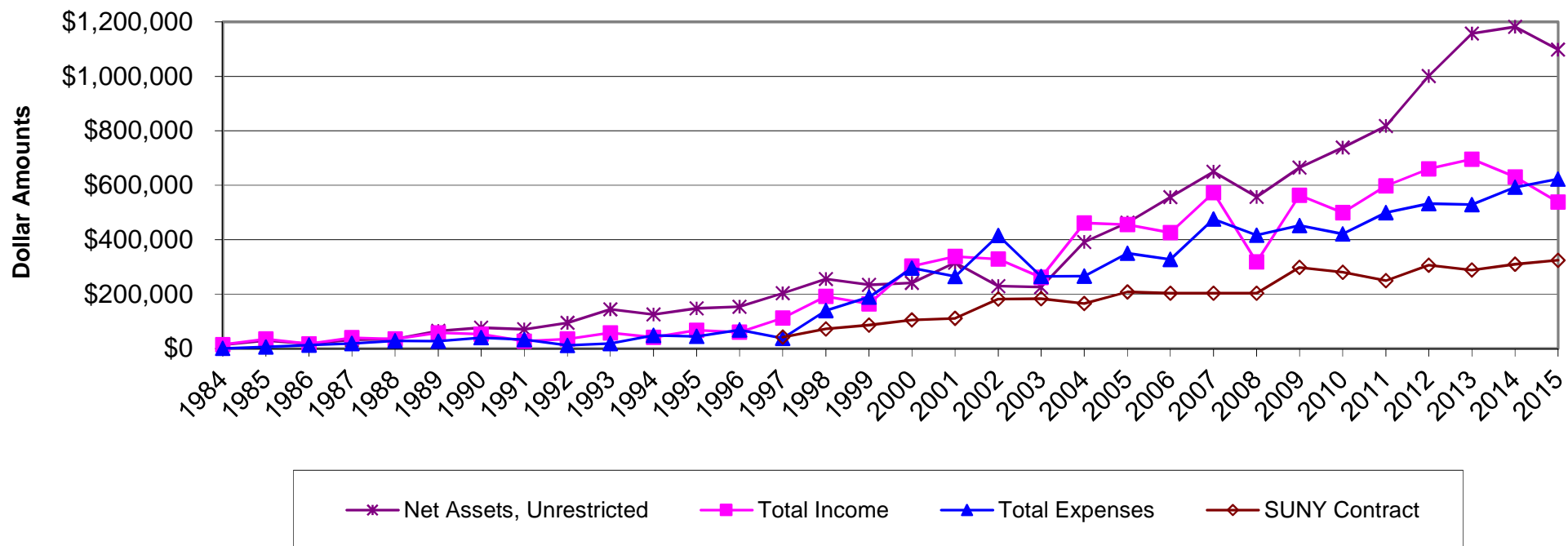
(7) 2017 Proposed Budget System Dynamics Society. Attachment 7 is the proposed budget that I am asking the Policy Council to approve. To fully understand this budget, I invite your attention to the "bottom line." Our budgeted Net Ordinary Income is a loss of **\$76,503**. This is the amount that I project the Society would lose in 2017 if we did not have investment income to fall back on. I am budgeting for \$78,425 in income from our investments during 2017 (this is a three year average of past performance). We have budgeted \$29,000 of that investment income for three specific purposes—(1) Awards (Dana Meadows (\$2,000) and Forrester Awards--\$6,000), (2) the PhD student luncheon (\$1,000), and (3) the Chapter Development Fund (\$20,000). These expenses are indicated in the shaded pink and orange cells of the attached budget. In addition, my budget shows an additional \$48,908 of unbudgeted investments being allocated to close the gap in Net Ordinary Income. When all of these adjustments from our investments are taken into account, I am budgeting that the Society will realize a "bottom line" Net Income in 2017 of \$1,922.

(8) Investments-at-a-Glance as of December 31, 2015. The investment goals for the Society are laid out in attachment (8). The targets presented in this attachment have not changed substantially from last year and are designed to prudently meet currently envisioned contingencies. As the Society looks forward to various transitions over the next several years, we will be able to draw on some of these funds to manage a smooth transition.

