

To: Policy Council of the System Dynamics Society

From: David Andersen, VP Finance  
Eliot Rich, Associate VP Finance

Subject: VP Finance Narrative Report for Fiscal Year 2016—Part I

Date: July 2017

*Summary: This is the first of two parts to the VP Finance Report for 2017. The first part describes what happened in 2016. The second part presents the proposed budget and asset designations for 2018 and 2019. This year through 2019 are years of transition for the Society. In 2016, the Society posted a net income of **-\$35,187** and our overall equity dropped from \$1,214,348 at the opening of our fiscal year to \$1,179,161 at the close of the fiscal year. Our net ordinary income, reflecting non-investment activities of the Society, posted a loss of **-\$151,700**. This loss was partially offset by income from all investments amounting to \$116,512.*

This is the first of two parts to the VP Finance Report for 2017. The first part describes what happened in 2016. The second part presents the proposed budget and asset designations for 2018 and 2019. Our report on activities for the year 2016 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**

**David Andersen (VP Finance) and Eliot Rich (Associate VP Finance) are co-authoring these reports.** After 20 years as serving as Vice President for Finance, David Andersen announced his intention to step down by the end of 2017. David is working closely with Eliot Rich, Associate VP Finance and Professor of Business with a concentration in System Dynamics at UAlbany to produce this year's financial reports.

**We Are Deeply Immersed in a Home Office Transition (and hence the two parts of this report).** The Society is now nearly two years into first planning and now implementing a transition of Home Office operations away from UAlbany to an association management firm, Capitol Hill Management Services (CHMS or "Cap Hill"), located in Albany, NY. In March of 2017, the Policy Council accepted a recommendation from a Transition Committee to make this move. Part II of our report this year presents a two-year budget that will implement these changes. Part I of our report looks back on 2016, presenting our usual description of how the Society has performed financially in the past year.

**How Did the Society Do Overall in 2016?** In 2016, we posted a loss in Net Income of **\$35,187** and our Total Assets declined by **\$26,440**. When viewed by cost centers, Core Operations posted a loss of **\$180,943**, Publications posted a loss of **\$4,242**, and this year our investments posted a gain of **\$100,812**. These losses were countered by Net Income gains of \$21,280 in Sales (sum of book sales and non-book sales) and \$5,795 in Conferences (sum of all years as shown on attachment 5).

## Part II: Discussion of Society Financial Reports

**(1) Key Trends in Society Finances 1984 to Present.** This plot of key variables over time shows the Society's long term financial growth and the overall financial situation. This year you can see that Unrestricted Net Assets declined for the second year in a row. We expect to see this trend continue for two more years during the transition and to turn around in 2019 once we have reestablished stable operations at Cap Hill.

**(2) Revenues and Expenses Budget Comparison for 2016.** This page shows how well we are doing predicting our various classes of expenses and expenses through the budgeting process. When we look at this report we see several things. First, last year we over predicted both conference income and conference expenses by about 19% and 25% respectively. Overall, the conference was a bit smaller and hence contributed less to Society income. Second, Professional Fees were 25% over budget as staff turnover in the fall of 2016 proved to be costly, necessitating the hiring of temporary personnel. We associate this first ever churning of our core staff to early and anticipatory staff reactions to an announced move to a new site. Finally, we underestimated 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 2016.** We ended 2016 with Total Assets of **\$1,269,114**. This represents a decline of **\$26,439**. While our invested assets performed quite well, we were running a loss in several operating areas (see cost centers below).

**(4) Revenues and Expenses, Previous Year Comparison for 2016.** Net Income for the year was **\$-35,184**, up from **\$-84,762** in 2015. However, Net Ordinary Income, a better measure of our fiscal performance (because it does not include growth in investment income) performed much more poorly. Net Ordinary Income was **\$-151,000**, down from **\$-63,697** in 2015. There are several reasons for this poorer performance: (1) the conference was smaller, (2) Journal Income and Membership dues fell off some, (3) Sponsor Dues and Donations were off from 2015, (4) the Society is feeling the impact of an increase in the overhead rate being charged by UAlbany, and (5) Unexpected staff turnover last fall disrupted home office operations and increased Professional Fees because of temporary hiring. We believe that these increased staff turnover costs are associated with the anticipated move away from UAlbany.

