



To: Policy Council of the System Dynamics Society
From: Eliot Rich, VP Finance
Subject: VP Finance Narrative Report 2021
Date: 23 June 2022

General Observations

How Did the Society Do Overall in 2021? In 2021 we continued our program growth and move towards financial stability. We operated at a surplus of **\$45,313** as compared to last year's small gain of \$6,495. Our unrestricted assets rose to **\$981,437**, a 14.8% increase from last year's \$854,281 from the previous year. We again benefited from the implementation of an online conference, deferral of our Chicago conference obligations until 2023, as well as positive market conditions.

While these results are welcome, there is still some uncertainty around the blended 2022 and 2023 conferences. In addition, the investment market reversal in 2022 has reduced our unrestricted reserves. Finally, the ongoing deliberations regarding funding the SDR will likely reduce net revenue. All of these will be considered in our budgeting work for 2023.

Discussion of Society Financial Reports

(1) Changes in chart of accounts and reporting. During 2021, minor changes were again applied to the chart of accounts to simplify and clarify our reporting. This year we opted again for an external review of our financial proceeds rather than a full audit, as our asset position was close to the mandated audit threshold. The review was conducted by the same auditor as last year, and was completed this spring. In 2022 we will likely return to a full audit.

We again 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 2010 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 **\$981,437** from \$854,281 during the year. Total Unrestricted Income dropped slightly from the previous year to **\$574,118** from \$583,583. Total Unrestricted Expenses were lower as well, at **\$446,962**, on par with the previous **\$458,573**. See Attachment 1.

(3) Operational Actuals versus Budget Comparison for 2021. Our results against the 2021

budget showed the effects of uncertainty in planning our expenses relative to our revenue. Net Ordinary Income of **\$45,313** (versus budgeted **-\$140,052**) largely reflects the effect of running a very low cost virtual conference, some improvement in new fundraising, and increases in membership dues and product offerings. Our gross surplus (gross profit) of \$492,227 was less than our budgeted amount of \$500,548, while our operating expenses of **-\$446,964** were much lower than the budgeted amount of **-\$640,600**. See Attachment 2.

(4) Balance Sheet, Previous Year Comparison for 2021. We ended 2021 with Net Assets of **\$1,345,978**, an increase of \$220,871 over the previous year. Again this year, we did not draw from assets to cover operating losses. Note that Net Assets includes unrealized capital gains or losses and are adjusted annually. See Attachment 3.

(5) Revenues and Expenses, Previous Year Comparison for 2021. Net Income for 2021 was **\$220,871**, in comparison to our previous year's gain of \$161,359, again driven largely from appreciation of our portfolio. Net Operating Income, a better measure of our routine work as it excludes portfolio gains, was \$45,313, as compared to the previous year's \$6,494. 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. We are doing a loose accounting of time to allocate overhead across these cost centers.

Annual fundraising efforts, which flow into the current year accounts, were largely responsible for our \$45,313 operating surplus. Membership income grew substantially from last year to **\$110,112** from \$79,095 in 2020, though the cost of services to members is distributed over direct and indirect allocations (such as learning). Membership revenue 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. We would need an additional \$40,000 in net membership income or other sources to cover these expenses. Covering overhead from membership dues is a performance heuristic in organizations such as ours.

The 2021 conference, was break-even, as it accrued significant overhead costs for office activities even though we met virtually. Products fell short in profitability, even with increased demand, as there is a great deal of overhead associated with fulfillment. Thus we recognize the need for continued process improvements in our operations.

The new cost center, Learning, contributed to our operating surplus. Summer School was quite profitable largely due to lower expenses from an online format. The other learning work and online courses absorbed overhead time and effort, but likely contributed to membership growth. 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.

Finally, the effects of market changes on our reserves, while significant, are not likely to affect our ability to fulfill our operational commitments See Attachment 5.

(7) Stewardship Committee. The Stewardship Committee activated its efforts in 2021. \$17,437 of seed funding was released from the Legacy Fund designation for operations, leaving \$12,663. The Committee raised \$20,700 in 2021, which we recorded as contributions to our donor restricted funds. The Committee will prepare its own detailed report.

