



To: Policy Council of the System Dynamics Society
From: Eliot Rich, VP Finance
Subject: VP Finance Narrative Report 2020
Date: 23 June 2021

General Observations

How Did the Society Do Overall in 2020? In 2020 we established a base for sustainable program growth and operations. We broke even in our operations, with a small gain of **\$6,495** as compared to the previous year's operating losses of **-\$196,268**. Our unrestricted assets rose to **\$854,281** from the previous year's \$729,271 (restated), due to positive market conditions and the consequences of a virtual and lower cost conference.

Cautionary Note for 2021: While these results are welcome, we continue to be concerned about the effects of the Chicago conference on this year's expenditures. Short term financial risk could be nothing or up to as much as two hundred thousand dollars. Our understanding is that the expected outcome is deferral of the cancellation effects until a likely unprofitable 2023 conference.

Discussion of Society Financial Reports

(1) Changes in chart of accounts and reporting. During 2020, minor changes were applied to the chart of accounts to simplify and clarify our reporting. This year we opted for an external review of our financial proceeds rather than a full audit, as our asset position fell below the mandated audit threshold. The review was conducted by the same auditor as last year, and was completed this spring. An overstatement of previously reported liabilities was discovered by management and an adjustment was made to net assets without donor restrictions that added \$28,748 to 2019 assets, journal subscription liability was reduced by \$20,642 and journal deferred revenue decreased by \$8,106.

As part of our home office virtualization, we switched accounting platforms to QuickBooks online, which:

- permits immediate review of transactions and summary data by multiple parties,
- integrates directly to our Wordpress transaction site to reduce manual entry and categorization mistakes inherent in the old process, and
- integrates with our banks to allow up to date balances and reduced manual entry.

We hope to bring monthly variations into our major reporting areas during the next budget cycle. We also expect additional accounting and process changes as we bring on new revenue and endowment sources.

(2) Key Trends in Society Finances 2009 to Present. This plot of key variables over time shows the Society's long-term financial position. Unrestricted Net Assets, our source for most program funding, rose to **\$854,281** from \$729,271 during the year. Total Income, dropped slightly from the



previous year to **\$583,583** from 585,201. Total Expenses were lower as well, at **\$458,573** from the previous \$641,760. See Attachment 1.

(3) Operational Actuals versus Budget Comparison for 2020. Our results against the 2020 showed a turnaround of our recent history of operating losses. Net Ordinary Income of **\$6,495** (versus budgeted **-\$187,073**) reflects the combined effects of terminating our contract with CHMS as well as the side effect of running a virtual conference. Our gross profit of \$478,590 was less than our budgeted amount of \$512,943, while our expenses were dramatically lower (\$472,096) as compared to the budgeted amount of \$700,016. See Attachment 2.

(4) Balance Sheet, Previous Year Comparison for 2020. We ended 2020 with Net Assets of **\$1,125,107**, an increase of \$161,359 from the previous year, after a one-time prior period adjustment. For the first time in several years, we did not draw from assets to cover operating losses. See Attachment 3.

(5) Revenues and Expenses, Previous Year Comparison for 2020. Net Income for 2020 was **\$161,359**, in comparison to our previous year's loss of **-\$595**, again driven largely from appreciation of our portfolio. Net Ordinary Income, a better measure of our operations, was about break-even at \$6,494, a substantial change from 2019's NOI loss of **-\$196,268**. The improvement was driven primarily by the unanticipated benefits of a virtual conference (about \$81,000), and an overall reduction of our home office operating costs. The home office cost reduction, based on new automation and efficiencies, is likely sustainable if service requirements remain consistent. Journal income and expenses changes were due in part to accounting changes. See Attachment 4.

(6) Society Revenues and Expenses, Fiscal Year, by Cost Centers. As in previous years we provide an approximate breakdown of cost centers and central activities of SDS. This level of detail falls below the granularity needed for audit. We have added additional cost centers this year to help us refine how our overhead costs are accrued by activity. Memberships continue to fall short of covering back office operations (see General & Admin vs. Membership), which means we will continue to subsidize operations, marketing and new initiatives from our formal activities.

The 2020 conference was profitable after overhead cost allocation, primarily due to a shift to an online venue. Summer School was quite profitable, again largely due to lower expenses from an online format. Products fell short in profitability, primarily due to decreased demand and costs of conversion to the new online store format. The new Learning effort was close to breakeven with income from the new Seminar Series; we have not traced the effects on membership of this effort. The Journal also contributed to income, though this may not be sustained in the future due to upcoming contract renewal negotiation. Fundraising costs will likely increase as we begin the Stewardship program. See Attachment 5.