**(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 **\$180,943**, Publications posted a loss of **\$4,242**, and this year our investments posted a gain of \$100,812. These losses were countered by Net Income gains of \$21,280 in Sales and \$5,795 in Conferences (sum of all years). All of the reasons discussed just above are the factors contribute to the large loss in core operations.

**(6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2016 (final statements from our CPA).** Attachment 6 reproduces the CPA *audit* of our books. This is the second 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.

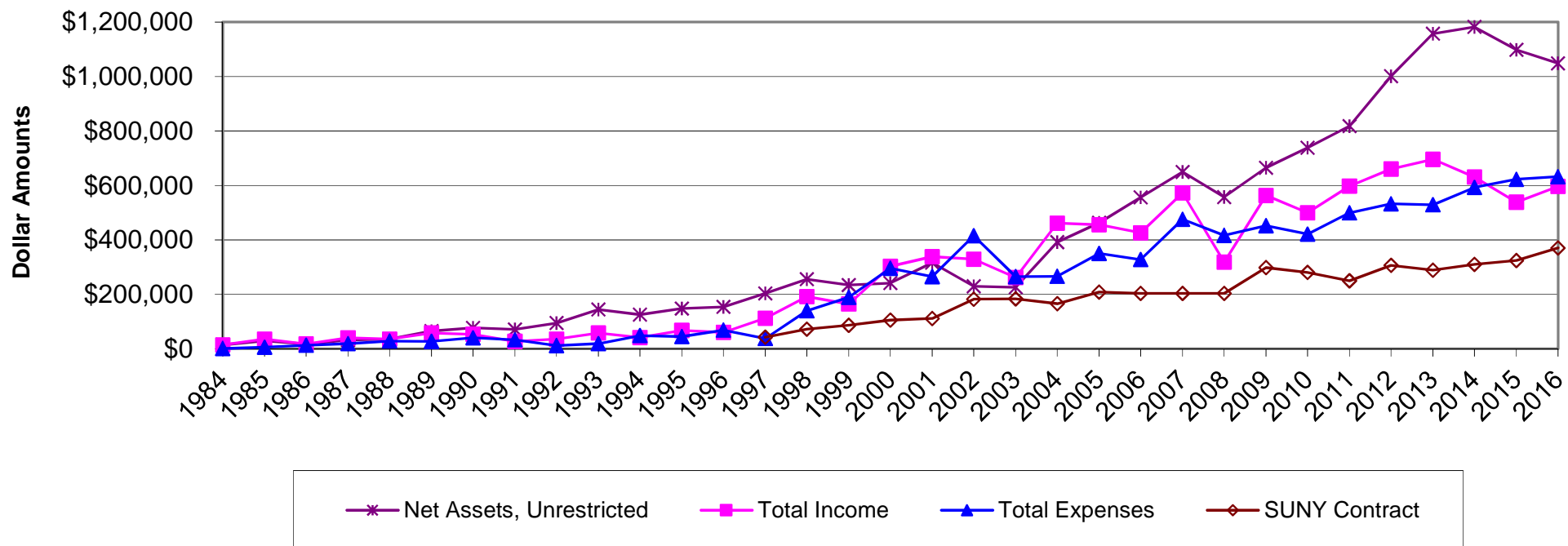
**(7) 2018 and 2019 Proposed Budget System Dynamics Society.** Normally this report presents a budget for the future. The budget for 2018 and 2019 are contained in a separate Part II of this report.

**(8) Investments-at-a-Glance as of December 31, 2016.** Normally this report presents a summary of Investment Goals and Designated Assets. These documents are contained in a separate Part II of this report.

