

**SYSTEM DYNAMICS SOCIETY, INC.
FINANCIAL REPORT
DECEMBER 31, 2019 AND 2018**

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SYSTEM DYNAMICS SOCIETY, INC.

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INDEPENDENT AUDITOR'S REPORT

Policy Council
System Dynamics Society, Inc.

We have audited the accompanying financial statements of the System Dynamics Society, Inc. (a Massachusetts not-for-profit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of System Dynamics Society, Inc. as of December 31, 2019 and 2018, 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.

Emphasis of Matters

As discussed in note 1 to the financial statements, in 2019, System Dynamics Society, Inc. adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*; and ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Latham, NY
____ 2020

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SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 84,774	\$ 110,338
Investments	609,163	815,422
Accounts receivable		
Publications	57,337	57,337
Other	13,680	2,353
Inventory	14,227	14,227
Prepaid expenses	12,059	43,976
Total Current Assets	791,240	1,043,653
Property and Equipment		
Office equipment	574	574
Less accumulated depreciation	(382)	(191)
Total Property and Equipment	192	383
Other Assets		
Investments-restricted	234,477	178,369
TOTAL ASSETS	\$ 1,025,909	\$ 1,222,405

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 8,497	\$ 211,859
Membership subscriptions liability	20,642	5,177
Deferred revenue		
Conferences	13,375	12,000
Publications	-	10,000
Membership dues	29,780	28,829
Other	14,290	14,764
Custodial account liability	4,325	4,325
Total Current Liabilities	90,909	286,954
Net Assets		
Without donor restrictions		
Board designated	700,523	757,082
Total without donor restrictions	700,523	757,082
With donor restrictions	234,477	178,369
Total Net Assets	935,000	935,451
TOTAL LIABILITIES AND NET ASSETS	\$ 1,025,909	\$ 1,222,405

See accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenues		
Conferences	\$ 217,592	\$ 300,313
Publications		
Revenue	70,374	62,765
Contribution	22,500	20,000
Total Publications	<u>92,874</u>	<u>82,765</u>
Membership dues and subscriptions	50,803	62,847
Educational products	42,219	47,223
Contributions	42,147	11,376
Investment income, net	139,566	(72,007)
Net assets released from restrictions	-	-
Total Support and Revenues	<u>585,201</u>	<u>432,517</u>
Expenses		
Awards	14,500	7,847
Bank and credit card fees	11,084	13,693
Chapter development	5,139	1,988
Contract - University of New York at Albany	13,356	327,608
Conferences	112,438	152,844
Insurance	3,482	5,784
Publications	23,000	23,000
Marketing	1,505	1,000
Office expenses	11,359	14,054
Travel and training	3,583	8,434
Professional fees and consultants	438,182	306,552
Miscellaneous	3,941	11,539
Bad debt expense	-	46,101
Depreciation expense	191	191
Total Expenses	<u>641,760</u>	<u>920,635</u>
Change in Net Assets Without Donor Restrictions	<u>(56,559)</u>	<u>(488,118)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Support and Revenues		
Investment income, net	56,108	(8,673)
Net assets released from restrictions	-	-
Change in Net Assets With Donor Restrictions	<u>56,108</u>	<u>(8,673)</u>
Change in Net Assets	(451)	(496,791)
Net Assets, Beginning of Year	<u>935,451</u>	<u>1,432,242</u>
Net Assets, End of Year	<u>\$ 935,000</u>	<u>\$ 935,451</u>

See accompanying notes to financial statements.

**SYSTEM DYNAMICS SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>PROGRAM SERVICES</u>		<u>SUPPORTING SERVICES</u>		<u>Total</u>
	<u>System Dynamics</u>	<u>Management and General</u>	<u>Development and Fundraising</u>		
Awards	\$ 14,500	\$ -	\$ -	\$ -	\$ 14,500
Bank and credit card fees	4,434	6,650	-	-	11,084
Chapter development	-	-	5,139	-	5,139
Contract - University of New York at Albany	10,017	2,671	668	-	13,356
Conferences	112,438	-	-	-	112,438
Insurance	-	3,482	-	-	3,482
Publications	23,000	-	-	-	23,000
Marketing	-	1,505	-	-	1,505
Office expenses	1,704	9,505	150	-	11,359
Travel and training	2,199	1,334	50	-	3,583
Professional fees and consultants	328,637	87,636	21,909	-	438,182
Miscellaneous	3,557	384	-	-	3,941
Depreciation expense	191	-	-	-	191
Total Expenses	<u>\$ 500,677</u>	<u>\$ 113,167</u>	<u>\$ 27,916</u>	<u>\$ -</u>	<u>\$ 641,760</u>