(7) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2020 (final statements from our CPA). Attachment 6 reproduces the CPA Financial Report. Unlike the previous five years, our assets and income dropped below the level where a complete audit is required. The Finance Committee opted to move back to a review to save on professional fees. The format of the CPA report is somewhat different from the QuickBooks reports presented above, as we track operations at a more granular level than reported by the CPA. See Attachment 6.



Attachments:

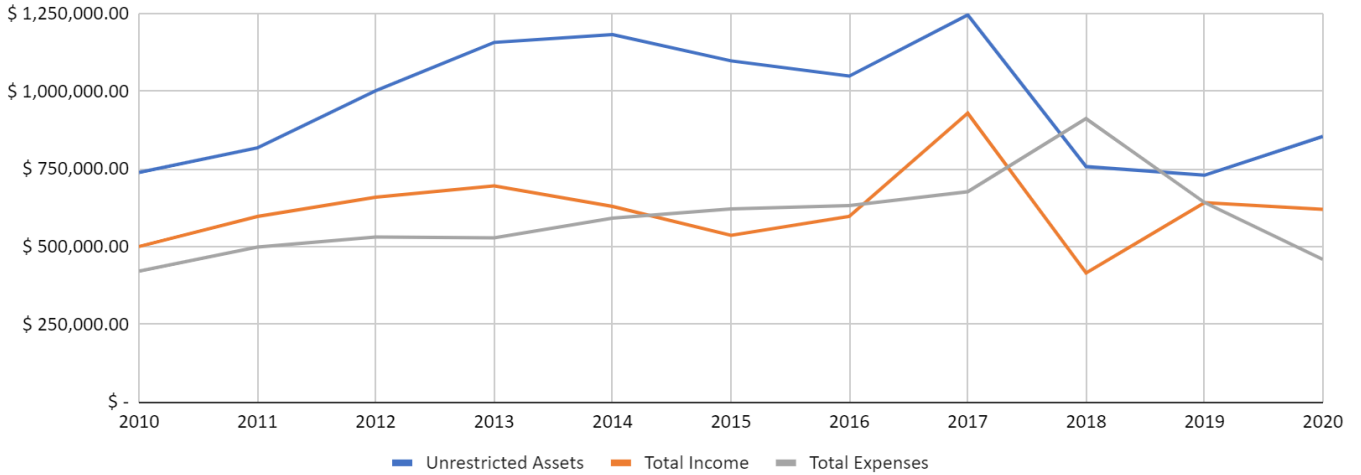
- (1) Key Trends in Society Finances, 2010 to Present
- (2) System Dynamics Society Operational Actuals vs Budget Comparison, Fiscal Year 2020
- (3) System Dynamics Society Balance Sheet, Fiscal Year 2020, Reviewed.
- (4) System Dynamics Society Revenues and Expenses, Previous Year Comparison
Fiscal Year 2020, Reviewed.
- (5) System Dynamics Society Revenues and Expenses, Fiscal Year, by Cost Centers January
through December 2020, Unaudited
- (6) System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2020.
(final reviewed statements from our CPA)



Attachment 1 - Key Trends in Society Finances, 2010 to Present

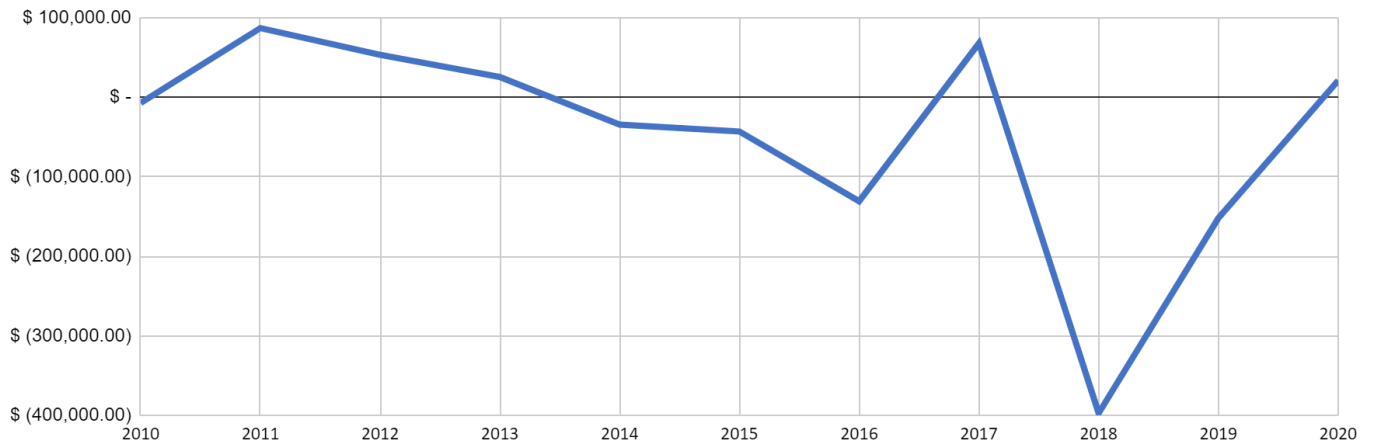
Unrestricted Assets, Income and Expenses (USD)

