

To: Policy Council of the System Dynamics Society  
From: David Andersen, VP Finance  
Subject: VP Finance Narrative Report for Fiscal Year 2014  
Date: July 2015

***Summary:** 2014 was a good year financially for the System Dynamics Society. We posted a net income of \$37,833 and our overall equity grew from \$1,261,278 at the opening of our fiscal year to \$1,299,111 at the close of the fiscal year. Our budget for 2016 projects a Net Ordinary Income loss of **\$108,438**. However, I have budgeted for an expected Investment Income of \$118,855 so that our overall Net Income will be a net gain of \$10,417. The Society's budget for 2016 has three line items being supported with investment income—(1) Awards (Dana Meadows and Forrester), (2) the PhD Luncheon, and (3) Chapter Development Fund. These lines in the budget come to \$29,000 out of our investment income.*

My report this year again has two parts. The first part covers a number of general issues that frame the discussion of the several attachments that are described in Part II.

## **Part I: Some General Issues**

**How Did the Society Do Overall in 2014** In 2014, we posted a Net Income of \$37,832 and our Total Assets grew by \$46,982. When viewed by cost centers, Core Operations posted a loss of **\$104,266** and Publications posted a loss of **\$5,615**. These losses were countered by Net Income gains of \$31,065 in Sales, \$75,353 in Investment Income, and \$57,926 in Conferences (sum of all years).

**91% of our Current Investment Goals are Covered by Designated Assets** For 2016, I have proposed a total Investment Goal for our Unrestricted Funds of \$1,325,378. I estimate that as of the end of this year, we will have on hand unrestricted funds of \$1,205,311 to cover these goals, or 91% of our current investment goals are being covered by designated assets.

**Home Office Costs are Expected to Rise in the Near Term.** A number of factors are in play that I expect to drive up the costs of running the home office in the near term. We expect that our next contract with the University at Albany will see our overhead rate increase from 5.6% per year to 15% annually. For many year we have been granted a subsidy of below average overhead and that subsidy will not continue indefinitely. Also we are continuing to experience staff changes as Robin Langer is looking to retire in the next several years and we are seeking to have adequate staff in place to learn what she knows before we lose her many years of experience.

## **Part II: Discussion of Society Financial Reports**

**(1) Key Trends in Society Finances 1984 to Present** This plot of key variables over time shows long term financial growth and an overall sound financial situation. Overall income was up again this year due to the good performance of the annual conference and adequate performance of our investments.

**(2) Revenue and Expense Budget Comparison for 2014** This page shows how well I am doing predicting our various classes of expenses and expenses through the budgeting process. When I look at this report I see several things. First, last year I under predicted both conference income and .conference expenses by about 20 %. However, when both of these move together, the net impact on the Society's budget stays about the same. Second, I over estimated income from our investments. It is always a bit tricky trying to predict the performance of invested assets

**(3) Balance Sheet, Previous Year Comparison for 2014** We ended 2014 with Total Assets of **\$1,379,377**. Between 2013 and 2014 total assets were not the same as our increase in Net Income because of various year to year encumbrances that move on and off our balance sheet each year.

**(4) Revenues and Expenses, Previous Year Comparison for 2014** Net Income for the year was \$37,832, down from 167,688 in 2013. The main difference between 2013 and 2014 is relatively weaker performance of our investments. In addition, in 2014 we spent a larger portion of the Field Development Fund and our home office expenses were up as had been anticipated.

**(5) Society Revenues and Expense, Fiscal Year, by Cost Centers** When viewed by cost centers, Core Operations posted of loss of **\$104,266** and Publications posted a loss of **\$6,515**. These losses were countered by Net Income gains of \$31,065 in Sales, \$75,353 in Investment Income, and \$57,926 in Conferences (sum of all years).

**(6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2014 (final statements from our CPA)** Attachment 6 reproduces the review (the CPA *reviews* our books, they do not audit them) of our books by our CPA. While not an audit, this report does confirm the accuracy of the managerial QuickBooks system that we use to manage the Society's affairs. The "Notes" section of this report comments on a number of the financial management practices of the Home Office staff. Overall, we have a good bill of financial health.