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

	<u>PROGRAM SERVICES</u>		<u>SUPPORTING SERVICES</u>		<u>Total</u>
	<u>System Dynamics</u>	<u>Management and General</u>	<u>Development and Fundraising</u>		
Awards	\$ 7,847	\$ -	\$ -	\$ 7,847	
Bank and credit card fees	5,733	7,960	-	13,693	
Chapter development	-	1,988	-	1,988	
Contract - University of New York at Albany	245,705	65,522	16,381	327,608	
Conferences	152,844	-	-	152,844	
Insurance	-	5,784	-	5,784	
Publications	23,000	-	-	23,000	
Marketing	-	1,000	-	1,000	
Office expenses	3,115	10,919	20	14,054	
Travel and training	1,270	7,139	25	8,434	
Professional fees and consultants	208,059	86,415	12,078	306,552	
Miscellaneous	10,364	1,175	-	11,539	
Bad debt expense	46,101	-	-	46,101	
Depreciation expense	191	-	-	191	
Total Expenses	<u>\$ 704,229</u>	<u>\$ 187,902</u>	<u>\$ 28,504</u>	<u>\$ 920,635</u>	

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows Provided (Used) By Operating Activities		
Change in net assets	\$ (451)	\$ (496,791)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Bad debt expense	-	46,101
Net loss (gain) on investments	(180,255)	99,323
Depreciation expense	191	191
Change in operating assets and liabilities		
Accounts receivable	(11,327)	21,276
Prepaid expenses	31,917	43,344
Accounts payable and accrued expenses	(203,362)	189,191
Membership subscriptions liability	15,465	(2,575)
Deferred revenue	(8,148)	18,419
Custodial account liability	-	(150)
Net Cash Used By Operating Activities	<u>(355,970)</u>	<u>(81,671)</u>
Cash Flows Provided (Used) By Investing Activities		
Proceeds from sales of investments	831,490	839,962
Purchases of investments	(501,084)	(806,479)
Purchase of property and equipment	-	(574)
Net Cash Provided By Investing Activities	<u>330,406</u>	<u>32,909</u>
Net Decrease in Cash and Cash Equivalents	(25,564)	(48,762)
Cash and Cash Equivalents, Beginning of Year	<u>110,338</u>	<u>159,100</u>
Cash and Cash Equivalents, End of Year	<u>\$ 84,774</u>	<u>\$ 110,338</u>

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Accounting

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

Basis of Presentation

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

Adoption of New Accounting Standards

In May 2014, the FASB issued ASU 2014-19, *Revenue from Contracts with Customers (Topic 606)*. This guidance provides a single comprehensive model to account for revenue from contracts with customers. The objective of the guidance is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which SDS expects to be entitled in exchange for those goods or services. On January 1, 2019, SDS adopted ASU 2014-09 using the full retrospective adoption method. Management analyzed the provisions of ASU 2014-09 and concluded that adoption resulted in changes in related disclosures in the notes to the financial statements. This guidance did not have a material impact on the financial statements or timing of revenue recognition by SDS. However, the presentation of revenue has been enhanced in accordance with the standard.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. SDS adopted this standard on January 1, 2019, on a modified prospective basis for contracts not yet completed as of, or entered into subsequent to, the beginning of the fiscal year. The adoption did not result in a material change to how SDS accounts for revenue from contributions, grants and contracts.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to conform to the 2019 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

Use of Estimates

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

Income Taxes

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

Revenue Recognition

Conference Revenue

SDS receives revenue for conferences held and recognizes this revenue at a point in time when the conference has taken place. Conference payments received in advance are recorded as deferred revenue. Due to the timing of the performance and/or transfer of services, substantially all deferred revenue at December 31 of each year is recognized in the following year.

Publications

Publication revenue is based on an annual contract covering the period January 1 to December 31 and includes a royalty based on the publishers' volume of sales revenue and a contribution for use at SDS' sole discretion to support expenses of the editorial office. The royalty is recorded at a point in time when the customer determines the promised service (i.e. final volume of sales). The earned royalty for the year ending December 31 is typically not received until the following April, and is included as accounts receivable on the statement of financial position.

The contribution is considered a non-exchange transaction and is reported as an increase in net assets without donor restrictions as allowable expenditures are incurred.

Membership Dues

Membership dues, which are nonrefundable, are recognized over the one-year membership period ending December 31. Membership dues paid in advance are deferred to the following membership period to which they relate.

Deferred Revenue

Revenue recognized for the years ended December 31, 2019 and 2018 that was included in deferred revenue at the beginning of each year was \$59,410 and \$40,990, respectively.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Contributions and Investment Income

Contributions and investment income are recorded as without donor restrictions or with donor restrictions depending on the existence of donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Conditional contributions are not recorded as revenue until the conditions on which they depend have been met. Conditions and/or restrictions imposed that are met in the same year they are received are included in net assets without donor restrictions.

Contributed Services

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments that potentially subject SDS to concentrations of credit risk consist principally of cash accounts in financial institutions which, from time to time, may exceed the Federal depository insurance coverage limit of \$250,000. No amounts exceeded federally insured limits at December 31, 2019 and 2018.

Investments

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

Accounts Receivable

Management has concluded all accounts receivable will be collected and that no allowance is necessary at December 31, 2019 and 2018.