Attachments:

- (1) Key Trends in Society Finances 1984 to Present
- (2) System Dynamics Society Revenues and Expenses Budget Comparison, Fiscal Year (audited) January through December 2015
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (audited) As of December 31, 2015
- (4) System Dynamics Society Revenues and Expenses, Previous Year Comparison (audited) January through December 2015
- (5) System Dynamics Society Revenues and Expenses, Fiscal Year, by Cost Centers (audited) January through December 2015
- (6) System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2015 (final audited statements from our CPA)
- (7) 2017 Proposed Budget System Dynamics Society
- (8) Investments-at-a-Glance As of December 31, 2015

(1) Key Trends in Society Finances since 1984



05/17/16
Accrual Basis

System Dynamics Society
(2) Rev & Exp, Budget Comparison (audited)
January through December 2015

	<u>Jan - Dec 15</u>	<u>Budget</u>	<u>\$ Over Budget</u>	<u>% of Budget</u>
Ordinary Income/Expense				
Income				
INC Conferences	302,726	250,004	52,722	121%
Journal Income	85,173	81,676	3,497	104%
Membership Dues	61,249	67,575	-6,326	91%
Other Income	4,776			
Products	48,937	43,026	5,911	114%
Shipping and Handling Income	8,155	9,514	-1,360	86%
Sponsor Dues and Donations	46,590	38,086	8,504	122%
Summer School Income	9,300			
Total Income	<u>566,906</u>	<u>489,881</u>	<u>77,025</u>	<u>116%</u>
Cost of Goods Sold				
Cost of Goods	9,830	11,886	-2,056	83%
Total COGS	<u>9,830</u>	<u>11,886</u>	<u>-2,056</u>	<u>83%</u>
Gross Profit	<u>557,076</u>	<u>477,995</u>	<u>79,081</u>	<u>117%</u>
Expense				
Awards-Dana Meadows	2,000	1,500	500	133%
Awards-Others	9,776	6,000	3,776	163%
Bank & CC Fees	14,440	13,072	1,368	110%
Field Dev (\$20K Max)	12,500	20,000	-7,500	63%
Contracted Expenses at UA/bany	341,827	317,356	24,471	108%
EXP Conferences	143,936	120,588	23,348	119%
Insurance	5,313	5,105	207	104%
Journal Expense	20,000	20,000	0	100%
Marketing (Sponsor Trade)	2,000			
Miscellaneous Expense	712	1,165	-453	61%
Office Expense	5,818	4,335	1,484	134%
Officer Expenses (=Travel CPA)	4,644	9,894	-5,250	47%
Professional Fees	50,096	42,110	7,986	119%
Summer School Expense	7,710			
Total Expense	<u>620,773</u>	<u>561,126</u>	<u>59,648</u>	<u>111%</u>
Net Ordinary Income	<u>-63,697</u>	<u>-83,130</u>	<u>19,433</u>	<u>77%</u>
Other Income/Expense				
Other Income				
Investment Income	-23,517	95,360	-118,877	-25%
DM Investment Inc	2,452	3,144	-692	78%
Total Other Income	<u>-21,065</u>	<u>98,504</u>	<u>-119,569</u>	<u>-21%</u>
Net Other Income	<u>-21,065</u>	<u>98,504</u>	<u>-119,569</u>	<u>-21%</u>
Net Income	<u>-84,762</u>	<u>15,374</u>	<u>-100,136</u>	<u>-551%</u>

05/23/16

Accrual Basis

System Dynamics Society
(3) Balance Sheet, Prev Year Comparison (audited)
As of December 31, 2015