**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 2016
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (audited) As of December 31, 2016
- (4) System Dynamics Society Revenues and Expenses, Previous Year Comparison (audited) January through December 2016
- (5) System Dynamics Society Revenues and Expenses, Fiscal Year, by Cost Centers (audited) January through December 2016
- (6) System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2016 (final audited statements from our CPA)

# (1) Key Trends in Society Finances since 1984



04/25/17  
 Accrual Basis

**System Dynamics Society**  
**(2) Rev & Exp, Budget Comparison (audited)**  
 January through December 2016

	Jan - Dec 16	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
INC Conferences	235,168	291,751	-56,583	81%
Journal Income	68,263	86,398	-18,135	79%
Membership Dues	59,872	69,203	-9,331	87%
Other Income	17			
Products	46,435	50,302	-3,868	92%
Shipping and Handling Income	7,045	8,727	-1,682	81%
Sponsor Dues and Donations	32,378	40,189	-7,811	81%
Summer School Income	39,157			
<b>Total Income</b>	488,335	546,570	-58,236	89%
<b>Cost of Goods Sold</b>				
Cost of Goods	7,994	7,820	174	102%
<b>Total COGS</b>	7,994	7,820	174	102%
<b>Gross Profit</b>	480,340	538,750	-58,410	89%
<b>Expense</b>				
Awards-Dana Meadows	0	2,000	-2,000	0%
Awards-Others	5,480	6,000	-520	91%
Bank & CC Fees	17,353	11,764	5,589	148%
Field Dev (\$20K Max)	3,500	20,000	-16,500	18%
Contracted Expenses at UA/bany	358,872	382,951	-24,078	94%
EXP Conferences	103,044	136,883	-33,839	75%
Insurance	3,767	5,668	-1,901	66%
Journal Expense	20,000	20,000	0	100%
Marketing (Sponsor Trade)	2,000			
Miscellaneous Expense	883	1,158	-275	76%
Office Expense	3,181	4,350	-1,169	73%
Officer Expenses (=Travel CPA)	12,839	9,904	2,934	130%
PHD Stud Chapt Support @ Conf	0	1,000	-1,000	0%
Professional Fees	68,249	45,511	22,738	150%
Summer School Expense	32,872			
<b>Total Expense</b>	632,040	647,188	-15,149	98%
<b>Net Ordinary Income</b>	-151,700	-108,438	-43,261	140%
<b>Other Income/Expense</b>				
<b>Other Income</b>				
Investment Income	113,908	88,932	24,976	128%
DM Investment Inc	2,605	2,924	-319	89%
Designated Inv Inc	0	27,000	-27,000	0%
<b>Total Other Income</b>	116,512	118,855	-2,343	98%
<b>Net Other Income</b>	116,512	118,855	-2,343	98%
<b>Net Income</b>	<b>-35,187</b>	<b>10,417</b>	<b>-45,605</b>	<b>-338%</b>