(8) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2021 (final statements from our CPA). Attachment 6 reproduces the CPA Financial Report. The report has been approved by the Finance Committee and the Audit sub-committee. We engaged the CPA earlier in the year for a review rather than an audit, as we had anticipated that we would drop below the asset level where a complete audit is required. The Finance Committee expects to move back to a full audit in 2022. See Attachment 6.

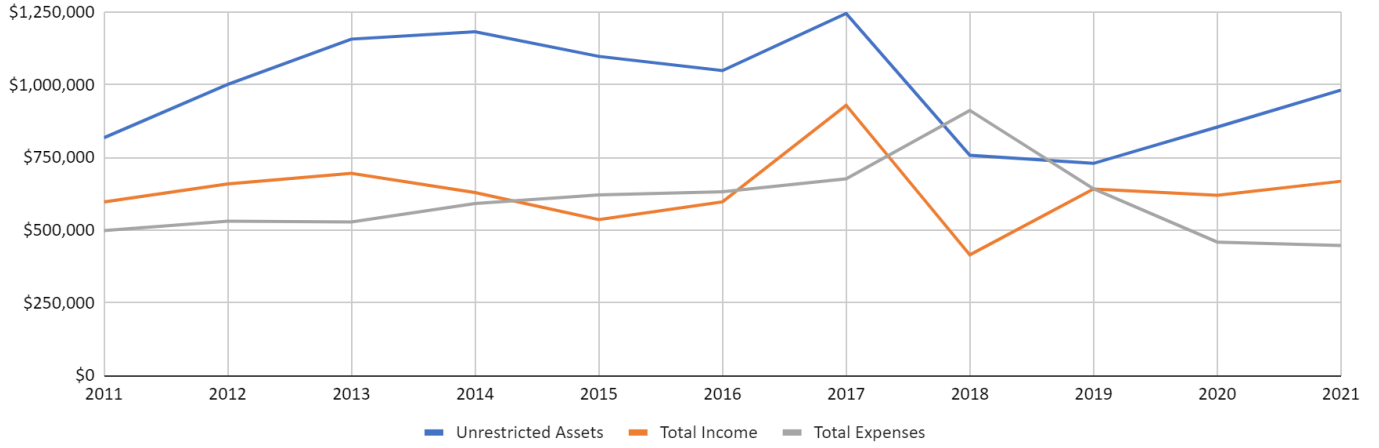
Attachments:

- (1) Key Trends in Society Finances, 2010 to Present
- (2) System Dynamics Society Operational Actuals vs Budget Comparison, Fiscal Year 2021.
- (3) System Dynamics Society Balance Sheet, Fiscal Year 2021, Reviewed.
- (4) System Dynamics Society Revenues and Expenses, Previous Year Comparison Fiscal Year 2021, Reviewed.
- (5) System Dynamics Society Revenues and Expenses, Fiscal Year, by Cost Centers January through December 2021
- (6) System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2021, Reviewed.

Attachment 1 - Key Trends in Society Finances, 2011 to Present

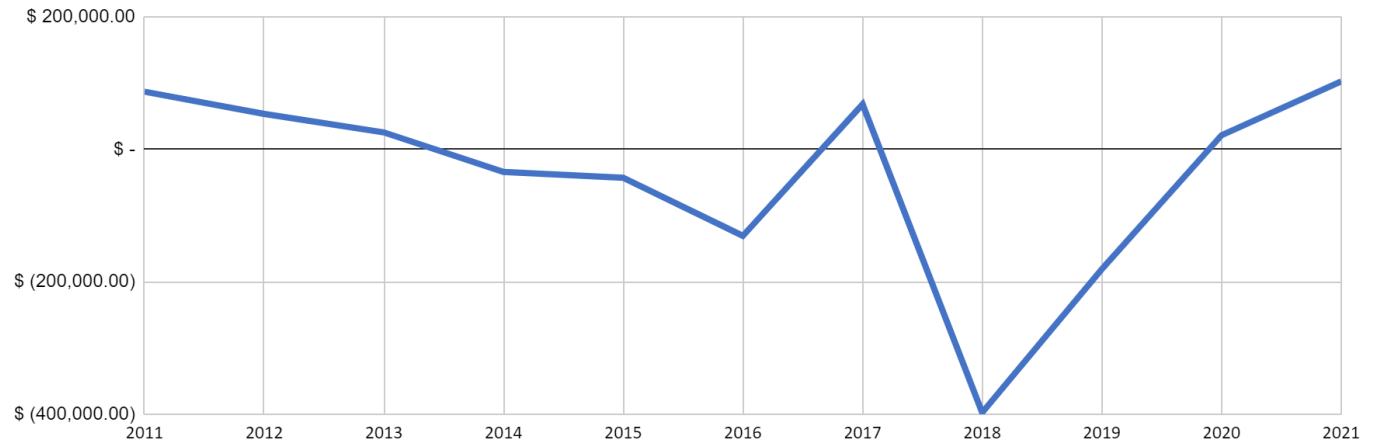
Unrestricted Assets, Income and Expenses (USD)