	Dec 31, 15	Dec 31, 14	\$ Change	% Change
ASSETS				
Current Assets				
Checking/Savings				
Bank of America Checking 2474	56,411	79,841	-23,430	-29%
Elec. Transfer BOA Check 5757	10,474	10,918	-444	-4%
Bank Paypal	714	296	417	141%
Companion Savings - BoA	30,639	35,632	-4,994	-14%
Travel Cash	112	112	0	0%
Charles Schwab-Windhaven	235,428	244,328	-8,901	-4%
UBS Financial (was PaineWebber)	26,220	26,313	-92	-0%
Vanguard Society (88008478957)	712,703	728,534	-15,831	-2%
Total Checking/Savings	1,072,700	1,125,974	-53,275	-5%
Other Current Assets				
Accounts Receivable - Wiley	61,952	61,500	452	1%
Inventory	16,800	23,009	-6,210	-27%
Prepaid Expenses	35,023	51,271	-16,248	-32%
Refunds Receivable	0	330	-330	-100%
Cash-Undeposited Funds	0	47	-47	-100%
Total Other Current Assets	113,774	136,157	-22,382	-16%
Total Current Assets	1,186,474	1,262,131	-75,657	-6%
Fixed Assets				
Accumulated Depreciation	-651	-651	0	0%
Equipment	651	651	0	0%
Total Fixed Assets	0	0	0	0%
Other Assets				
Vanguard DMA (88006930361)	116,806	117,205	-399	-0%
Total Other Assets	116,806	117,205	-399	-0%
TOTAL ASSETS	1,303,280	1,379,337	-76,057	-6%
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Accounts Payable				
Accounts Payable	0	61	-61	-100%
Total Accounts Payable	0	61	-61	-100%
Credit Cards				
Hyatt CC - 0794	48	66	-18	-27%
Total Credit Cards	48	66	-18	-27%
Other Current Liabilities				
Accounts Payable*	12,224	3,455	8,769	254%
Deferred Revenue	54,580	52,198	2,383	5%
Due to Conference Host	7,525	9,075	-1,550	-17%
Membership Sub Payable 2005+	9,211	11,567	-2,357	-20%
PPD Journal Editor	5,214	3,374	1,840	55%
Restricted Conf.Scholar/Awards	0	200	-200	-100%
Sales Tax Payable	130	230	-100	-44%
Total Other Current Liabilities	88,884	80,099	8,785	11%
Total Current Liabilities	88,932	80,226	8,706	11%
Total Liabilities	88,932	80,226	8,706	11%
Equity				
Net Assets - Temp Rest (DMA)	116,806	117,205	-399	-0%
Net Assets-Designated	1,182,304	1,144,073	38,232	3%

05/23/16

Accrual Basis

System Dynamics Society
(3) Balance Sheet, Prev Year Comparison (audited)
As of December 31, 2015

	<u>Dec 31, 15</u>	<u>Dec 31, 14</u>	<u>\$ Change</u>	<u>% Change</u>
Net Income	-84,762	37,832	-122,595	-324%
Total Equity	1,214,348	1,299,111	-84,762	-7%
TOTAL LIABILITIES & EQUITY	<u>1,303,280</u>	<u>1,379,337</u>	<u>-76,057</u>	<u>-6%</u>

05/17/16
Accrual Basis

System Dynamics Society
(4) Rev & Exp, Prev Year Comparison (audited)
January through December 2015

	<u>Jan - Dec 15</u>	<u>Jan - Dec 14</u>
Ordinary Income/Expense		
Income		
INC Conferences	302,726	294,654
Journal Income	85,173	84,621
Membership Dues	61,249	65,909
Other Income	4,776	668
Products	48,937	53,908
Shipping and Handling Income	8,155	9,032
Sponsor Dues and Donations	46,590	36,350
Summer School Income	9,300	0
Investment Allocations	0	0
Total Income	<u>566,906</u>	<u>545,142</u>
Cost of Goods Sold		
Cost of Goods	9,830	7,915
Total COGS	<u>9,830</u>	<u>7,915</u>
Gross Profit	557,076	537,227
Expense		
Awards-Dana Meadows	2,000	1,500
Awards-Others	9,776	1,220
Bank & CC Fees	14,440	9,729
Field Dev (\$20K Max)	12,500	17,500
Contracted Expenses at UAlbany	341,827	332,483
EXP Conferences	143,936	142,355
Insurance	5,313	5,218
Journal Expense	20,000	20,000
Marketing (Sponsor Trade)	2,000	2,000
Miscellaneous Expense	712	1,144
Office Expense	5,818	5,280
Officer Expenses (=Travel CPA)	4,644	10,228
Professional Fees	50,096	42,484
Summer School Expense	7,710	0
Total Expense	<u>620,773</u>	<u>591,140</u>
Net Ordinary Income	-63,697	-53,912
Other Income/Expense		
Other Income		
Investment Income	-23,517	89,580
DM Investment Inc	2,452	2,164
Designated Inv Inc	0	0
Total Other Income	<u>-21,065</u>	<u>91,745</u>
Net Other Income	<u>-21,065</u>	<u>91,745</u>
Net Income	<u><u>-84,762</u></u>	<u><u>37,832</u></u>