2010-2020. EOY, Audited/Reviewed



Net Operating Income

2010-2020 Audited/Reviewed





Attachment 2

Operational Actuals vs Budget Comparison, Fiscal Year 2020

	TOTAL		
	ACTUAL	BUDGET	% OF BUDGET
Revenue			
4005 Journal Income	85,530	63,000	136.00 %
4010 Membership Dues	79,095	69,600	114.00 %
4035 Summer School Income	37,685	25,000	151.00 %
4100 Annual Conference	213,133	294,843	72.00 %
4300 Other Income	2,173		
4400 Product Revenue	15,539	40,500	38.00 %
4500 Society Sponsorships	37,000	15,000	247.00 %
4600 Other Fundraising (see balance sheet to be booked)	8,435	5,000	169.00 %
4700 Misc Events	0		
Total Revenue	\$478,590	\$512,943	93.00 %
GROSS PROFIT	\$478,590	\$512,943	93.00 %
Expenditures			
5000 Awards	4,235	10,500	40.00 %
5050 Banking Charges	3,652	12,309	30.00 %
5060 Credit Card Fees	13,220		
5100 Field Development Fund	3,794	13,794	28.00 %
5350 Annual Conference Expenses	19,483	142,096	14.00 %
5360 Summer School Expense	1,586	25,000	6.00 %
5400 Insurance	2,165	4,000	54.00 %
5500 Journal Expense	43,775	32,600	134.00 %
5550 Marketing	25,088	24,800	101.00 %
5600 Miscellaneous Expense	139	2,000	7.00 %
5650 Office Expense	6,040	12,900	47.00 %
5700 Officer Expenses	2,435	10,000	24.00 %
5800 Product Expense	1,909	54,000	4.00 %
5850 Professional Fees	189,235	211,700	89.00 %
5870 Payroll Expenses	143,921	144,317	100.00 %
5900 Depreciation Expense	192		
Cost of Products, Inventory Change	11,227		
Total Expenditures	\$472,096	\$700,016	67.00 %
NET OPERATING REVENUE	\$6,495	\$ (187,073)	(3.00 %)
Other Revenue			
4800 EIDL Advance	1,000		
6000 Legacy Fund Income	0	100	0.00 %
6100 Investment Income	149,685	135,206	111.00 %
6300 DM Investment Inc	4,181		
Total Other Revenue	\$154,866	\$135,306	114.00 %
NET OTHER REVENUE	\$154,866	\$135,306	114.00 %
NET REVENUE	\$161,361	\$ (51,767)	(312.00 %)



Attachment 3
System Dynamics Society Balance Sheet, Fiscal Year 2020, Reviewed

ASSETS		
	2020	2019
	(Reviewed)	(Audited)
		(As Restated)
Current Assets		
Cash and cash equivalents	\$ 162,689	\$ 84,774
Investments	714,786	609,163
Accounts receivable		
Publications	57,337	57,337
Other	1,040	13,680
Inventory	3,000	14,227
Prepaid expenses	<u>1,962</u>	<u>12,059</u>
Total Current Assets	<u>940,814</u>	<u>791,240</u>
Property and Equipment		
Office equipment	-	574
Less accumulated depreciation	<u>-</u>	<u>(382)</u>
Total Property and Equipment	<u>-</u>	<u>192</u>
Other Assets		
Investments-restricted	<u>270,826</u>	<u>234,477</u>
TOTAL ASSETS	<u>\$ 1,211,640</u>	<u>\$ 1,025,909</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 38,713	\$ 8,497
Deferred revenue		
Conferences	1,500	13,375
Membership dues	40,275	29,780
Other	2,325	6,184
Custodial account liability	<u>3,720</u>	<u>4,325</u>
Total Current Liabilities	<u>86,533</u>	<u>62,161</u>
Net Assets		
Without donor restrictions		
Board designated	<u>854,281</u>	<u>729,271</u>
Total without donor restrictions	854,281	729,271
With donor restrictions	<u>270,826</u>	<u>234,477</u>
Total Net Assets	<u>1,125,107</u>	<u>963,748</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,211,640</u>	<u>\$ 1,025,909</u>