2011-2021 EOY, Audited/Reviewed



Net Operating Income

2010-2019 Audited, 2020-2021 Reviewed



Attachment 2
Operational Actuals vs Budget Comparison, Fiscal Year 2021

	TOTAL		
	ACTUAL	BUDGET	% OF BUDGET
Revenue			
4005 Journal Income	88,380	81,125	109.00 %
4010 Membership Dues	110,112	80,000	138.00 %
4035 Summer School Income	35,761	37,500	95.00 %
4100 Annual Conference	158,458	217,673	73.00 %
4210 Student Organized Colloquium {Designated}	678		
4400 Product Revenue	39,215	25,000	157.00 %
4500 Society Sponsorships	38,500	40,000	96.00 %
4600 Other Fundraising (see balance sheet to be booked)	4,290	10,000	43.00 %
4800 Stewardship Funding	20,700		
Investment Allocations		9,250	
Total Revenue	\$496,095	\$500,548	99.00 %
Cost of Goods Sold			
5510 Courses Expense	3,818		
Total Cost of Goods Sold	\$3,818	\$0	0%
GROSS PROFIT	\$492,277	\$500,548	98.00 %
Expenditures			
5000 Awards	10,188	19,450	52.00 %
5050 Banking & Credit Card Charges	15,572	14,300	109.00 %
5100 Field Development Fund	2,189	10,000	22.00 %
5350 Annual Conference Expenses	6,472	93,000	7.00 %
5360 Summer School Expense	581	13,616	4.00 %
5400 Insurance	3,487	3,000	116.00 %
5500 Journal Expense	29,518	23,000	128.00 %
5550 Marketing	32,325	35,000	92.00 %
5570 Electronic Presence Support	9,127	5,000	183.00 %
5600 Miscellaneous Expense	375	2,000	19.00 %
5650 Office Expense	8,228	12,000	69.00 %
5660 Stewardship Committee	12,663	29,400	43.00 %
5700 Officer Expenses	10	4,000	0.00 %
5800 Product Development	2,262	25,000	9.00 %
5850 Professional Fees	188,657	189,500	100.00 %
5870 Payroll Expenses	125,310	162,334	77.00 %
Total Expenditures	\$446,964	\$640,600	70.00 %
NET OPERATING REVENUE	\$45,313	\$ (140,052)	(32.00 %)
Other Revenue			
6100 Investment Income, Unrestricted	98,541	9,788	1,007.00 %
6300 Investment Income, Restricted DMA	77,015		
Total Other Revenue	\$175,556	\$9,788	1,794.00 %
NET OTHER REVENUE	\$175,556	\$9,788	1,794.00 %
NET REVENUE	\$220,869	\$ (130,264)	(170.00 %)

Attachment 3
System Dynamics Society Balance Sheet, Fiscal Year 2021, Reviewed

ASSETS

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 222,237	\$ 162,689
Investments	760,062	714,786
Accounts receivable		
Publications	59,666	57,337
Other	5,338	1,040
Inventory	3,820	3,000
Prepaid expenses	7,691	1,962
Total Current Assets	1,058,814	940,814
Other Assets		
Investments-restricted	343,841	270,826
TOTAL ASSETS	\$ 1,402,655	\$ 1,211,640