System Dynamics Society

(5) Rev & Exp, Fiscal Yr, by Cost Centers (audited)

05/18/16

Accrual Basis

January through December 2015

	2017	2016 Delft	2015 Cambridge	PreC...	2014 ...	Misc...	Core Ops (CO)	Web (CO)	Total CO	Book ...	Sales Non Book	Publication	Investments	DMC	IFR T...	Unall...	audit	TOTAL	
Ordinary Income/Expense																			
Income																			
INC Conferences	0	21,000	282,111	0	0	196	1,020	0	1,020	0	0	0	0	0	0	0	0	-1,600	302,726
Journal Income	0	0	0	0	0	0	81,792	0	81,792	0	0	22,929	0	0	0	0	0	452	85,173
Membership Dues	0	0	0	0	0	0	56,936	0	56,936	0	0	0	0	0	0	0	0	4,313	61,249
Other Income	0	0	0	0	0	0	4,776	0	4,776	0	0	0	0	0	0	0	0	0	4,776
Products	0	0	0	0	0	0	0	0	0	3,337	45,505	95	0	0	0	0	0	0	48,937
Shipping and Handling Income	0	0	0	0	0	0	0	0	0	1,184	6,971	0	0	0	0	0	0	0	8,155
Sponsor Dues and Donations	0	0	400	0	0	0	46,190	0	46,190	0	0	0	0	0	0	0	0	0	46,590
Summer School Income	0	0	9,300	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	9,300
Total Income	0	21,000	282,111	9,700	0	196	170,714	0	170,714	4,521	52,476	23,024	0	0	0	0	0	3,165	566,906
Cost of Goods Sold	0	0	0	0	0	0	0	0	1,370	8,460	0	0	0	0	0	0	0	0	9,830
Cost of Goods	0	0	0	0	0	0	0	0	1,370	8,460	0	0	0	0	0	0	0	0	9,830
Total COGS	0	0	0	0	0	0	0	0	1,370	8,460	0	0	0	0	0	0	0	0	9,830
Gross Profit	0	21,000	282,111	9,700	0	196	170,714	0	170,714	3,151	44,016	23,024	0	0	0	0	0	3,165	557,076
Expense																			
Awards-Dana Meadows	0	0	0	0	0	0	0	0	0	0	0	0	2,000	0	0	0	0	0	2,000
Awards-Others	0	0	0	0	0	0	9,776	0	9,776	0	0	0	0	0	0	0	0	0	9,776
Bank & CC Fees	39	4,817	270	0	1	6,575	6,575	260	451	3	2,605	0	0	0	0	0	0	19	14,440
Field Dev (\$20K Max)	0	0	0	0	0	0	12,500	0	12,500	0	0	0	0	0	0	0	0	0	12,500
Contracted Expenses at UAlbany	4,449	17,911	89,854	1,687	377	0	174,259	22,843	197,102	6,204	12,182	6,468	0	0	111	0	5,483	341,827	
EXP Conferences	255	1,761	140,710	0	0	0	1,000	0	1,000	0	0	0	0	0	0	0	0	188	143,936
Insurance	0	0	0	0	0	0	5,313	0	5,313	0	0	0	0	0	0	0	0	0	5,313
Journal Expense	0	0	0	0	0	0	0	0	0	0	0	20,000	0	0	0	0	0	0	20,000
Marketing (Sponsor Trade)	0	0	0	0	0	0	2,000	0	2,000	0	0	0	0	0	0	0	0	0	2,000
Miscellaneous Expense	0	0	0	0	0	0	554	0	554	0	0	0	0	0	0	0	0	158	712
Office Expense	0	0	0	0	0	0	6,354	0	6,354	150	0	0	0	0	0	0	0	685	5,818
Officer Expenses (=Travel CPA)	0	0	0	0	0	0	1,932	0	1,932	0	2,929	0	0	0	0	0	0	-217	4,644
Professional Fees	39	1,000	5,120	32	13	0	40,962	13	40,975	6	1,823	39	0	0	6	0	0	1,043	50,996
Summer School Expense	0	0	7,710	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7,710
Total Expense	-4,744	20,731	240,501	9,700	390	1	261,225	22,855	284,081	6,470	14,806	29,438	2,005	2,000	117	0	5,989	620,773	
Net Ordinary Income	-4,744	269	41,610	0	-390	194	-90,511	-22,855	-113,367	-3,320	29,410	-6,414	-2,005	-2,000	-117	0	-2,824	-63,697	
Other Income/Expense																			
Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	-22,812	-851	0	0	147	-23,517	
DM Investment Inc.	0	0	0	0	0	0	0	0	0	0	0	0	2,452	0	0	0	0	2,452	
Total Other Income	0	0	0	0	0	0	0	0	0	0	0	0	-22,812	1,601	0	0	147	-21,065	
Net Other Income	0	0	0	0	0	0	0	0	0	0	0	0	-22,812	1,601	0	0	147	-21,065	
Net Income	-4,744	269	41,610	0	-390	194	-90,511	-22,855	-113,367	-3,320	29,410	-6,414	-24,818	-399	-117	0	-2,677	-84,762	