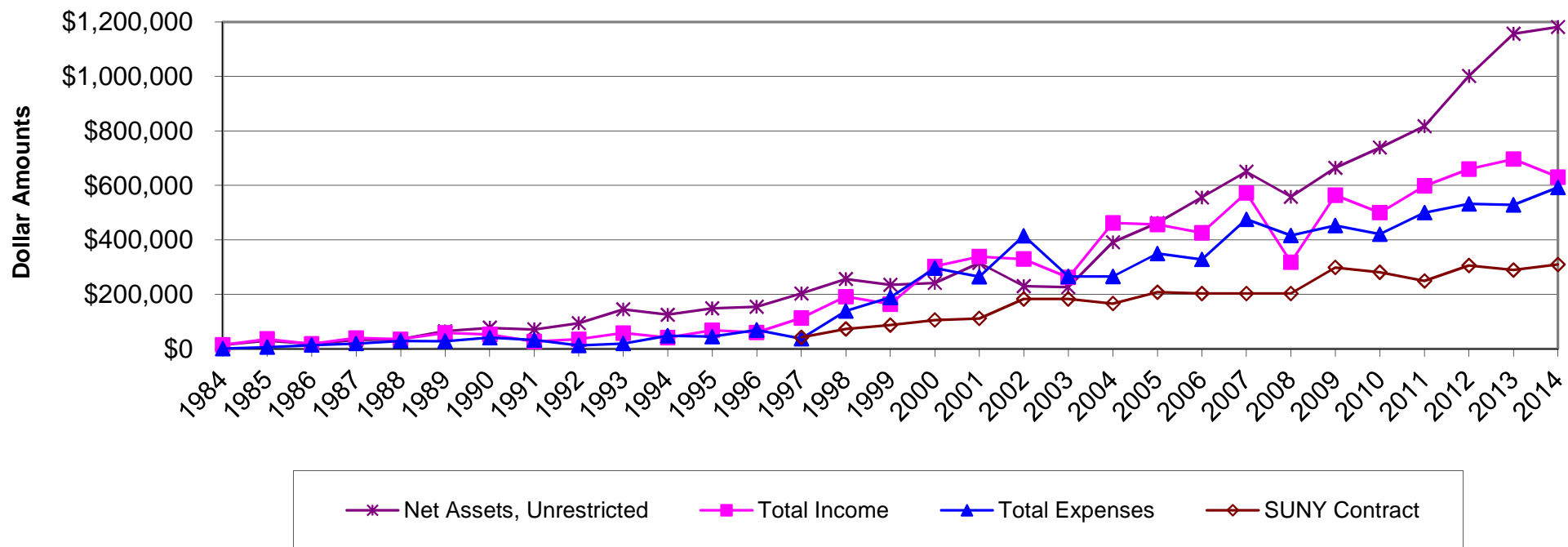
**(7) 2016 Proposed Budget System Dynamics Society** Attachment 7 is the proposed budget that I am asking the Policy Council to approve. To fully understand this budget, I invite your attention to the "bottom line". Our budgeted Net Ordinary Income is a loss of **\$108,438**. This is the amount that I project the Society would lose in 2016 if we did not have investment income to fall back on (in this estimate, I have budgeted the 2016 conference as making a \$25,000 profit for the Society). I am budgeting for \$118,855 in income from our investments during 2016. We have budgeted \$29,000 of that investment income for three specific purposes—(1) Awards (Dana Meadows (\$2,000) and Forrester Awards--\$6,000), (2) the PhD student luncheon (\$1,000), and (3) the Chapter Development Fund (\$20,000). These expenses are indicated in the shaded pink and orange cells of the attached budget. In addition, my budget shows an additional \$88,932 of unbudgeted investments being allocated to close the gap in Net Ordinary Income. When all of these adjustments from our investments are taken into account, I am budgeting that the society will realize a "bottom line" Net Income in 2016 of \$10,417.

**(8) Investments-at-a-Glance as of December 31, 2014.** The investment goals for the Society are up again from last year. As laid out in attachment (8), we should seek to retain investments of \$1,325,378 to prudently meet currently envisioned contingencies. The Society can currently cover 91% of these designations, or \$1,205,311 out of our currently available Assets.

