

To: Policy Council of the System Dynamics Society

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

Subject: VP Finance Narrative Report for Fiscal Year 2017—Part I

Date: 16 July 2018

This is the first of three parts to the VP Finance Report for 2018. The first part describes what happened in 2017. The second part reports on the financial aspects of the transition to CHMS. The third presents the proposed budget and asset designations for 2019.

I: General Observations

How Did the Society Do Overall in 2017? In 2017, we posted Net Income of \$253,082 and Total Assets increased by \$245,198. When viewed by cost centers, Core Operations posted a loss of **-\$140,621**, and our Publications posted a loss of **-\$1,751**. These operational losses were countered by Net Income gains of \$21,858 in Sales (both book and non-book sales less editing and development costs), \$41,907 in Conferences, and returns from our unrestricted investments which posted a gain of \$175,630 and new fundraising of \$113,351, largely for designated and restricted uses, rather than operations.

Please note that a recent communication from our CPA informed us of a change for 2018 reporting that may alter the way our income and balance sheet reports present our restricted and designated assets and the income they generate. These changes are not reflected below, as they were not in force during the audit.

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. Unrestricted Net Assets rose to \$1,245,201 from last year's \$1,048,425, largely to continued positive investment income, a successful Cambridge conference, and additional fundraising efforts. We predict that 2018's finances will be more challenging, as our Iceland conference income and investment returns will likely be less than in 2017, our fundraising plans are under redesign, and we are in our second and most costly year of transition as CHMS takes over our Home Office operations. Please see the subsequent parts of this document for more on future financial information.

(2) Revenues and Expenses Budget Comparison for 2017. This page shows how well we are doing predicting our revenue and expenses through the budgeting process. When we look at this report we see several things. First, for the 2017 conference we over-predicted about \$5K (4%) on conference expenses and under-predicted conference income by approximately \$40K (13%). Second, new contributions to the Legacy Fund and a structured addition to support a second Dana Meadows Award (DMA2) appear for the first time this year. Third, Other Income and Professional Fees were affected by a new project to bring Jay Forrester's last books into e-print and legal fees related to the transition. Finally, we underestimated income from our investments.

It is always a bit tricky trying to predict the performance of invested assets, and we chose to be conservative in our budget.

(3) Balance Sheet, Previous Year Comparison for 2017. We ended 2017 with Total Assets of \$1,514,312, an increase of \$245,198. While our invested assets performed quite well, we were running a loss in several operating areas (see Item 5 regarding cost centers below). We are now carrying as accounts receivable future pledges to the Legacy Fund as well as more pre-paid expenses than in the past.

(4) Revenues and Expenses, Previous Year Comparison for 2017. Net Income for the year was \$253,082, up from **-\$35,187** in 2016. However, Net Ordinary Income (NOI), a better measure of our fiscal performance (because it does not include growth in investment income) shows a loss of **-\$66,860**, an improvement from the NOI loss of **-\$151,700** in 2016. The smaller negative NOI reflects largely the income from our successful Cambridge conference as well as more modest gains in journal income, membership dues, and sponsorship, and the contract for Jay's books. There are also new expenses with the start of our CHMS contract.

(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 (CO plus Web) posted a loss of **-\$140,621**, Publications posted a loss of **-\$1,751**. The losses were countered by Net Income gains of \$21,858 in Sales and \$41,907 in Conferences (as the sum of all recent conferences), as well as net unrestricted investment income of \$175,630 and net restricted income of \$56,306. Please note that this Core Operations loss is 23% less than the corresponding loss from the previous year, and reflects careful choices and reflections by the Home Office staff.

(6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2017 (final statements from our CPA). Attachment 6 reproduces the CPA *audit* of our books. This is the third 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 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.

III: A Note of Thanks From Eliot

There's a remarkable story hidden in this report. Over the last twenty years our outgoing Executive Director has helped our Society grow its asset base 5-fold while building an organization that manages our conferences and other operations economically and with great passion. Robin Langer has been a stalwart custodian of our funds and records through the UAlbany bureaucratic maze, and all our Home Office employees have used care and conservative approaches to our resources. As the new VP Finance, I'm very grateful to inherit this strong base for our future.