SYSTEM DYNAMICS SOCIETY, INC.

Financial Statements

December 31, 2015 and 2014

LUBBE & HOSEY, PC
CERTIFIED PUBLIC ACCOUNTANTS

SYSTEM DYNAMICS SOCIETY, INC.

YEARS ENDED DECEMBER 31, 2015 AND 2014

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LUBBE & HOSEY, PC

CERTIFIED PUBLIC ACCOUNTANTS

Suite 305
187 Wolf Road
Albany, New York 12205
(518) 454-9355
FAX (518) 454-9332

Steven J. Lubbe, CPA
Thomas W. Hosey, CPA

INDEPENDENT AUDITOR'S REPORT

Policy Council
System Dynamics Society, Inc.

We have audited the accompanying financial statements of System Dynamics Society, Inc. (a Massachusetts not-for-profit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, 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 Society'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 Society'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

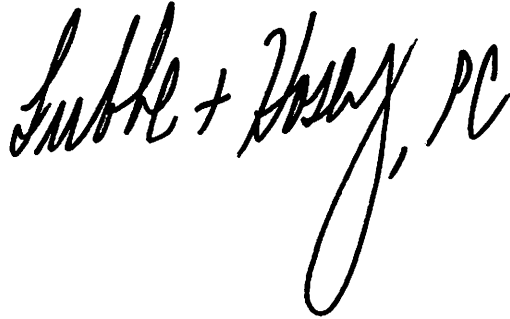
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of System Dynamics Society, Inc. as of December 31, 2015, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Prior Period Financial Statements

The 2014 financial statements were reviewed by us, and our report thereon, dated March 31, 2015, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Albany, New York
April 20, 2016

A handwritten signature in black ink that reads "Suble + Hony, PC". The signature is written in a cursive, flowing style with a large loop at the end of the "y".

SYSTEM DYNAMICS SOCIETY, INC.

Statements of Financial Position

December 31, 2015 and 2014

<u>ASSETS</u>	2015	2014
	<u>Audited</u>	<u>Reviewed</u>
Current assets:		
Cash and cash equivalents	\$ 126,664	153,439
Investments	946,035	972,583
Accounts receivable	61,952	61,830
Inventory	16,800	23,009
Prepaid expenses	<u>35,023</u>	<u>51,271</u>
Total current assets	<u>1,186,474</u>	<u>1,262,132</u>
Property and equipment:		
Office equipment	651	651
Less accumulated depreciation	<u>(651)</u>	<u>(651)</u>
Total property and equipment	<u>-</u>	<u>-</u>
Other asset:		
Investments - restricted	<u>116,806</u>	<u>117,205</u>
	<u>\$1,303,280</u>	<u>1,379,337</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	12,402	4,012
Membership subscriptions liability	9,211	11,567
Deferred revenue	59,794	55,572
Custodial account liability	<u>7,525</u>	<u>9,075</u>
Total current liabilities	<u>88,932</u>	<u>80,226</u>
Net assets:		
Unrestricted:		
Undesignated	-	37,833
Board designated	<u>1,097,542</u>	<u>1,144,073</u>
Total unrestricted	1,097,542	1,181,906
Temporarily restricted	<u>116,806</u>	<u>117,205</u>
Total net assets	<u>1,214,348</u>	<u>1,299,111</u>
	<u>\$1,303,280</u>	<u>1,379,337</u>