04/25/17

Accrual Basis

**System Dynamics Society**  
**(3) Balance Sheet, Prev Year Comparison (audited)**  
**As of December 31, 2016**

	Dec 31, 16	Dec 31, 15	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
<b>Checking/Savings</b>				
Bank of America Checking 2474	21,640	48,684	-27,044	-56%
Elec. Transfer BOA Check 5757	16,190	10,474	5,717	55%
Bank Paypal	1,058	714	344	48%
Companion Savings - BoA	13,864	30,639	-16,775	-55%
Travel Cash	81	112	-31	-27%
Charles Schwab-Windhaven	0	235,428	-235,428	-100%
Fidelity - 3 Edge	217,216	0	217,216	100%
UBS Financial (was PaineWebber)	0	26,220	-26,220	-100%
Vanguard Society (88008478957)	744,947	712,703	32,244	5%
<b>Total Checking/Savings</b>	1,014,996	1,064,973	-49,976	-5%
<b>Other Current Assets</b>				
Accounts Receivable - Wiley	54,527	61,952	-7,425	-12%
Inventory	22,032	16,800	5,232	31%
Prepaid Expenses	45,492	35,023	10,469	30%
Cash-Undeposited Funds	1,330	0	1,330	100%
<b>Total Other Current Assets</b>	123,381	113,774	9,606	8%
<b>Total Current Assets</b>	1,138,377	1,178,747	-40,370	-3%
<b>Fixed Assets</b>				
Accumulated Depreciation	-651	-651	0	0%
Equipment	651	651	0	0%
<b>Total Fixed Assets</b>	0	0	0	0%
<b>Other Assets</b>				
Vanguard DMA (88006930361)	130,737	116,806	13,931	12%
<b>Total Other Assets</b>	130,737	116,806	13,931	12%
<b>TOTAL ASSETS</b>	<b>1,269,114</b>	<b>1,295,553</b>	<b>-26,440</b>	<b>-2%</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
<b>Credit Cards</b>				
Hyatt CC - 0794	1,016	48	968	2,018%
<b>Total Credit Cards</b>	1,016	48	968	2,018%
<b>Other Current Liabilities</b>				
Accounts Payable*	8,341	4,497	3,844	86%
Deferred Revenue	36,221	54,580	-18,359	-34%
Due to Conference Host	4,625	7,525	-2,900	-39%
Membership Sub Payable 2005+	7,717	9,211	-1,494	-16%
PPD Journal Editor	6,929	5,214	1,715	33%
Conference Host -Summer Scl	4,734	0	4,734	100%
Conference Host Finances	20,278	0	20,278	100%
Sales Tax Payable	91	130	-39	-30%
<b>Total Other Current Liabilities</b>	88,937	81,157	7,780	10%
<b>Total Current Liabilities</b>	89,953	81,205	8,748	11%
<b>Total Liabilities</b>	89,953	81,205	8,748	11%
<b>Equity</b>				
Net Assets - Temp Rest (DMA)	130,737	116,806	13,931	12%
Net Assets-Designated	1,083,612	1,182,304	-98,693	-8%
Net Income	-35,187	-84,762	49,575	59%
<b>Total Equity</b>	1,179,161	1,214,348	-35,187	-3%
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,269,114</b>	<b>1,295,553</b>	<b>-26,440</b>	<b>-2%</b>

04/25/17  
Accrual Basis

**System Dynamics Society**  
**(4) Rev & Exp, Prev Year Comparison (audited)**  
**January through December 2016**

	<u>Jan - Dec 16</u>	<u>Jan - Dec 15</u>
<b>Ordinary Income/Expense</b>		
<b>Income</b>		
INC Conferences	235,168	302,726
Journal Income	68,263	85,173
Membership Dues	59,872	61,249
Other Income	17	4,776
Products	46,435	48,937
Shipping and Handling Income	7,045	8,155
Sponsor Dues and Donations	32,378	46,590
Summer School Income	39,157	9,300
<b>Total Income</b>	<u>488,335</u>	<u>566,906</u>
<b>Cost of Goods Sold</b>		
Cost of Goods	7,994	9,830
<b>Total COGS</b>	<u>7,994</u>	<u>9,830</u>
<b>Gross Profit</b>	480,340	557,076
<b>Expense</b>		
Awards-Dana Meadows	0	2,000
Awards-Others	5,480	9,776
Bank & CC Fees	17,353	14,440
Field Dev (\$20K Max)	3,500	12,500
Contracted Expenses at UAlbany	358,872	341,827
EXP Conferences	103,044	140,954
Insurance	3,767	5,313
Journal Expense	20,000	20,000
Marketing (Sponsor Trade)	2,000	2,000
Miscellaneous Expense	883	712
Office Expense	3,181	5,818
Officer Expenses (=Travel CPA)	12,839	4,644
PHD Stud Chapt Support @ Conf	0	2,982
Professional Fees	68,249	50,096
Summer School Expense	32,872	7,710
<b>Total Expense</b>	<u>632,040</u>	<u>620,773</u>
<b>Net Ordinary Income</b>	-151,700	-63,697
<b>Other Income/Expense</b>		
<b>Other Income</b>		
Investment Income	113,908	-23,517
DM Investment Inc	2,605	2,452
<b>Total Other Income</b>	<u>116,512</u>	<u>-21,065</u>
<b>Net Other Income</b>	<u>116,512</u>	<u>-21,065</u>
<b>Net Income</b>	<u><u>-35,187</u></u>	<u><u>-84,762</u></u>