**Attachments:**

- (1) Key Trends in Society Finances 1984 to Present.
- (2) System Dynamics Society Revenue and Expenses Budget Comparison, Fiscal Year (unaudited, but reflecting final CPA Financial Statement changes) January through December 2014
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) As of December 31, 2014
- (4) System Dynamics Society Revenue and Expenses, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) January through December 2014.
- (5) System Dynamics Society Revenue and Expenses, Fiscal Year, by Cost Centers (unaudited, but reflecting final CPA Financial Statement changes) January through December 2014.
- (6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2014 (final statements from our CPA).
- (7) 2016 Proposed Budget System Dynamics Society.
- (8) Investments-at-a-Glance As of December 31, 2014

# (1) Key Trends in Society Finances since 1984



04/22/15  
Accrual Basis

## System Dynamics Society (2) Rev & Exp, Budget Comparison (unaudited) January through December 2014

	Jan - Dec 14	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
INC Conferences	294,654	244,205	50,450	121%
Journal Income	84,621	84,889	-268	100%
Membership Dues	65,909	65,982	-73	100%
Other Income	668			
Products	53,908	57,560	-3,652	94%
Shipping and Handling Income	9,032	12,971	-3,939	70%
Sponsor Dues and Donations	36,350	41,503	-5,153	88%
Investment Allocations	28,500			
<b>Total Income</b>	573,642	507,110	66,533	113%
<b>Cost of Goods Sold</b>				
Cost of Goods	7,915	11,826	-3,911	67%
<b>Total COGS</b>	7,915	11,826	-3,911	67%
<b>Gross Profit</b>	565,727	495,284	70,444	114%
<b>Expense</b>				
Awards-Dana Meadows	1,500	1,500	0	100%
Awards-Others	1,220	5,949	-4,729	21%
Bank & CC Fees	9,729	12,095	-2,367	80%
Field Dev (\$20K Max)	17,500	20,000	-2,500	88%
Contracted Expenses at UA/bany	332,483	334,894	-2,411	99%
EXP Conferences	141,518	117,756	23,762	120%
Insurance	5,218	6,155	-937	85%
Journal Expense	20,000	20,000	0	100%
Marketing (Sponsor Trade)	2,000			
Miscellaneous Expense	796	1,566	-770	51%
Office Expense	5,280	5,537	-257	95%
Officer Expenses (=Travel CPA)	10,228	8,409	1,819	122%
PHD Luncheon @ Conf	837	1,000	-163	84%
Professional Fees	42,831	41,085	1,746	104%
<b>Total Expense</b>	591,140	575,947	15,193	103%
<b>Net Ordinary Income</b>	-25,412	-80,663	55,251	32%
<b>Other Income/Expense</b>				
<b>Other Income</b>				
Investment Income	89,580	75,794	13,786	118%
DM Investment Inc	2,164	2,996	-832	72%
Designated Inv Inc	-28,500			
<b>Total Other Income</b>	63,245	78,791	-15,546	80%
<b>Net Other Income</b>	63,245	78,791	-15,546	80%
<b>Net Income</b>	<b>37,832</b>	<b>-1,872</b>	<b>39,704</b>	<b>-2,021%</b>