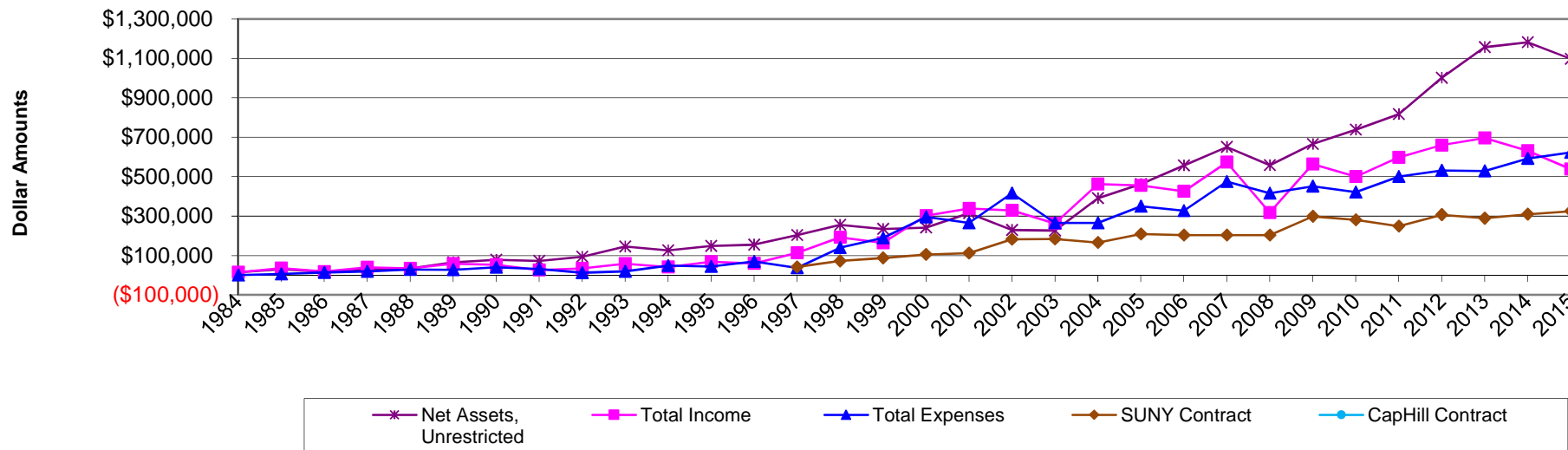
Attachments:

(1) Key Trends in Society Finances 1984 to Present

- (2) System Dynamics Society Revenues and Expenses Budget Comparison, Fiscal Year (audited) January through December 2017
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (audited) As of December 31, 2017
- (4) System Dynamics Society Revenues and Expenses, Previous Year Comparison (audited) January through December 2017
- (5) System Dynamics Society Revenues and Expenses, Fiscal Year, by Cost Centers (audited) January through December 2017
- (6) System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2017 (final audited statements from our CPA)

System Dynamics Society FY 2017 Fiscal Report Part I Attachment 1

(1) Key Trends in Society Finances since 1984



06/04/18
Accrual Basis

System Dynamics Society
(2) Rev & Exp, Budget Comparison (audited)
January through December 2017

	Jan - Dec 17	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
INC Conferences	346,560	305,851	40,709	113%
Journal Income	79,815	85,173	-5,358	94%
Membership Dues	61,335	70,866	-9,531	87%
Other Income	23,326			
Products	49,133	50,891	-1,758	97%
Shipping and Handling Income	7,053	8,169	-1,116	86%
Sponsor Dues and Donations	44,164	42,566	1,598	104%
Summer School Income	11,380	9,300	2,080	122%
Total Income	622,766	572,816	49,950	109%
Cost of Goods Sold				
Cost of Goods	11,660	9,331	2,329	125%
Total COGS	11,660	9,331	2,329	125%
Gross Profit	611,106	563,485	47,621	108%
Expense				
Awards-Dana Meadows	2,000	2,000	0	100%
Awards-Others	5,850	6,000	-150	98%
Bank & CC Fees	18,711	12,232	6,479	153%
Field Dev (\$20K Max)	11,155	20,000	-8,845	56%
Contracted Expenses at UAlbany	341,029	357,084	-16,055	96%
Contracted Expenses CHMS	25,500			
EXP Conferences	140,461	145,900	-5,439	96%
Insurance	5,866	5,666	200	104%
Interest Exp	0			
Journal Expense	20,000	20,000	0	100%
Marketing (Sponsor Trade)	2,000			
Miscellaneous Expense	446	846	-400	53%
Office Expense	6,379	5,171	1,208	123%
Officer Expenses (=Travel CPA)	7,832	7,423	409	106%
PHD Stud Chapt Support @ Conf	4,396	1,000	3,396	440%
Professional Fees	86,342	48,956	37,386	176%
Summer School Expense	0	7,710	-7,710	0%
Total Expense	677,966	639,988	37,978	106%
Net Ordinary Income	-66,860	-76,503	9,643	87%
Other Income/Expense				
Other Income				
Legacy Fund Income	83,351			
Investment Income	176,805	48,908	127,897	362%