04/25/17

**System Dynamics Society  
(5) Rev & Exp, Fiscal Yr, by Cost Centers (audited)**

Accrual Basis

January through December 2016

	2018	2017 C...	2016 D...	PreConf ...	2015 C...	Misc...	Core O... (CO)	Web (CO)	C... (C...)	Total CO	Book ...	Sales ...	Public...	Invest...	DMC	IF...	U	audit	TOTAL
<b>Ordinary Income/Expense</b>																			
<b>Income</b>																			
INC Conferences	0	4,500	213,714	0	0	205	250	0	0	250	0	0	0	0	0	0	0	16,500	235,168
Journal Income	0	0	0	0	0	0	55,688	0	0	55,688	0	0	20,000	0	0	0	0	-7,425	68,263
Membership Dues	0	0	0	0	0	0	54,768	0	0	54,768	0	0	0	0	0	0	0	5,103	59,872
Other Income	0	0	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	17
Products	0	0	0	0	0	0	343	0	0	343	1,463	44,629	0	0	0	0	0	0	46,435
Shipping and Handling Income	0	0	0	0	0	0	0	0	0	0	284	6,761	0	0	0	0	0	0	7,045
Sponsor Dues and Donations	0	0	0	0	0	0	32,378	0	0	32,378	0	0	0	0	0	0	0	0	32,378
Summer School Income	0	0	0	39,157	0	0	0	0	0	0	0	0	0	0	0	0	0	0	39,157
<b>Total Income</b>	0	4,500	213,730	39,157	0	205	143,427	0	0	143,427	1,747	51,390	20,000	0	0	0	0	14,179	488,335
<b>Cost of Goods Sold</b>																			
Cost of Goods	0	0	0	0	0	0	0	0	0	0	2,212	5,782	0	0	0	0	0	0	7,994
<b>Total COGS</b>	0	0	0	0	0	0	0	0	0	0	2,212	5,782	0	0	0	0	0	0	7,994
<b>Gross Profit</b>	0	4,500	213,730	39,157	0	205	143,427	0	0	143,427	-466	45,608	20,000	0	0	0	0	14,179	480,340
<b>Expense</b>																			
Awards-Others	0	0	-785	0	0	0	6,265	0	0	6,265	0	0	0	0	0	0	0	0	5,480
Bank & CC Fees	0	80	6,972	1,389	0	0	6,356	0	0	6,356	207	742	49	1,598	0	0	0	-41	17,353
Field Dev (\$20K Max)	0	0	0	0	0	0	3,500	0	0	3,500	0	0	0	0	0	0	0	0	3,500
Contracted Expenses at UAibany	387	16,307	80,296	2,561	2,071	0	206,516	22,817	0	229,333	6,320	14,018	4,192	0	0	28	0	3,360	358,872
EXP Conferences	0	1,306	99,554	0	194	0	1,625	0	0	1,625	0	0	0	0	0	0	0	365	103,044
Insurance	0	0	0	0	0	0	3,767	0	0	3,767	0	0	0	0	0	0	0	0	3,767
Journal Expense	0	0	0	0	0	0	0	0	0	0	0	0	20,000	0	0	0	0	0	20,000
Marketing (Sponsor Trade)	0	0	0	0	0	0	2,000	0	0	2,000	0	0	0	0	0	0	0	0	2,000
Miscellaneous Expense	0	0	0	0	0	0	724	0	0	724	-0	0	0	0	0	0	0	160	883
Office Expense	0	0	0	0	0	0	3,243	0	0	3,243	76	117	0	0	0	0	0	-256	3,181
Officer Expenses (=Travel CPA)	0	0	2,067	0	0	0	9,850	0	0	9,850	0	0	0	0	0	0	0	922	12,839
Professional Fees	0	995	5,247	259	24	0	57,707	0	0	57,707	750	1,633	0	0	0	0	0	1,634	68,249
Summer School Expense	0	0	0	32,872	0	0	0	0	0	0	0	0	0	0	0	0	0	0	32,872
<b>Total Expense</b>	387	18,688	193,351	37,082	2,289	0	301,553	22,817	0	324,370	7,352	16,510	24,242	1,598	0	28	0	6,144	632,040
<b>Net Ordinary Income</b>	-387	-14,188	20,379	2,075	-2,289	205	-158,126	-22,817	0	-180,943	-7,818	29,098	-4,242	-1,598	0	-28	0	8,034	-151,700
<b>Other Income/Expense</b>																			
<b>Other Income</b>																			
Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	102,410	11,326	0	0	171	113,908
DM Investment Inc	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,605	0	0	0	2,605
<b>Total Other Income</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	102,410	13,931	0	0	171	116,512
<b>Net Other Income</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	102,410	13,931	0	0	171	116,512
<b>Net Income</b>	-387	-14,188	20,379	2,075	-2,289	205	-158,126	-22,817	0	-180,943	-7,818	29,098	-4,242	100,812	13,931	-28	0	8,206	-35,187