Note: A 2019 restatement added \$28,748 to net assets.



Attachment 4
Revenues and Expenses, Previous Year Comparison
January through December 2020 (Reviewed)

	2020	2019
	(Reviewed)	(Audited)
		(As Restated)
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenues		
Conferences	\$ 250,818	\$ 217,592
Publications		
Revenue	62,680	70,374
Contribution	22,500	22,500
Total Publications	<u>85,180</u>	<u>92,874</u>
Membership dues and subscriptions	80,020	50,803
Educational products, net	1,676	42,219
Contributions	50,669	42,147
Investment income, net	108,870	139,566
Net assets released from restrictions	6,350	-
Total Support and Revenues	<u>583,583</u>	<u>585,201</u>
Expenses		
Awards	4,235	14,500
Bank and credit card fees	14,575	11,084
Chapter development	3,794	5,139
Contract - University of New York at Albany	8,817	13,356
Conferences	21,069	112,438
Insurance	2,165	3,482
Publications	43,775	23,000
Marketing	15,824	1,505
Office expenses	15,305	11,359
Travel and training	2,435	3,583
Professional fees and consultants	324,339	438,182
Miscellaneous	2,048	3,941
Depreciation expense	192	191
Total Expenses	<u>458,573</u>	<u>641,760</u>
Change in Net Assets Without Donor Restrictions	<u>125,010</u>	<u>(56,559)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Support and Revenues		
Investment income, net	42,699	56,108
Net assets released from restrictions	<u>(6,350)</u>	<u>-</u>
Change in Net Assets With Donor Restrictions	<u>36,349</u>	<u>56,108</u>
Change in Net Assets	161,359	(451)
Net Assets, Beginning of Year, as Previously Reported	963,748	935,451
Prior period adjustment	<u>-</u>	<u>28,748</u>
Net Assets, End of Year	<u>\$ 1,125,107</u>	<u>\$ 963,748</u>



Attachment 5

System Dynamics Society Revenues and Expenses, Fiscal Year, by Cost Centers January through December 2020

	2020 ACTUAL	AWARDS	CONFERENCE	GENERAL & ADMIN	JOURNAL	LEARNING	MEMBERSHIP	PRODUCT	FUNDRAISING
Revenue									
4005 Journal Income	\$85,530				\$85,530				
4010 Membership Dues	\$79,095		\$0		\$5,045		\$74,051		
4035 Summer School Income	\$37,685		\$37,685						
4100 Annual Conference	\$213,133		\$212,983					\$150	
4300 Other Income	\$2,173				\$181			\$1,992	
4400 Product Revenue	\$15,539		\$0		\$483	\$1,575		\$13,481	
4500 Society Sponsorships	\$37,000								\$37,000
4600 Other Fundraising	\$8,435		\$1,175						\$7,260
Total Revenue	\$478,590	\$0	\$251,843	\$0	\$91,238	\$1,575	\$74,051	\$15,623	\$44,260
Expenditures									
5000 Awards	\$4,235	\$4,235							
5050 Banking Charges	\$3,652	(\$33)	\$138	\$3,444	\$28		\$15	\$60	
5060 Credit Card Fees	\$13,220		\$4,794	\$37			\$3,132	\$559	\$4,698
5100 Field Development Fund	\$3,794			\$3,794					
5350 Annual Conference Expenses	\$19,483		\$19,483						
5360 Summer School Expense	\$1,586		\$486			\$1,100			
5400 Insurance	\$2,165			\$2,165					
5500 Journal Expense	\$43,775				\$43,775				
5550 Marketing	\$25,088		\$4,039	\$9,351	\$505	\$629	\$5,651	\$4,829	\$84
5600 Miscellaneous Expense	\$139		\$140	\$0			(\$1)		
5650 Office Expense	\$6,040			\$3,613		\$45		\$2,382	
5700 Officer Expenses	\$2,435			\$2,144				\$291	
5800 Product Expense	\$1,909							\$1,909	
5850 Professional Fees	\$189,235		\$71,634	\$45,605	\$12,765		\$28,697	\$17,770	\$12,765
5870 Payroll Expenses	\$143,921		\$60,679	\$22,845	\$4,676	\$1,670	\$32,732	\$6,346	\$14,974
5900 Depreciation Expense	\$192			\$192					
Cost of Products, Inventory Change	\$11,227							\$11,227	
Total Expenditures	\$472,096	\$4,202	\$161,394	\$93,189	\$61,748	\$3,444	\$70,225	\$45,373	\$32,520
Net Operating Revenue	\$6,494	(\$4,202)	\$90,449	(\$93,189)	\$29,490	(\$1,869)	\$3,825	(\$29,751)	\$11,740
Other Revenue									
4800 EIDL Advance	\$1,000			\$1,000					
6100 Investment Income	\$149,685	\$38,518		\$111,167					
6300 DM Investment Inc	\$4,181	\$4,181							
Total Other Revenue	\$154,866	\$42,699	\$0	\$112,167	\$0	\$0	\$0	\$0	\$0
Net Revenue	\$161,360	\$38,497	\$90,449	\$18,978	\$29,490	(\$1,869)	\$3,825	(\$29,751)	\$11,740