Inventory

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

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (3 years).

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

SDS had a contract with the University of New York at Albany (University) for administrative support services through December 31, 2018. Services were continued through July 2019 on a limited basis and included sharing common facilities, personnel services, and the use of property and equipment owned by the University. SDS incurred \$13,356 and \$327,608 in costs for support services during the years ended December 31, 2019 and 2018, respectively. There were no amounts receivable from the University at December 31, 2019 and 2018. Amounts payable to the University totaled \$-0- and \$67,000 at December 31, 2019 and 2018, respectively. Prepaid contract costs totaled \$-0- and \$6,000 at December 31, 2019 and 2018, respectively.

Effective January 2018, SDS retained Capitol Hill Management Services, Inc. (CHMS) to provide financial management, administrative support, and other services through December 2019. This includes sharing common facilities, personnel services, and the use of property and equipment owned or rented by CHMS. SDS incurred \$319,936 and \$170,600 in costs for these services during the years ended December 31, 2019 and 2018, respectively. These costs are included in professional fees and consultants expense on the statement of activities. There were no amounts receivable from CHMS at December 31, 2019 and 2018. Amounts payable to CHMS totaled \$46 and \$39,112 at December 31, 2019 and 2018, respectively. Prepaid contract costs totaled \$7,035 and \$27,333 at December 31, 2019 and 2018, respectively. Minimum contract commitments during the year ended December 31, 2020 are \$175,000.

3. INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES

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

The following table reflects SDS's financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of external restrictions or internal board designations.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

3. INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 84,774	\$ 110,338
Accounts receivable	71,017	59,690
Investments	<u>843,640</u>	<u>993,791</u>
Total Financial Assets	999,431	1,163,819
Net assets with donor restrictions	(234,477)	(178,369)
Board designated net assets	<u>(700,523)</u>	<u>(757,082)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 64,431</u>	<u>\$ 228,368</u>

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

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

4. INVESTMENTS

A summary of investments at December 31, 2019 and 2018 is set forth below:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Exchange traded products:				
Equity	\$ 108,298	\$ 115,498	\$ 40,523	\$ 39,722
Fixed income	117,957	120,930	174,828	174,859
Other	<u>27,393</u>	<u>32,054</u>	<u>21,330</u>	<u>21,494</u>
	253,648	268,482	236,681	236,075
Mutual funds	<u>289,820</u>	<u>575,158</u>	<u>454,275</u>	<u>757,716</u>
	<u>\$ 543,468</u>	<u>\$ 843,640</u>	<u>\$ 690,956</u>	<u>\$ 993,791</u>

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

4. INVESTMENTS

Net investment income for the years ending December 31, 2019 and 2018 consists of:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 17,540	\$ 20,803
Net gain (loss) on investments	180,255	(99,323)
Investment fees	<u>(2,121)</u>	<u>(2,160)</u>
	<u>\$ 195,674</u>	<u>\$ (80,680)</u>

5. FUNCTIONAL REPORTING OF EXPENSES

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

6. NET ASSETS

Net Assets Without Donor Restrictions - Board Designated

Net assets have been designated by the Board of Directors for the following purposes at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Capital reserve	\$ 272,386	\$ 112,677
Legacy campaign	28,137	24,405
Buffer funds	100,000	100,000
Chapter development	200,000	400,000
Jay Wright Forrester Award	100,000	100,000
PhD luncheon	<u>-</u>	<u>20,000</u>
	<u>\$ 700,523</u>	<u>\$ 757,082</u>

Net Assets With Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 178,369	\$ 187,042
Investment income	56,108	(8,673)
Award provided	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 234,477</u>	<u>\$ 178,369</u>

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, using Level 1 inputs, follows:

	<u>2019</u>	<u>2018</u>
Cash equivalents	\$ 6,783	\$ 20,959
Investments		
U.S. stocks	607,311	724,751
Non U.S. stocks	83,345	72,687
U.S. Treasury notes	67,424	174,859
Corporate bonds	53,506	-
Other	32,054	21,494
Total Investments	<u>843,640</u>	<u>993,791</u>
	<u>\$ 850,423</u>	<u>\$ 1,014,750</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.

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.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

9. FUTURE STANDARDS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires a change in the way SDS will account for its leases, eliminating operating leases and requiring lease obligations to be recorded as a liability on the statement of financial position with a corresponding right to use asset. The guidance is effective for annual reporting periods beginning after December 15, 2020. Management is currently evaluating the impact of this standard on the financial statements.

10. SUBSEQUENT EVENTS

The United States is presently in the midst of a national health emergency related to a virus, commonly known as Novel Coronavirus (COVID-19). The overall consequences of COVID-19 on a national, regional and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on SDS and its future results and financial position is not presently determinable.

Management has evaluated subsequent events through _____, 2020, the date on which the financial statements were available to be issued, and determined that, except as described above, there were no subsequent events that require recording or disclosure.

DRAFT