06/04/18
Accrual Basis

System Dynamics Society
(2) Rev & Exp, Budget Comparison (audited)
January through December 2017

	Jan - Dec 17	Budget	\$ Over Budget	% of Budget
DMA2	30,000			
DM Investment Inc	2,785	2,517	268	111%
Designated Inv Inc	27,000	27,000	0	100%
Total Other Income	319,942	78,425	241,517	408%
Net Other Income	319,942	78,425	241,517	408%
Net Income	<u>253,082</u>	<u>1,922</u>	<u>251,160</u>	<u>13,168%</u>

06/04/18
Accrual Basis

System Dynamics Society
(3) Balance Sheet, Prev Year Comparison (audited)
As of December 31, 2017

	Dec 31, 17	Dec 31, 16	\$ Change	% Change
ASSETS				
Current Assets				
Checking/Savings				
Bank of America Checking 2474	86,028	21,640	64,388	298%
BOA - Companion Savings	3,865	13,864	-9,999	-72%
Elec. Transfer BOA Check 5757	13,750	16,190	-2,440	-15%
Pioneer Checking (...4952)	10,692	0	10,692	100%
Pioneer Elec Transfer (...4960)	29,990	0	29,990	100%
Pioneer Savings (...4978)	-10	0	-10	-100%
Bank Paypal	151	1,058	-907	-86%
Travel Cash	304	81	223	274%
Fidelity-Legacy Fund (3 Edge)	25,846	0	25,846	100%
Fidelity-Society (3 Edge)	244,810	217,216	27,594	13%
Vanguard Society (88008478957)	712,732	744,947	-32,215	-4%
Total Checking/Savings	1,128,158	1,014,996	113,162	11%
Accounts Receivable				
Accounts Receivable	69,730	0	69,730	100%
Total Accounts Receivable	69,730	0	69,730	100%
Other Current Assets				
Accounts Receivable - Wiley	57,337	54,527	2,810	5%
Inventory	14,227	22,032	-7,805	-35%
Prepaid Expenses	87,320	45,492	41,828	92%
Cash-Undeposited Funds	497	1,330	-833	-63%
Total Other Current Assets	159,381	123,381	36,000	29%
Total Current Assets	1,357,269	1,138,377	218,892	19%
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)	157,042	130,737	26,306	20%
Total Other Assets	157,042	130,737	26,306	20%
TOTAL ASSETS	<u>1,514,312</u>	<u>1,269,114</u>	<u>245,198</u>	<u>19%</u>
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Accounts Payable				
Accounts Payable	21,595	0	21,595	100%
Total Accounts Payable	21,595	0	21,595	100%
Credit Cards				
Hyatt CC - 0794	0	1,016	-1,016	-100%
Total Credit Cards	0	1,016	-1,016	-100%
Other Current Liabilities				
Accounts Payable*	73	8,341	-8,268	-99%
Deferred Revenue	38,162	36,221	1,940	5%

06/04/18
Accrual Basis

System Dynamics Society
(3) Balance Sheet, Prev Year Comparison (audited)
As of December 31, 2017

	Dec 31, 17	Dec 31, 16	\$ Change	% Change
Due to Conference Host	4,475	4,625	-150	-3%
Membership Sub Payable 2005+	7,752	7,717	35	1%
PPD Journal Editor	9,012	6,929	2,083	30%
Restricted Conf.Scholar/Awards	867	0	867	100%
Conf Host -Summer Sci 2016	0	4,734	-4,734	-100%
Conference Host Finances	0	20,278	-20,278	-100%
Sales Tax Payable	133	91	41	46%
Total Other Current Liabilities	60,474	88,937	-28,463	-32%
Total Current Liabilities	82,069	89,953	-7,884	-9%
Total Liabilities	82,069	89,953	-7,884	-9%
Equity				
Net Assets - Temp Rest (DMA)	157,042	130,737	26,306	20%
Net Assets - Temp Rest (DMA2)	30,000	0	30,000	100%
Net Assets - Temp Rest (Legacy)	0	0	0	100%
Net Assets-Designated	992,119	1,083,612	-91,493	-8%
Net Income	253,082	-35,187	288,269	819%
Total Equity	1,432,243	1,179,161	253,082	22%
TOTAL LIABILITIES & EQUITY	1,514,312	1,269,114	245,198	19%