## System Dynamics Society

### (3) Balance Sheet, Prev Year Comparison (unaudited)

As of December 31, 2014

06/29/15

Accrual Basis

	Dec 31, 14	Dec 31, 13	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
<b>Checking/Savings</b>				
Bank of America Checking 2474	79,841	54,753	25,088	46%
Elec. Transfer BOA Check 5757	10,918	10,638	280	3%
Bank Paypal	296	1,131	-835	-74%
Companion Savings - BoA	35,632	75,631	-39,998	-53%
Travel Cash	112	111	1	1%
Charles Schwab-Windhaven	244,328	240,647	3,681	2%
UBS Financial (was PaineWebber)	26,313	25,409	903	4%
Vanguard Society (88008478957)	728,534	657,777	70,757	11%
<b>Total Checking/Savings</b>	<b>1,125,974</b>	<b>1,066,096</b>	<b>59,878</b>	<b>6%</b>
<b>Other Current Assets</b>				
Accounts Receivable - Wiley	61,500	60,545	955	2%
Inventory	23,009	26,220	-3,210	-12%
Prepaid Expenses	51,271	74,889	-23,619	-32%
Refunds Receivable	330	0	330	100%
Cash-Undeposited Funds	47	140	-93	-66%
<b>Total Other Current Assets</b>	<b>136,157</b>	<b>161,794</b>	<b>-25,637</b>	<b>-16%</b>
<b>Total Current Assets</b>	<b>1,262,131</b>	<b>1,227,890</b>	<b>34,241</b>	<b>3%</b>
<b>Fixed Assets</b>				
Accumulated Depreciation	-651	-651	0	0%
Equipment	651	651	0	0%
<b>Total Fixed Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>
<b>Other Assets</b>				
Vanguard DMA (88006930361)	117,205	104,465	12,741	12%
<b>Total Other Assets</b>	<b>117,205</b>	<b>104,465</b>	<b>12,741</b>	<b>12%</b>
<b>TOTAL ASSETS</b>	<b>1,379,337</b>	<b>1,332,355</b>	<b>46,982</b>	<b>4%</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
<b>Accounts Payable</b>				
Accounts Payable	61	837	-776	-93%
<b>Total Accounts Payable</b>	<b>61</b>	<b>837</b>	<b>-776</b>	<b>-93%</b>
<b>Credit Cards</b>				
Hyatt CC	66	0	66	100%
<b>Total Credit Cards</b>	<b>66</b>	<b>0</b>	<b>66</b>	<b>100%</b>
<b>Other Current Liabilities</b>				
Accounts Payable*	3,455	0	3,455	100%
Deferred Revenue	52,198	46,079	6,118	13%
Due to Conference Host	9,075	9,225	-150	-2%
Membership Sub Payable 2005+	11,567	12,825	-1,258	-10%
PPD Journal Editor	3,374	2,044	1,330	65%
Restricted Conf.Scholar/Awards	200	0	200	100%
Sales Tax Payable	230	66	164	249%
<b>Total Other Current Liabilities</b>	<b>80,099</b>	<b>70,240</b>	<b>9,859</b>	<b>14%</b>
<b>Total Current Liabilities</b>	<b>80,226</b>	<b>71,077</b>	<b>9,149</b>	<b>13%</b>
<b>Total Liabilities</b>	<b>80,226</b>	<b>71,077</b>	<b>9,149</b>	<b>13%</b>
<b>Equity</b>				
Net Assets - Temp Rest (DMA)	117,205	104,465	12,741	12%
Net Assets-Designated	1,144,073	989,126	154,947	16%
Net Income	37,832	167,688	-129,855	-77%
<b>Total Equity</b>	<b>1,299,111</b>	<b>1,261,278</b>	<b>37,832</b>	<b>3%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,379,337</b>	<b>1,332,355</b>	<b>46,982</b>	<b>4%</b>

04/22/15  
Accrual Basis

**System Dynamics Society**  
**(4) Rev & Exp, Prev Year Comparison (unaudited)**  
**January through December 2014**

	<u>Jan - Dec 14</u>	<u>Jan - Dec 13</u>
<b>Ordinary Income/Expense</b>		
<b>Income</b>		
INC Conferences	294,654	303,765
Journal Income	84,621	81,676
Membership Dues	65,909	64,487
Other Income	668	725
Products	53,908	49,828
Shipping and Handling Income	9,032	7,320
Sponsor Dues and Donations	36,350	33,150
Investment Allocations	28,500	28,500
<b>Total Income</b>	<u>573,642</u>	<u>569,450</u>
<b>Cost of Goods Sold</b>		
Cost of Goods	7,915	10,249
<b>Total COGS</b>	<u>7,915</u>	<u>10,249</u>
<b>Gross Profit</b>	565,727	559,201
<b>Expense</b>		
Awards-Dana Meadows	1,500	750
Awards-Others	1,220	0
Bank & CC Fees	9,729	12,528
Field Dev (\$20K Max)	17,500	6,405
Contracted Expenses at UAlbany	332,483	298,280
EXP Conferences	141,518	133,283
Insurance	5,218	4,645
Journal Expense	20,000	20,000
Marketing (Sponsor Trade)	2,000	0
Membership Directory Exp	0	615
Miscellaneous Expense	796	683
Office Expense	5,280	4,416
Officer Expenses (=Travel CPA)	10,228	9,871
PHD Luncheon @ Conf	837	1,000
Professional Fees	42,831	35,132
<b>Total Expense</b>	<u>591,140</u>	<u>527,606</u>
<b>Net Ordinary Income</b>	-25,412	31,595
<b>Other Income/Expense</b>		
<b>Other Income</b>		
Investment Income	89,580	161,659
DM Investment Inc	2,164	2,933
Designated Inv Inc	-28,500	-28,500
<b>Total Other Income</b>	<u>63,245</u>	<u>136,093</u>
<b>Net Other Income</b>	<u>63,245</u>	<u>136,093</u>
<b>Net Income</b>	<u><u>37,832</u></u>	<u><u>167,688</u></u>