**SYSTEM DYNAMICS SOCIETY, INC.
FINANCIAL REPORT
DECEMBER 31, 2020 AND 2019**

SYSTEM DYNAMICS SOCIETY, INC.

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Policy Council
System Dynamics Society, Inc.

We have reviewed the accompanying financial statements of System Dynamics Society, Inc. (a Massachusetts not-for-profit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on 2019 Financial Statements

The 2019 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated May 19, 2020. We have not performed any auditing procedures since that date.

Report on Restatement Adjustment to 2019 Financial Statements

As discussed in Note 1 to the financial statements, certain errors resulting in an overstatement of previously reported liabilities as of December 31, 2019, were discovered by management subsequent to the issuance of our report on those financial statements dated May 19, 2020. Accordingly, an adjustment has been made to net assets without donor restrictions as of January 1, 2019, to correct the error. As part of our review of the 2020 financial statements, we also reviewed the adjustment described in Note 1 to the financial statements that was applied to restate the 2019 financial statements. Based on our review, we are not aware of any material modifications that should be made to the adjustment that was applied to restate the 2019 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Marvin and Company, P.C.

Latham, NY

April 22, 2021

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	ASSETS	
	2020	2019
	<u>(Reviewed)</u>	<u>(Audited)</u>
		<u>(As Restated)</u>
Current Assets		
Cash and cash equivalents	\$ 162,689	\$ 84,774
Investments	714,786	609,163
Accounts receivable		
Publications	57,337	57,337
Other	1,040	13,680
Inventory	3,000	14,227
Prepaid expenses	1,962	12,059
Total Current Assets	<u>940,814</u>	<u>791,240</u>
Property and Equipment		
Office equipment	-	574
Less accumulated depreciation	-	(382)
Total Property and Equipment	<u>-</u>	<u>192</u>
Other Assets		
Investments-restricted	<u>270,826</u>	<u>234,477</u>
TOTAL ASSETS	<u>\$ 1,211,640</u>	<u>\$ 1,025,909</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 38,713	\$ 8,497
Deferred revenue		
Conferences	1,500	13,375
Membership dues	40,275	29,780
Other	2,325	6,184
Custodial account liability	3,720	4,325
Total Current Liabilities	<u>86,533</u>	<u>62,161</u>
Net Assets		
Without donor restrictions		
Board designated	<u>854,281</u>	<u>729,271</u>
Total without donor restrictions	854,281	729,271
With donor restrictions	<u>270,826</u>	<u>234,477</u>
Total Net Assets	<u>1,125,107</u>	<u>963,748</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,211,640</u>	<u>\$ 1,025,909</u>