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 24,722	\$ 38,713
Deferred revenue		
Conferences	4,500	1,500
Membership dues	20,400	40,275
Other	3,500	2,325
Custodial account liability	3,555	3,720
Total Current Liabilities	56,677	86,533
Net Assets		
Without donor restrictions		
Board designated	981,437	854,281
Total without donor restrictions	981,437	854,281
With donor restrictions	364,541	270,826
Total Net Assets	1,345,978	1,125,107
TOTAL LIABILITIES AND NET ASSETS	\$ 1,402,655	\$ 1,211,640

Attachment 4
Revenues and Expenses, Previous Year Comparison
January through December 2021 (Reviewed)

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenues		
Conferences	\$ 194,219	\$ 250,818
Publications		
Revenue	65,880	62,680
Contribution	22,500	22,500
Total Publications	<u>88,380</u>	<u>85,180</u>
Membership dues and subscriptions	110,112	80,020
Educational products, net	35,397	1,676
Contributions	43,468	50,669
Investment income, net	98,542	108,870
Net assets released from restrictions	4,000	6,350
Total Support and Revenues	<u>574,118</u>	<u>583,583</u>
Expenses		
Awards	10,188	4,235
Bank and credit card fees	15,572	14,575
Chapter development	2,189	3,794
Contract - University of New York at Albany	-	8,817
Conferences	7,053	21,069
Insurance	3,487	2,165
Publications	29,519	43,775
Marketing	32,325	15,824
Office expenses	17,354	15,305
Travel and training	10	2,435
Professional fees and consultants	188,657	224,139
Personnel services	125,309	100,200
Miscellaneous	15,299	2,048
Depreciation expense	-	192
Total Expenses	<u>446,962</u>	<u>458,573</u>
Change in Net Assets Without Donor Restrictions	<u>127,156</u>	<u>125,010</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Support and Revenues		
Contributions	20,700	-
Investment income, net	77,015	42,699
Net assets released from restrictions	<u>(4,000)</u>	<u>(6,350)</u>
Change in Net Assets With Donor Restrictions	<u>93,715</u>	<u>36,349</u>
Change in Net Assets	220,871	161,359
Net Assets, Beginning of Year	<u>1,125,107</u>	<u>963,748</u>
Net Assets, End of Year	<u>\$ 1,345,978</u>	<u>\$ 1,125,107</u>

Attachment 5
System Dynamics Society Revenues and Expenses, Fiscal Year,
by Cost Centers January through December 2021
(Unaudited)

System Dynamics Society, Inc.
Statement of Functional Expenses
January - December 2021