**SYSTEM DYNAMICS SOCIETY, INC.  
FINANCIAL REPORT  
DECEMBER 31, 2016**

# 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 statement of financial position as of December 31, 2016, 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 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 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.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System Dynamics Society, Inc. as of December 31, 2016, and the changes 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.

## **Prior Period Financial Statements**

The financial statements of the System Dynamics Society, Inc. as of December 31, 2015, were audited by other auditors whose report dated April 20, 2016 expressed an unmodified opinion on those statements.

*Marvin and Company, P.C.*

Latham, NY  
May 3, 2017

**SYSTEM DYNAMICS SOCIETY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 65,866	\$ 126,664
Investments	950,460	946,035
Accounts receivable	54,527	61,952
Inventory	22,032	16,800
Prepaid expenses	45,492	35,023
Total Current Assets	1,138,377	1,186,474
<b>Property and Equipment</b>		
Office equipment	651	651
Less accumulated depreciation	(651)	(651)
Total Property and Equipment	-	-
<b>Other Assets</b>		
Investments-restricted	130,737	116,806
<b>TOTAL ASSETS</b>	\$ 1,269,114	\$ 1,303,280

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 34,460	\$ 12,402
Membership subscriptions liability	7,717	9,211
Deferred revenue	43,150	59,794
Custodial account liability	4,625	7,525
Total Current Liabilities	89,952	88,932
<b>Net Assets</b>		
Unrestricted		
Board designated	1,048,425	1,097,542
Total Unrestricted	1,048,425	1,097,542
Temporarily restricted	130,737	116,806
Total Net Assets	1,179,162	1,214,348
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 1,269,114	\$ 1,303,280

See accompanying notes to financial statements.

**SYSTEM DYNAMICS SOCIETY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

<b>UNRESTRICTED NET ASSETS</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>Support and Revenues</b>		
Conferences	\$ 274,325	\$ 312,026
Publications	68,263	85,173
Membership dues and subscriptions	59,872	61,249
Educational products, net expenses of \$7,994 and \$9,830 in 2016 and 2015, respectively	45,486	47,262
Donations	32,395	51,366
Investment income	102,582	(22,666)
Net assets released from restrictions	-	2,000
Total Support and Revenues	<u>582,923</u>	<u>536,410</u>
<b>Expenses</b>		
Awards	5,481	11,776
Bank and credit card fees	17,353	14,440
Chapter development	3,500	12,500
Contract - University of New York at Albany	358,872	341,827
Conferences	135,916	151,646
Insurance	3,767	5,313
Publications	20,000	20,000
Marketing	2,000	2,000
Office expenses	3,181	5,819
Travel and training	12,839	4,644
Professional fees and consultants	68,249	50,097
Miscellaneous	882	712
Total Expenses	<u>632,040</u>	<u>620,774</u>
<b>Change in Unrestricted Net Assets</b>	<u>(49,117)</u>	<u>(84,364)</u>
<b>Temporarily Restricted Net Assets</b>		
Investment income	13,931	1,601
Net assets released from restrictions	-	(2,000)
Change in Temporarily Restricted Net Assets	<u>13,931</u>	<u>(399)</u>
<b>Change in Net Assets</b>	<b>(35,186)</b>	<b>(84,763)</b>
Net Assets, Beginning of Year	<u>1,214,348</u>	<u>1,299,111</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 1,179,162</u></u>	<u><u>\$ 1,214,348</u></u>

See accompanying notes to financial statements.