See independent accountant's review report and accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
	(Reviewed)	(Audited)
		(As Restated)
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenues		
Conferences	\$ 250,818	\$ 217,592
Publications		
Revenue	62,680	70,374
Contribution	22,500	22,500
Total Publications	<u>85,180</u>	<u>92,874</u>
Membership dues and subscriptions	80,020	50,803
Educational products, net	1,676	42,219
Contributions	50,669	42,147
Investment income, net	108,870	139,566
Net assets released from restrictions	6,350	-
Total Support and Revenues	<u>583,583</u>	<u>585,201</u>
Expenses		
Awards	4,235	14,500
Bank and credit card fees	14,575	11,084
Chapter development	3,794	5,139
Contract - University of New York at Albany	8,817	13,356
Conferences	21,069	112,438
Insurance	2,165	3,482
Publications	43,775	23,000
Marketing	15,824	1,505
Office expenses	15,305	11,359
Travel and training	2,435	3,583
Professional fees and consultants	324,339	438,182
Miscellaneous	2,048	3,941
Depreciation expense	192	191
Total Expenses	<u>458,573</u>	<u>641,760</u>
Change in Net Assets Without Donor Restrictions	<u>125,010</u>	<u>(56,559)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Support and Revenues		
Investment income, net	42,699	56,108
Net assets released from restrictions	<u>(6,350)</u>	<u>-</u>
Change in Net Assets With Donor Restrictions	<u>36,349</u>	<u>56,108</u>
Change in Net Assets	161,359	(451)
Net Assets, Beginning of Year, as Previously Reported	963,748	935,451
Prior period adjustment	<u>-</u>	<u>28,748</u>
Net Assets, End of Year	<u>\$ 1,125,107</u>	<u>\$ 963,748</u>

See independent accountant's review report and accompanying notes to financial statements.

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020 (REVIEWED)

	<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	\$ 4,000	\$ -	\$ 235	\$ 4,235
Bank and credit card fees	8,693	1,184	4,698	14,575
Chapter development	-	3,794	-	3,794
Contract - University of New York at Albany	-	8,817	-	8,817
Conferences	21,069	-	-	21,069
Insurance	-	2,165	-	2,165
Publications	43,775	-	-	43,775
Marketing	11,918	3,906	-	15,824
Office expenses	6,163	9,058	84	15,305
Travel and training	291	2,144	-	2,435
Professional fees and consultants	236,967	59,633	27,739	324,339
Miscellaneous	2,048	-	-	2,048
Depreciation expense	-	192	-	192
Total Expenses	<u>\$ 334,924</u>	<u>\$ 90,893</u>	<u>\$ 32,756</u>	<u>\$ 458,573</u>

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

	<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>\$ 641,760</u>

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
	<u>(Reviewed)</u>	<u>(Audited)</u>
Cash Flows Provided (Used) By Operating Activities		
Change in net assets	\$ 161,359	\$ (451)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Net (gain) on investments	(140,157)	(180,255)
Depreciation expense	192	191
Change in operating assets and liabilities		
Accounts receivable	12,640	(11,327)
Inventory	11,227	-
Prepaid expenses	10,097	31,917
Accounts payable and accrued expenses	30,216	(186,489)
Membership subscriptions liability	-	(1,408)
Deferred revenue	(5,239)	(8,148)
Custodial account liability	(605)	-
Net Cash Provided (Used) By Operating Activities	<u>79,730</u>	<u>(355,970)</u>
Cash Flows Provided (Used) By Investing Activities		
Proceeds from sales of investments	675,853	831,490
Purchases of investments	<u>(677,668)</u>	<u>(501,084)</u>
Net Cash Provided (Used) By Investing Activities	<u>(1,815)</u>	<u>330,406</u>
Net Increase (Decrease) in Cash and Cash Equivalents	77,915	(25,564)
Cash and Cash Equivalents, Beginning of Year	<u>84,774</u>	<u>110,338</u>
Cash and Cash Equivalents, End of Year	<u>\$ 162,689</u>	<u>\$ 84,774</u>

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 (REVIEWED) AND 2019 (AUDITED)

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.

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.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
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1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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 statements 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, 2020 and 2019 that was included in deferred revenue at the beginning of each year was \$49,339 and \$51,304 (restated), respectively.

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 statements 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, 2020 and 2019.

See independent accountant's review report.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 (REVIEWED) AND 2019 (AUDITED)

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 statements 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, 2020 and 2019.

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 (3 years).

Marketing

Marketing costs are expensed as incurred.