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.

Statements of Activities

Years ended December 31, 2015 and 2014

	2015	2014
	<u>Audited</u>	<u>Reviewed</u>
<u>UNRESTRICTED NET ASSETS</u>		
Revenue:		
Conferences	\$ 312,026	294,654
Publications	85,173	84,621
Membership dues and subscriptions	61,249	65,908
Educational products, net expenses of \$9,830 and \$7,915 in 2015 and 2014, respectively	47,262	55,026
Donations	51,366	36,350
Investment income	(22,666)	77,505
Other income	-	668
Net assets released from restrictions	<u>2,000</u>	<u>1,500</u>
Total revenue	<u>536,410</u>	<u>616,232</u>
Expenses:		
Awards	11,776	2,720
Bank and credit card fees	14,440	9,728
Chapter development	12,500	17,500
Contract - University of New York at Albany	341,827	332,483
Conferences	151,646	141,518
Insurance	5,313	5,218
Publications	20,000	20,000
Marketing	2,000	2,000
Office expenses	5,819	5,280
Travel and training	4,644	11,065
Professional fees and consultants	50,097	42,831
Miscellaneous	<u>712</u>	<u>796</u>
Total expenses	<u>620,774</u>	<u>591,139</u>
Change in unrestricted net assets	<u>(84,364)</u>	<u>25,093</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Investment income	1,601	14,240
Net assets released from restrictions	<u>(2,000)</u>	<u>(1,500)</u>
Change in temporarily restricted net assets	<u>(399)</u>	<u>12,740</u>
Change in net assets	(84,763)	37,833
Net assets, beginning of year	<u>1,299,111</u>	<u>1,261,278</u>
Net assets, end of year	<u>\$1,214,348</u>	<u>1,299,111</u>

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.

Statements of Cash Flows

Years ended December 31, 2015 and 2014

	2015	2014
	<u>Audited</u>	<u>Reviewed</u>
Cash flows (used) provided by operating activities:		
Change in net assets	\$ (84,763)	37,833
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Net loss (gain) on investments	41,706	(72,217)
Changes in operating assets and liabilities:		
Accounts receivable	(122)	(1,285)
Inventory	6,209	3,211
Prepaid expenses	16,248	23,618
Accounts payable and accrued expenses	8,390	3,109
Membership subscriptions liability	(2,356)	(1,258)
Deferred revenue	4,222	7,448
Custodial account liability	<u>(1,550)</u>	<u>(150)</u>
Net cash (used) provided by operating activities	<u>(12,016)</u>	<u>309</u>
Cash flows provided (used) by investing activities:		
Proceeds from sales of investments	84,734	78,328
Purchases of investments	<u>(99,493)</u>	<u>(92,723)</u>
Net cash (used) by investing activities	<u>(14,759)</u>	<u>(14,395)</u>
Net (decrease) in cash and cash equivalents	(26,775)	(14,086)
Cash and cash equivalents, beginning of year	<u>153,439</u>	<u>167,525</u>
Cash and cash equivalents, end of year	<u>\$126,664</u>	<u>153,439</u>

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements

December 31, 2015 (Audited) and 2014 (Reviewed)

(1) **Nature of Activities and Summary of Significant Accounting Policies**

(a) **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.

(b) **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 expenditures are recognized when incurred.

(c) **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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the existence or absence of donor-imposed restrictions on the use of net assets.