	2021 ACTUAL	Awards	Conference	General & Admin	Journal	Learning	Membership	Product	Sponsorship Fundraising
Revenue									
4005 Journal Income	\$ 88,380				\$ 88,380				
4010 Membership Dues	\$ 110,112						\$ 110,145		\$ (33)
4035 Summer School Income	\$ 35,761					\$ 35,761			
4100 Annual Conference	\$ 158,458		\$ 158,436	\$ 1				\$ 21	
4210 Student Organized Colloquium {Designated}	\$ 678		\$ (677)						\$ 1,355
4400 Product Revenue	\$ 39,215					\$ 4,970		\$ 33,245	\$ 1,000
4500 Society Sponsorships	\$ 38,500			\$ 1,000			\$ (2,500)		\$ 40,000
4600 Other Fundraising	\$ 4,290					\$ 1,000	\$ 220	\$ 63	\$ 3,006
4800 Stewardship Funding	\$ 20,700								\$ 20,700
Total Revenue	\$ 496,095	\$ -	\$ 157,759	\$ 1,001	\$ 88,380	\$ 41,732	\$ 107,865	\$ 33,330	\$ 66,028
Cost of Goods Sold									
5510 Courses Expense	\$ 3,818					\$ 3,818			
Total Cost of Goods Sold	\$ 3,818	\$ -	\$ -	\$ -	\$ -	\$ 3,818	\$ -	\$ -	\$ -
Gross Profit	\$ 492,277	\$ -	\$ 157,759	\$ 1,001	\$ 88,380	\$ 37,914	\$ 107,865	\$ 33,330	\$ 66,028
Expenditures									
5000 Awards	\$ 10,188	\$ 10,000	\$ 188						
5050 Banking & Credit Card Charges	\$ 15,572		\$ 5,628	\$ 2,350			\$ 3,960	\$ 3,634	
5100 Field Development Fund	\$ 2,189						\$ 2,189		
5350 Annual Conference Expenses	\$ 6,472		\$ 6,472						
5360 Summer School Expense	\$ 581					\$ 581			
5400 Insurance	\$ 3,487			\$ 3,487					
5500 Journal Expense	\$ 29,518				\$ 29,518				
5550 Marketing	\$ 32,325	\$ 90	\$ 14,554	\$ 1,094		\$ 45	\$ 13,050	\$ 3,403	\$ 90
5570 Electronic Presence Support	\$ 9,127		\$ 764	\$ 7,272			\$ 276	\$ 816	
5600 Miscellaneous Expense	\$ 375			\$ 375					
5650 Office Expense	\$ 8,228		\$ 107	\$ 3,302		\$ 48		\$ 4,757	\$ 14
5660 Stewardship Committee	\$ 12,663								\$ 12,663
5700 Officer Expenses	\$ 10							\$ 10	
5800 Product Development	\$ 2,262			\$ 126		\$ 957		\$ 1,179	
5850 Professional Fees	\$ 188,657		\$ 82,243	\$ 37,493	\$ 3,178	\$ 9,437	\$ 33,281	\$ 19,205	\$ 3,820
5870 Payroll Expenses	\$ 125,310	\$ 1,002	\$ 60,064	\$ 26,120	\$ 5,250	\$ 11,496	\$ 9,832	\$ 6,504	\$ 5,042
Total Expenditures	\$ 446,964	\$ 11,092	\$ 170,020	\$ 81,619	\$ 37,946	\$ 22,563	\$ 62,588	\$ 39,506	\$ 21,629
Net Operating Revenue	\$ 45,313	\$ (11,092)	\$ (12,261)	\$ (80,618)	\$ 50,434	\$ 15,351	\$ 45,277	\$ (6,177)	\$ 44,399
Other Revenue									
6100 Investment Income, Unrestricted	\$ 98,541	\$ -	\$ -	\$ 98,536				\$ 5	
6300 Investment Income, Restricted DMA	\$ 77,015	\$ 77,015	\$ -						
Total Other Revenue	\$ 175,556	\$ 77,015	\$ -	\$ 98,536	\$ -	\$ -	\$ -	\$ 5	\$ -
Net Other Revenue	\$ 175,556	\$ 77,015	\$ -	\$ 98,536	\$ -	\$ -	\$ -	\$ 5	\$ -
Net Revenue	\$ 220,869	\$ 65,923	\$ (12,261)	\$ 17,918	\$ 50,434	\$ 15,351	\$ 45,277	\$ (6,172)	\$ 44,399

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**SYSTEM DYNAMICS SOCIETY, INC.
FINANCIAL REPORT
DECEMBER 31, 2021 AND 2020**

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 statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years 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 engagements 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.

We are required to be independent of System Dynamics Society, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our reviews, 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.

Marvin and Company, P.C.

Latham, NY
April 26, 2022

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 222,237	\$ 162,689
Investments	760,062	714,786
Accounts receivable		
Publications	59,666	57,337
Other	5,338	1,040
Inventory	3,820	3,000
Prepaid expenses	7,691	1,962
Total Current Assets	<u>1,058,814</u>	<u>940,814</u>
Other Assets		
Investments-restricted	<u>343,841</u>	<u>270,826</u>
TOTAL ASSETS	<u><u>\$ 1,402,655</u></u>	<u><u>\$ 1,211,640</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 24,722	\$ 38,713
Deferred revenue		
Conferences	4,500	1,500
Membership dues	20,400	40,275
Other	3,500	2,325
Custodial account liability	3,555	3,720
Total Current Liabilities	<u>56,677</u>	<u>86,533</u>
Net Assets		
Without donor restrictions		
Board designated	<u>981,437</u>	<u>854,281</u>
Total without donor restrictions	<u>981,437</u>	<u>854,281</u>
With donor restrictions	<u>364,541</u>	<u>270,826</u>
Total Net Assets	<u><u>1,345,978</u></u>	<u><u>1,125,107</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,402,655</u></u>	<u><u>\$ 1,211,640</u></u>

SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenues		
Conferences	\$ 194,219	\$ 250,818
Publications		
Revenue	65,880	62,680
Contribution	22,500	22,500
Total Publications	<u>88,380</u>	<u>85,180</u>
Membership dues and subscriptions	110,112	80,020
Educational products, net	35,397	1,676
Contributions	43,468	50,669
Investment income, net	98,542	108,870
Net assets released from restrictions	4,000	6,350
Total Support and Revenues	<u>574,118</u>	<u>583,583</u>
Expenses		
Awards	10,188	4,235
Bank and credit card fees	15,572	14,575
Chapter development	2,189	3,794
Contract - University of New York at Albany	-	8,817
Conferences	7,053	21,069
Insurance	3,487	2,165
Publications	29,519	43,775
Marketing	32,325	15,824
Office expenses	17,354	15,305
Travel and training	10	2,435
Professional fees and consultants	188,657	224,139
Personnel services	125,309	100,200
Miscellaneous	15,299	2,048
Depreciation expense	-	192
Total Expenses	<u>446,962</u>	<u>458,573</u>
Change in Net Assets Without Donor Restrictions	<u>127,156</u>	<u>125,010</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Support and Revenues		
Contributions	20,700	-
Investment income, net	77,015	42,699
Net assets released from restrictions	<u>(4,000)</u>	<u>(6,350)</u>
Change in Net Assets With Donor Restrictions	<u>93,715</u>	<u>36,349</u>
Change in Net Assets	220,871	161,359
Net Assets, Beginning of Year	<u>1,125,107</u>	<u>963,748</u>
Net Assets, End of Year	<u>\$ 1,345,978</u>	<u>\$ 1,125,107</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, 2021**

	<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	\$ 10,188	\$ -	\$ -	\$ 10,188
Bank and credit card fees	13,221	2,351	-	15,572
Chapter development	2,189	-	-	2,189
Conferences	7,053	-	-	7,053
Insurance	-	3,487	-	3,487
Publications	29,519	-	-	29,519
Marketing	31,141	1,094	90	32,325
Office expenses	6,766	10,574	14	17,354
Travel and training	10	-	-	10
Professional fees and consultants	147,344	37,493	3,820	188,657
Personnel services	94,147	26,120	5,042	125,309
Miscellaneous	2,135	501	12,663	15,299
Total Expenses	<u>\$ 343,713</u>	<u>\$ 81,620</u>	<u>\$ 21,629</u>	<u>\$ 446,962</u>

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

	<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	152,465	45,605	26,069		224,139
Personnel services	84,502	14,028	1,670		100,200
Miscellaneous	2,048	-	-		2,048
Depreciation expense	-	192	-		192
Total Expenses	<u>\$ 334,924</u>	<u>\$ 90,893</u>	<u>\$ 32,756</u>	<u>\$</u>	<u>458,573</u>

**SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash Flows Provided (Used) By Operating Activities		
Change in net assets	\$ 220,871	\$ 161,359
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net gain on investments	(157,925)	(140,157)
Depreciation expense	-	192
Change in operating assets and liabilities		
Accounts receivable	(6,627)	12,640
Inventory	(820)	11,227
Prepaid expenses	(5,729)	10,097
Accounts payable and accrued expenses	(13,991)	30,216
Deferred revenue	(15,700)	(5,239)
Custodial account liability	(165)	(605)
Net Cash Provided By Operating Activities	<u>19,914</u>	<u>79,730</u>
Cash Flows Provided (Used) By Investing Activities		
Proceeds from sales of investments	299,720	675,853
Purchases of investments	<u>(260,086)</u>	<u>(677,668)</u>
Net Cash Provided (Used) By Investing Activities	<u>39,634</u>	<u>(1,815)</u>
Net Increase in Cash and Cash Equivalents	59,548	77,915
Cash and Cash Equivalents, Beginning of Year	<u>162,689</u>	<u>84,774</u>
Cash and Cash Equivalents, End of Year	<u>\$ 222,237</u>	<u>\$ 162,689</u>

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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
DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 that was included in deferred revenue at the beginning of each year was \$44,100 and \$49,339, 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, 2021 and 2020.