Restatement of Financial Statements and Prior Period Adjustment

The accompanying 2019 financial statements have been restated to correct an error made in prior years. The error relates to an overstatement of liabilities by \$28,748 (memberships subscription liability \$20,642 and deferred revenue other \$8,106). Net assets without donor restrictions as of January 1, 2019 have been adjusted for the effect of the restatement on prior years. The correction had no effect on the results of the current year's activities.

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 that ended during 2020 and included sharing common facilities, personnel services, and the use of property and equipment owned by the University. SDS incurred \$8,817 and \$13,356 in costs for support services during the years ended December 31, 2020 and 2019, respectively. There were no amounts receivable from or payable to the University at December 31, 2020 and 2019.

SYSTEM DYNAMICS SOCIETY, INC.
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2. UNIVERSITY OF NEW YORK AT ALBANY/CAPITOL HILL MANAGEMENT SERVICES

SDS retained Capitol Hill Management Services, Inc. (CHMS) to provide financial management, administrative support, and other services through December 31, 2020. This included sharing common facilities, personnel services, and the use of property and equipment owned or rented by CHMS. SDS incurred \$153,701 and \$319,936 in costs for these services during the years ended December 31, 2020 and 2019, respectively. These costs are included in professional fees and consultants expense on the statements of activities. There were no amounts receivable from CHMS at December 31, 2020 and 2019. Amounts payable to CHMS totaled \$-0- and \$46 at December 31, 2020 and 2019, respectively. Prepaid contract costs totaled \$-0- and \$7,035 at December 31, 2020 and 2019, respectively.

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' financial assets as of December 31, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of external restrictions or internal board designations.

	<u>2020</u>	Restated <u>2019</u>
Cash and cash equivalents	\$ 162,689	\$ 84,774
Accounts receivable	58,377	71,017
Investments	<u>985,612</u>	<u>843,640</u>
Total Financial Assets	1,206,678	999,431
Net assets with donor restrictions	(270,826)	(234,477)
Board designated net assets	<u>(854,281)</u>	<u>(729,271)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 81,571</u>	<u>\$ 35,683</u>

SYSTEM DYNAMICS SOCIETY, INC.
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3. INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES

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 on reserves during 2019 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, there were no draws against reserves during 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, 2020 and 2019 is set forth below:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Exchange traded products:				
Equity	\$ 161,851	\$ 202,498	\$ 108,298	\$ 115,498
Fixed income	36,074	37,311	117,957	120,930
Other	<u>57,269</u>	<u>72,728</u>	<u>27,393</u>	<u>32,054</u>
	255,194	312,537	253,648	268,482
Mutual funds	<u>296,497</u>	<u>673,075</u>	<u>289,820</u>	<u>575,158</u>
	<u>\$ 551,691</u>	<u>\$ 985,612</u>	<u>\$ 543,468</u>	<u>\$ 843,640</u>

Net investment income for the years ending December 31, 2020 and 2019 consists of:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 13,626	\$ 17,540
Net gain on investments	140,157	180,255
Investment fees	<u>(2,214)</u>	<u>(2,121)</u>
	<u>\$ 151,569</u>	<u>\$ 195,674</u>

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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 marketing, office expenses, travel and training, and professional fees and consultants 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, 2020 and 2019:

	<u>2020</u>	<u>Restated 2019</u>
Capital reserve	\$ 420,181	\$ 301,134
Legacy campaign	30,100	28,137
Buffer funds	100,000	100,000
Chapter development	200,000	200,000
Jay Wright Forrester Award	<u>104,000</u>	<u>100,000</u>
	<u>\$ 854,281</u>	<u>\$ 729,271</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>2020</u>	<u>2019</u>
Beginning balance	\$ 234,477	\$ 178,369
Investment income	42,699	56,108
Releases	<u>(6,350)</u>	<u>-</u>
Ending balance	<u>\$ 270,826</u>	<u>\$ 234,477</u>

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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, 2020 and 2019, using Level 1 inputs, follows:

	<u>2020</u>	<u>2019</u>
Cash equivalents	\$ 10,030	\$ 6,783
Investments		
U.S. stocks	663,015	607,311
Non U.S. stocks	212,557	83,345
U.S. Treasury notes	37,311	67,424
Corporate bonds	-	53,506
Other	<u>72,729</u>	<u>32,054</u>
Total Investments	<u>985,612</u>	<u>843,640</u>
	<u>\$ 995,642</u>	<u>\$ 850,423</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.

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.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
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9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 22, 2021, the date on which the financial statements were available to be issued, and determined there were no subsequent events that require recording or disclosure.