(d) **Cash and Cash Equivalents**

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

(e) **Concentration of Credit Risk**

Financial instruments that potentially subject SDS to concentrations of credit risk consist principally of cash accounts in a financial institution which, from time to time, may exceed the Federal depository insurance coverage limit of \$250,000. SDS has not experienced any loss in such accounts. No amounts exceeded federally insured limits at December 31, 2015 or December 31, 2014.

(f) **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. SDS is required to file Federal Form 990 "Return of Organization Exempt from Income Tax". The Agency is generally no longer subject to examination by the Internal Revenue Service for years before 2012.

(Continued)

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements (Continued)

(1) Nature of Activities and Summary of Significant Accounting Policies (Continued)**(g) Investments**

Investments consist of a common stock and mutual funds (equity and bond 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 unrestricted net assets unless a donor or law restricts its use.

(h) Accounts Receivable

Management has concluded all accounts will be collected by April 30 of the following year and that no allowance is necessary at December 31, 2015 and 2014.

(i) 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 unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted net assets.

Contributed Services

No amounts have been reflected in the financial statements for 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.

(j) 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.

(k) Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out method.

(l) 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).

(Continued)

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements (Continued)

(2) University of New York at Albany

SDS has a contract with the University of New York at Albany for administrative support services through December 31, 2018. Support services includes personnel services and the use of property and equipment owned by the University. SDS incurred \$341,827 and \$332,483 to the University for support services during the years ended December 31, 2015 and 2014, respectively. There were no amounts receivable from or payable to the University at December 31, 2015 or 2014. Prepaid contract costs totaled \$4,686 and \$16,206 at December 31, 2015 and 2014, respectively.

(3) Investments

A summary of investments at December 31, 2015 and 2014 is set forth below:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 4,122	6,985	4,122	7,111
Mutual funds	<u>743,003</u>	<u>1,055,856</u>	<u>731,298</u>	<u>1,082,677</u>
	<u>\$747,125</u>	<u>1,062,841</u>	<u>735,420</u>	<u>1,089,788</u>

Investment income for the years ending December 31, 2015 and 2014 consists of:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$20,641	19,528
Net (loss) gain on investments	<u>(41,706)</u>	<u>72,217</u>
	<u>\$(21,065)</u>	<u>91,745</u>

Investment fees are paid to outside custodians for managing investments. These fees are included in bank and credit card fees expense on the accompanying statements of activities.

(4) Functional Reporting of Expenses

SDS is required to present its expenses by functional classification, which shows the amount spent for program and support services. Expenses that can be specifically identified as a program or support service are charged directly to program or support services. Costs common to both functions have been allocated among the functions benefitted. Expenses for the years ending December 31, 2015 and 2014 are functionally classified as:

	<u>2015</u>	<u>2014</u>
Program expenses - system dynamics	\$470,269	445,295
Support services - management and general	<u>150,505</u>	<u>145,844</u>
	<u>\$620,774</u>	<u>591,139</u>

(Continued)

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements (Continued)

(5) Restriction on Net Assets

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. Temporarily restricted net assets available to fund the Dana Meadows Award are summarized as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$117,205	104,465
Investment income	1,601	14,240
Award provided	<u>(2,000)</u>	<u>(1,500)</u>
Ending balance	<u>\$116,806</u>	<u>117,205</u>

(6) Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurement*, 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 other than quoted prices included in Level, 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.

The fair value of assets measured (Level 1) on a recurring basis at December 31, 2015 and 2014 follows:

	<u>2015</u>	<u>2014</u>
Cash equivalents	\$ 28,316	26,592
Common stock	6,985	7,111
Mutual funds	<u>1,055,856</u>	<u>1,082,677</u>
	<u>\$1,091,157</u>	<u>1,116,380</u>

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

(7) Subsequent Events

Management has evaluated subsequent events through April 20, 2016, the date on which the financial statements were available to be issued, and determined that there are no subsequent events that require disclosure.