06/19/18
Accrual Basis

System Dynamics Society
(4) Rev & Exp, Prev Year Comparison (audited)
January through December 2017

	Jan - Dec 17	Jan - Dec 16	\$ Change	% Change
Ordinary Income/Expense				
Income				
INC Conferences	346,560	235,168	111,391	47%
Journal Income	79,815	68,263	11,552	17%
Membership Dues	61,335	59,872	1,464	2%
Other Income	23,326	17	23,309	140,334%
Products	49,133	46,435	2,698	6%
Shipping and Handling Income	7,053	7,045	8	0%
Sponsor Dues and Donations	44,164	32,378	11,786	36%
Summer School Income	11,380	39,157	-27,777	-71%
Total Income	622,766	488,335	134,432	28%
Cost of Goods Sold				
Cost of Goods	11,660	7,994	3,666	46%
Total COGS	11,660	7,994	3,666	46%
Gross Profit	611,106	480,340	130,766	27%
Expense				
Awards-Dana Meadows	2,000	0	2,000	100%
Awards-Others	5,850	5,480	370	7%
Bank & CC Fees	18,711	17,353	1,358	8%
Field Dev (\$20K Max)	11,155	3,500	7,655	219%
Contracted Expenses at UAlbany	341,029	358,872	-17,844	-5%
Contracted Expenses CHMS	25,500	0	25,500	100%
EXP Conferences	140,461	103,044	37,417	36%
Insurance	5,866	3,767	2,099	56%
Interest Exp	0	0	0	100%
Journal Expense	20,000	20,000	0	0%
Marketing (Sponsor Trade)	2,000	2,000	0	0%
Miscellaneous Expense	446	883	-437	-50%
Office Expense	6,379	3,181	3,198	101%
Officer Expenses (=Travel CPA)	7,832	12,839	-5,007	-39%
PHD Stud Chapt Support @ Conf	4,396	0	4,396	100%
Professional Fees	86,342	68,249	18,093	27%
Summer School Expense	0	32,872	-32,872	-100%
Total Expense	677,966	632,040	45,926	7%
Net Ordinary Income	-66,860	-151,700	84,840	56%
Other Income/Expense				
Other Income				
Legacy Fund Income	83,351	0	83,351	100%
Investment Income	176,805	113,908	62,898	55%

06/19/18
Accrual Basis

System Dynamics Society
(4) Rev & Exp, Prev Year Comparison (audited)
January through December 2017

	Jan - Dec 17	Jan - Dec 16	\$ Change	% Change
DMA2	30,000	0	30,000	100%
DM Investment Inc	2,785	2,605	181	7%
Designated Inv Inc	27,000	0	27,000	100%
Total Other Income	319,942	116,512	203,429	175%
Net Other Income	319,942	116,512	203,429	175%
Net Income	<u>253,082</u>	<u>-35,187</u>	<u>288,269</u>	<u>819%</u>