**SYSTEM DYNAMICS SOCIETY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows Provided (Used) By Operating Activities</b>		
Change in net assets	\$ (35,186)	\$ (84,763)
Adjustment to reconcile change in net assets to net cash (used) by operating activities		
Net (gain) loss on investments	(95,655)	41,706
Change in operating assets and liabilities		
Accounts receivable	7,425	(122)
Inventory	(5,232)	6,209
Prepaid expenses	(10,469)	16,248
Accounts payable and accrued expenses	22,058	8,390
Membership subscriptions liability	(1,494)	(2,356)
Deferred revenue	(16,644)	4,222
Custodial account liability	(2,900)	(1,550)
Net Cash (Used) By Operating Activities	<u>(138,097)</u>	<u>(12,016)</u>
<b>Cash Flows Provided (Used) By Investing Activities</b>		
Proceeds from sales of investments	442,898	84,734
Purchases of investments	<u>(365,599)</u>	<u>(99,493)</u>
Net Cash Provided (Used) By Investing Activities	<u>77,299</u>	<u>(14,759)</u>
<b>Net (Decrease) in Cash and Cash Equivalents</b>	(60,798)	(26,775)
Cash and Cash Equivalents, Beginning of Year	<u>126,664</u>	<u>153,439</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 65,866</u>	<u>\$ 126,664</u>

**SYSTEM DYNAMICS SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**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.

***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 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.

***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.

***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, 2016 or December 31, 2015.

***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.



**SYSTEM DYNAMICS SOCIETY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**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 unrestricted net assets unless a donor or law restricts its use.

***Accounts Receivable***

Management has concluded all accounts will be collected by May 31 of the following year and that no allowance is necessary at December 31, 2016 and 2015.

***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

Contributed services, principally donated use of conference facilities, totaling \$28,500 and \$0 during December 31, 2016 and 2015, have been reflected in the accompanying financial statements. 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.

***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.

***Inventory***

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

***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).

**SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**2. UNIVERSITY OF NEW YORK AT ALBANY**

SDS has a contract with the University of New York at Albany (University) 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 \$358,872 and \$341,827 in costs for support services during the years ended December 31, 2016 and 2015, respectively. There were no amounts receivable from or payable to the University at December 31, 2016 or 2015. Prepaid contract costs totaled \$17,647 and \$4,686 at December 31, 2016 and 2015, respectively.

**3. INVESTMENTS**

A summary of investments at December 31, 2016 and 2015 is set forth below:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ -	\$ -	\$ 4,122	\$ 6,985
Exchange traded products	202,216	205,513	231,604	226,347
Mutual funds	<u>523,453</u>	<u>875,684</u>	<u>511,399</u>	<u>829,509</u>
	<u>\$ 725,669</u>	<u>\$ 1,081,197</u>	<u>\$ 747,125</u>	<u>\$ 1,062,841</u>

Investment income for the years ending December 31, 2016 and 2015 consists of:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 20,858	\$ 20,641
Net gain (loss) on investments	<u>95,655</u>	<u>(41,706)</u>
	<u>\$ 116,513</u>	<u>\$ (21,065)</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, 2016 and 2015 are functionally classified as:

	<u>2016</u>	<u>2015</u>
Program expenses - system dynamics	\$ 481,825	\$ 470,269
Support services - management and general	<u>150,215</u>	<u>150,505</u>
	<u>\$ 632,040</u>	<u>\$ 620,774</u>

**SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**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>2016</u>	<u>2015</u>
Beginning balance	\$ 116,806	\$ 117,205
Investment income	13,931	1,601
Award provided	-	(2,000)
Ending balance	<u>\$ 130,737</u>	<u>\$ 116,806</u>

**6. 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.

The fair value of assets measured (Level 1) on a recurring basis at December 31, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Cash equivalents	\$ 11,703	\$ 28,316
Common stock	-	6,985
Exchange traded products	205,513	226,347
Mutual funds	<u>875,684</u>	<u>829,509</u>
	<u>\$ 1,092,900</u>	<u>\$ 1,091,157</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 May 3, 2017, 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.