**System Dynamics Society
(7) 2017 Proposed Budget**

	Actual Amt Jan - Dec 15	Budget 2016	PROPOSED Budget 2017	% Change
Ordinary Income/Expense				
Income				
INC Conferences	302,726.10	291,751.20	305,851.00	5%
Journal Income	85,172.71	86,398.00	85,173.00	-1%
Membership Dues	61,249.10	69,203.00	70,866.00	2%
Products	48,937.05	50,302.27	50,891.00	1%
Shipping and Handling Income	8,154.62	8,727.05	8,169.00	-7%
Sponsor Dues and Donations	46,590.00	40,188.72	42,566.00	6%
Summer School Income	9,300.00		9,300.00	
Total Income	566,905.60	546,570.24	572,816.00	5%
Cost of Goods Sold				
Cost of Goods	9,829.67	7,820.13	9,331.00	16%
Total COGS	9,829.67	7,820.13	9,331.00	16%
Gross Profit	557,075.93	538,750.11	563,485.00	4%
Expense				
Awards-Dana Meadows	2,000.00	2,000.00	2,000.00	0%
Awards-Others	9,776.00	6,000.00	6,000.00	0%
Bank & CC Fees	14,440.29	11,763.60	12,232.00	4%
Field Dev (\$20K Max)	12,500.00	20,000.00	20,000.00	0%
Contracted Expenses at UAlbany	341,827.25	382,950.64	357,084.00	-7%
EXP Conferences	142,935.62	136,882.73	145,900.00 *	6%
Insurance	5,312.82	5,667.91	5,666.00	0%
Journal Expense	20,000.00	20,000.00	20,000.00	0%
Ph.D. Luncheon	1,000.00	1,000.00	1,000.00	0%
Miscellaneous Expense	711.79	1,158.49	846.00	-37%
Office Expense	5,818.43	4,349.82	5,171.00	16%
Officer Expenses (=Travel CPA)	4,644.15	9,904.19	7,423.00	-33%
Professional Fees	50,096.46	45,510.85	48,956.00	7%
Summer School Expense	7,710.43		7,710.00	
Total Expense	620,773.24	647,188.23	639,988.00	-1%
Net Ordinary Income	-63,697.31	(108,438.12)	(76,503.00)	-42%
Other Income/Expense				
Other Income				
Investment Income	-23,517.12			
Budgeted wt designated funds (3 items)		27,000.00	27,000.00	0%
Unbudgeted		88,931.81	48,908.00	-82%
DM Investment Inc	2,452.20	2,923.61	2,517.00	-16%
Total Other Income	-21,064.92	118,855.42	78,425.00	-52%
Net Other Income	-21,064.92	118,855.42	78,425.00	-52%
Net Income	-84,762.23	10,417.30	1,922.00	-442%

System Dynamics Society

(8) Investments-at-a Glance

1. Investment Goals and Designated Net Assets for the System Dynamics Society

		Goal Amounts as of Jun 30, prev year		Designated Net Assets as of Dec 31st each year	
		for 2016	for 2017	2015, Actual	2016, Est.
Reserves for Rainy Day Expenses					
	Capital Reserve	500,000	500,000	241,215	329,149
	Executive Director's Salary Reserve	113,136	116,096	113,136	114,133
	Operating Surplus/ "Buffer Funds"	100,000	100,000	100,000	100,000
Sub-total Reserves-Rainy Day		\$713,136	\$716,096	\$454,351	\$543,282
Reserves Budgeted for Operating Expenses					
	Chapter/Field Development Fund	400,000	400,000	400,000	400,000
	Jay Wright Forrester Award	100,000	100,000	100,000	100,000
	Dana Meadows Award*	92,242	116,806	116,806	116,806
	PhD Luncheon/Support	20,000	20,000	20,000	20,000
Sub-total Reserves-OpExp		\$612,242	\$636,806	\$636,806	\$636,806
Fair Value of Financial Instruments at year end**		\$1,325,378	\$1,352,902	\$1,091,157	\$1,180,088

*Classed as Temporarily Restricted Net Asset. Currently designated assets exceed amount needed to fund award.

**Previously Total Assets/Equity

2. 2016 Budget expense items designated for support from Investment Income

Jay W. Forrester Award	\$6,000
Dana Meadows Award	\$2,000
PhD Luncheon/Support	\$1,000
Chapter/Field Development Fund	\$20,000
TOTAL	\$29,000

3. Investment Income for the year ended December 31, 2015

See CPA report, page 3--note (3) **-\$21,065**