06/14/18

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

Accrual Basis

January through December 2017

	2019 Al...	2018 Ic...	2017 C...	PreCon...	2016 D...	PreCon...	2014 D...	MiscC...	Core O... (CO)	Web (CO)	Total CO	Legacy	Book S...	Sales ...	Publica...	Invest...	DMC	IFR Tra...	Unallo...	audit	TOTAL	
Ordinary Income/Expense																						
Income																						
INC Conferences	0	6,300	335,937	0	0	0	0	273	5,850	0	5,850	0	0	0	0	0	0	0	0	0	-1,800	346,560
Journal Income	0	0	0	0	0	0	0	0	57,006	0	57,006	0	0	0	20,000	0	0	0	0	0	2,810	79,815
Membership Dues	0	0	0	0	0	0	0	0	62,838	0	62,838	0	0	0	0	0	0	0	0	0	-1,503	61,335
Other Income	0	0	0	0	0	0	0	0	326	0	326	0	23,000	0	0	0	0	0	0	0	0	23,326
Products	0	0	0	0	0	0	0	0	2,514	0	2,514	0	1,908	44,661	50	0	0	0	0	0	0	49,133
Shipping and Handling Income	0	0	0	0	0	0	0	0	0	0	0	0	542	6,511	0	0	0	0	0	0	0	7,053
Sponsor Dues and Donations	0	0	0	0	0	0	0	0	44,164	0	44,164	0	0	0	0	0	0	0	0	0	0	44,164
Summer School Income	0	0	0	11,380	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11,380
Total Income	0	6,300	335,937	11,380	0	0	0	273	172,697	0	172,697	0	25,450	51,172	20,050	0	0	0	0	0	-493	622,766
Cost of Goods Sold																						
Cost of Goods	0	0	0	0	0	0	0	0	0	0	0	0	954	10,706	0	0	0	0	0	0	0	11,660
Total COGS	0	0	0	0	0	0	0	0	0	0	0	0	954	10,706	0	0	0	0	0	0	0	11,660
Gross Profit	0	6,300	335,937	11,380	0	0	0	273	172,697	0	172,697	0	24,496	40,466	20,050	0	0	0	0	0	-493	611,106
Expense																						
Awards-Dana Meadows	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,000	0	0	0	0	2,000
Awards-Others	0	0	0	0	0	0	0	0	5,850	0	5,850	0	0	0	0	0	0	0	0	0	0	5,850
Bank & CC Fees	0	81	8,122	3,005	277	-6	0	1	4,212	0	4,212	20	349	861	0	1,788	0	0	0	0	-1	18,711
Field Dev (\$20K Max)	0	0	0	0	0	0	0	0	11,155	0	11,155	0	0	0	0	0	0	0	0	0	0	11,155
Contracted Expenses at UAlbany	1,691	16,269	90,230	7,828	0	0	0	0	161,048	33,897	194,945	0	12,766	13,141	1,801	0	0	150	0	2,208	0	341,029
Contracted Expenses CHMS	0	17,000	0	0	0	0	0	0	8,500	9,107	17,607	7,893	0	0	0	0	0	0	0	0	-17,000	25,500
EXP Conferences	0	4,308	137,799	0	0	0	1,306	0	0	0	0	0	0	0	0	0	0	0	0	0	-2,952	140,461
Insurance	0	0	0	0	0	0	0	0	5,866	0	5,866	0	0	0	0	0	0	0	0	0	0	5,866
Interest Exp	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Journal Expense	0	0	0	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	0	0	2,000	0	2,000	0	0	0	0	0	0	0	0	0	0	2,000
Miscellaneous Expense	0	0	0	0	0	0	0	0	446	0	446	0	0	0	0	0	0	0	0	0	0	446
Office Expense	0	0	0	0	0	0	0	0	2,836	2,575	5,411	673	65	265	0	0	0	0	0	0	-34	6,379
Officer Expenses (=Travel CPA)	0	0	0	0	0	0	0	146	8,411	0	8,411	18	0	0	0	0	0	0	0	0	-743	7,832
PHD Stud Chapt Support @ Conf	0	0	3,396	0	0	0	0	0	1,000	0	1,000	0	0	0	0	0	0	0	0	0	0	4,396
Professional Fees	0	1,831	17,403	653	0	645	0	0	56,415	0	56,415	150	14,134	1,523	0	0	0	0	0	0	-6,411	86,342
Total Expense	1,691	39,488	256,950	11,485	277	639	1,306	147	267,739	45,579	313,318	8,754	27,314	15,790	21,801	1,788	2,000	150	0	-24,933	677,966	
Net Ordinary Income	-1,691	-33,188	78,987	-105	-277	-639	-1,306	126	-95,042	-45,579	-140,621	-8,754	-2,818	24,676	-1,751	-1,788	-2,000	-150	0	24,440	-66,860	
Other Income/Expense																						
Other Income																						
Legacy Fund Income	0	0	0	0	0	0	0	0	0	0	0	39,501	0	0	0	0	0	0	0	0	0	39,501
Investment Income	0	0	0	0	0	0	0	0	-27,000	0	-27,000	866	0	0	177,418	25,520	0	0	0	0	0	176,805
DMA2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	30,000	0	0	0	0	30,000
DM Investment Inc	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,785	0	0	0	0	2,785
Designated Inv Inc	0	0	0	0	0	0	0	0	27,000	0	27,000	0	0	0	0	0	0	0	0	0	0	27,000
Total Other Income	0	0	0	0	0	0	0	0	0	0	0	40,367	0	0	177,418	58,306	0	0	0	0	0	276,092
Net Other Income	0	0	0	0	0	0	0	0	0	0	0	40,367	0	0	177,418	58,306	0	0	0	0	0	276,092
Net Income	-1,691	-33,188	78,987	-105	-277	-639	-1,306	126	-95,042	-45,579	-140,621	31,613	-2,818	24,676	-1,751	175,630	56,306	-150	0	24,440	209,232	