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 and 2020.

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.

Reclassification

Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported changes in net assets.

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 in costs for support services during the year ended December 31, 2020. There were no amounts receivable from or payable to the University at December 31, 2020.

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 in costs for these services during the year ended December 31, 2020. These costs are included in professional fees and consultants expense on the respective statement of activities. There were no amounts receivable from or payable to CHMS at December 31, 2020. There were no prepaid contract costs at December 31, 2020.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

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 Policy Council. In cases when expenses exceed the income for a period of time, the Policy Council 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, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 222,237	\$ 162,689
Accounts receivable	65,004	58,377
Investments	<u>1,103,903</u>	<u>985,612</u>
Total Financial Assets	1,391,144	1,206,678
Net assets with donor restrictions	(364,541)	(270,826)
Board designated net assets	<u>(981,437)</u>	<u>(854,281)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 45,166</u>	<u>\$ 81,571</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 \$800,000.

Operational efficiencies are expected to reduce expenses. As a result, there were no draws against reserves during 2020 or 2021. 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 an 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.

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

4. INVESTMENTS

A summary of investments at December 31, 2021 and 2020 is set forth below:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Exchange traded products:				
Equity	\$ 72,219	\$ 94,712	\$ 161,851	\$ 202,498
Fixed income	122,109	122,799	36,074	37,311
Other	<u>53,881</u>	<u>62,665</u>	<u>57,269</u>	<u>72,728</u>
	248,209	280,176	255,194	312,537
Mutual funds	<u>305,501</u>	<u>823,727</u>	<u>296,497</u>	<u>673,075</u>
	<u>\$ 553,710</u>	<u>\$ 1,103,903</u>	<u>\$ 551,691</u>	<u>\$ 985,612</u>

Net investment income for the years ending December 31, 2021 and 2020 consists of:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 20,245	\$ 13,626
Net gain on investments	157,925	140,157
Investment fees	<u>(2,613)</u>	<u>(2,214)</u>
	<u>\$ 175,557</u>	<u>\$ 151,569</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 marketing, office expenses, professional fees and consultants, personnel services 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 Policy Council for the following purposes at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Capital reserve	\$ 545,000	\$ 420,181
Legacy campaign	17,437	30,100
Buffer funds	115,000	100,000
Chapter development	200,000	200,000
Jay Wright Forrester Award	<u>104,000</u>	<u>104,000</u>
	<u>\$ 981,437</u>	<u>\$ 854,281</u>

**SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

6. NET ASSETS

Net Assets With Donor Restrictions

The significant 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>2021</u>	<u>2020</u>
Beginning balance	\$ 270,826	\$ 234,477
Investment income	77,015	42,699
Releases	<u>(4,000)</u>	<u>(6,350)</u>
Ending balance	<u>\$ 343,841</u>	<u>\$ 270,826</u>

Additionally, there were net assets with donor restrictions for SDS' stewardship program totaling \$20,700 at December 31, 2021.

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, 2021 and 2020, using Level 1 inputs, follows:

	<u>2021</u>	<u>2020</u>
Cash equivalents	<u>\$ 63,290</u>	<u>\$ 10,030</u>
Investments		
U.S. stocks	832,144	663,015
Non U.S. stocks	86,295	212,557
U.S. Treasury notes	122,799	37,311
Other	<u>62,665</u>	<u>72,729</u>
Total Investments	<u>1,103,903</u>	<u>985,612</u>
	<u>\$ 1,167,193</u>	<u>\$ 995,642</u>

SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
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7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 26, 2022, the date on which the financial statements were available to be issued, and determined there were no subsequent events that require recording or disclosure.