System Dynamics Society
FY 2017 Fiscal Report Part I
Attachment 6

**SYSTEM DYNAMICS SOCIETY, INC.
FINANCIAL REPORT
DECEMBER 31, 2017**

SYSTEM DYNAMICS SOCIETY, INC.

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5-9

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, 2017 and 2016, and the related statements of activities and cash flows for the years 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 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 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 the System Dynamics Society, Inc. as of December 31, 2017 and 2016, 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.

Marvin and Company, P.C.

Latham, NY
June 11, 2018

**SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 159,100	\$ 65,866
Investments	969,555	950,460
Accounts receivable	80,966	54,527
Contributions receivable	22,601	-
Inventory	14,227	22,032
Prepaid expenses	87,320	45,492
Total Current Assets	1,333,769	1,138,377
Property and Equipment		
Office equipment	651	651
Less accumulated depreciation	(651)	(651)
Total Property and Equipment	-	-
Other Assets		
Investments-restricted	157,042	130,737
Contributions receivable, net of current portion	23,500	-
TOTAL ASSETS	\$ 1,514,311	\$ 1,269,114

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 22,668	\$ 34,460
Membership subscriptions liability	7,752	7,717
Deferred revenue	47,174	43,150
Custodial account liability	4,475	4,625
Total Current Liabilities	82,069	89,952
Net Assets		
Unrestricted		
Board designated	1,245,200	1,048,425
Total Unrestricted	1,245,200	1,048,425
Temporarily restricted	187,042	130,737
Total Net Assets	1,432,242	1,179,162
TOTAL LIABILITIES AND NET ASSETS	\$ 1,514,311	\$ 1,269,114

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

UNRESTRICTED NET ASSETS	<u>2017</u>	<u>2016</u>
Support and Revenues		
Conferences	\$ 357,940	\$ 274,325
Publications	79,815	68,263
Membership dues and subscriptions	61,335	59,872
Educational products, net expenses of \$11,660 and \$7,994 in 2017 and 2016, respectively	44,526	45,486
E-books project	23,000	-
Contributions	127,841	32,395
Investment income	178,285	102,582
Net assets released from restrictions	2,000	-
Total Support and Revenues	<u>874,742</u>	<u>582,923</u>
Expenses		
Awards	7,850	5,481
Bank and credit card fees	18,711	17,353
Chapter development	11,155	3,500
Contract - University of New York at Albany	341,029	358,872
Conferences	144,857	135,916
Insurance	5,866	3,767
Publications	20,000	20,000
Marketing	2,000	2,000
Office expenses	6,379	3,181
Travel and training	7,832	12,839
Professional fees and consultants	111,842	68,249
Miscellaneous	446	882
Total Expenses	<u>677,967</u>	<u>632,040</u>
Change in Unrestricted Net Assets	<u>196,775</u>	<u>(49,117)</u>
Temporarily Restricted Net Assets		
Contribution	30,000	-
Investment income	28,305	13,931
Net assets released from restrictions	(2,000)	-
Change in Temporarily Restricted Net Assets	<u>56,305</u>	<u>13,931</u>
Change in Net Assets	253,080	(35,186)
Net Assets, Beginning of Year	<u>1,179,162</u>	<u>1,214,348</u>
Net Assets, End of Year	<u>\$ 1,432,242</u>	<u>\$ 1,179,162</u>

See accompanying notes to financial statements.

**SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows Provided (Used) By Operating Activities		
Change in net assets	\$ 253,080	\$ (35,186)
Adjustment to reconcile change in net assets to net cash (used) by operating activities		
Net (gain) on investments	(185,185)	(95,655)
Change in operating assets and liabilities		
Accounts receivable	(26,439)	7,425
Contributions receivable	(46,101)	-
Inventory	7,805	(5,232)
Prepaid expenses	(41,828)	(10,469)
Accounts payable and accrued expenses	(11,792)	22,058
Membership subscriptions liability	35	(1,494)
Deferred revenue	4,024	(16,644)
Custodial account liability	(150)	(2,900)
Net Cash (Used) By Operating Activities	<u>(46,551)</u>	<u>(138,097)</u>
Cash Flows Provided (Used) By Investing Activities		
Proceeds from sales of investments	368,779	442,898
Purchases of investments	<u>(228,994)</u>	<u>(365,599)</u>
Net Cash Provided By Investing Activities	<u>139,785</u>	<u>77,299</u>
Net Increase (Decrease) in Cash and Cash Equivalents	93,234	(60,798)
Cash and Cash Equivalents, Beginning of Year	<u>65,866</u>	<u>126,664</u>
Cash and Cash Equivalents, End of Year	<u>\$ 159,100</u>	<u>\$ 65,866</u>

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 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 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. SDS has not experienced any loss in such accounts. No amounts exceeded federally insured limits at December 31, 2017 or December 31, 2016.

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, 2017 AND 2016

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 and Contributions Receivable

Management has concluded all accounts and contributions will be collected and that no allowance is necessary at December 31, 2017 and 2016.

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 \$0 and \$28,500 during December 31, 2017 and 2016, 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 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).

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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 \$341,029 and \$358,872 in costs for support services during the years ended December 31, 2017 and 2016, respectively. There were no amounts receivable from or payable to the University at December 31, 2017 or 2016. Prepaid contract costs totaled \$39,183 and \$17,647 at December 31, 2017 and 2016, respectively.

3. INVESTMENTS

A summary of investments at December 31, 2017 and 2016 is set forth below:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Exchange traded products	\$ 237,641	\$ 256,824	\$ 202,216	\$ 205,513
Mutual funds	<u>446,742</u>	<u>869,773</u>	<u>523,453</u>	<u>875,684</u>
	<u>\$ 684,383</u>	<u>\$ 1,126,597</u>	<u>\$ 725,669</u>	<u>\$ 1,081,197</u>

Investment income for the years ending December 31, 2017 and 2016 consists of:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 21,405	\$ 20,858
Net gain on investments	<u>185,185</u>	<u>95,655</u>
	<u>\$ 206,590</u>	<u>\$ 116,513</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. CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows at December 31, 2017:

2018	\$ 22,601
2019	15,500
2020	2,000
2021	1,000
2022	1,000
Thereafter	<u>4,000</u>
	<u>\$ 46,101</u>

Management believes all amounts will be received when due, therefore, no allowance for uncollectible contributions has been provided. Contributions receivable were recognized at the promised amount because management believes the difference between the promised amount and the fair present value of the promise is immaterial.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

5. 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, 2017 and 2016 are functionally classified as:

	<u>2017</u>	<u>2016</u>
Program expenses - system dynamics	\$ 517,923	\$ 481,825
Support services - management and general	<u>160,044</u>	<u>150,215</u>
	<u>\$ 677,967</u>	<u>\$ 632,040</u>

6. NET ASSETS

Unrestricted Board Designated Funds

Unrestricted net assets have been designated by the Board of Directors for the following purposes at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital reserve	\$ 392,173	\$ 314,292
Legacy campaign	71,947	-
Executive Director salary reserve	118,580	114,133
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	<u>20,000</u>	<u>20,000</u>
	<u>\$ 1,245,200</u>	<u>\$ 1,048,425</u>

Temporarily Restricted 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>2017</u>	<u>2016</u>
Beginning balance	\$ 130,737	\$ 116,806
Contribution	30,000	-
Investment income	28,305	13,931
Award provided	<u>(2,000)</u>	<u>-</u>
Ending balance	<u>\$ 187,042</u>	<u>\$ 130,737</u>

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. 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 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, 2017 and 2016, using Level 1 inputs, follows:

	<u>2017</u>	<u>2016</u>
Cash equivalents	\$ 13,832	\$ 11,703
Exchange traded products	256,824	205,513
Mutual funds	<u>869,773</u>	<u>875,684</u>
	<u>\$ 1,140,429</u>	<u>\$ 1,092,900</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.

8. 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.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 11, 2018, 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.