04/22/15

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

January through December 2014

Accrual Basis

	2016 Delft	2015 Cam...	2014 Delft	2013 Cam...	MiscConf	Core Ops (CO)	Web (CO)	Total CO	Book Sales	Sales No...	Publication	Investme...	DMC	IFR Tran...	audit	Unclassif...	TOTAL
<b>Ordinary Income/Expense</b>																	
Income	0	19,400	281,062	1,400	193	0	0	0	0	0	0	0	0	0	-7,400	0	294,654
INC Conferences	0	0	0	0	0	60,545	0	60,545	0	0	23,121	0	0	0	955	0	84,621
Journal Income	0	0	0	0	0	65,267	0	65,267	0	0	0	0	0	0	642	0	65,909
Membership Dues	0	0	0	0	0	668	0	668	0	0	0	0	0	0	0	0	668
Other Income	0	0	0	0	0	0	0	0	7,216	46,693	0	0	0	0	0	0	53,908
Products	0	0	0	0	0	0	0	0	2,122	6,910	0	0	0	0	0	0	9,032
Shipping and Handling Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sponsor Dues and Donations	0	0	0	0	0	36,350	0	36,350	0	0	0	0	0	0	0	0	36,350
Investment Allocations	0	0	0	0	0	27,000	0	27,000	0	0	0	0	1,500	0	0	0	28,500
<b>Total Income</b>	<b>0</b>	<b>19,400</b>	<b>281,062</b>	<b>1,400</b>	<b>193</b>	<b>189,830</b>	<b>0</b>	<b>189,830</b>	<b>9,338</b>	<b>53,603</b>	<b>23,121</b>	<b>0</b>	<b>1,500</b>	<b>0</b>	<b>-5,803</b>	<b>0</b>	<b>573,642</b>
<b>Cost of Goods Sold</b>																	
Cost of Goods	0	0	0	0	0	0	0	0	0	7,915	0	0	0	0	0	0	7,915
<b>Total COGS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,915</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,915</b>
<b>Gross Profit</b>	<b>0</b>	<b>19,400</b>	<b>281,062</b>	<b>1,400</b>	<b>193</b>	<b>189,830</b>	<b>0</b>	<b>189,830</b>	<b>9,338</b>	<b>45,688</b>	<b>23,121</b>	<b>0</b>	<b>1,500</b>	<b>0</b>	<b>-5,803</b>	<b>0</b>	<b>565,727</b>
<b>Expense</b>																	
Awards-Dana Meadows	0	0	0	0	0	0	0	0	0	0	0	0	1,500	0	0	0	1,500
Awards-Others	0	0	0	0	0	1,220	0	1,220	0	0	0	0	0	0	0	0	1,220
Bank & CC Fees	0	58	194	31	0	6,776	0	6,776	259	478	-19	1,998	0	0	-46	0	9,729
Field Dev (\$20K Max)	0	0	0	0	0	17,500	0	17,500	0	0	0	0	0	0	0	0	17,500
Contracted Expenses at UAlbany	899	18,669	78,957	430	0	175,431	11,758	187,190	8,668	11,998	6,535	0	0	215	18,923	0	332,483
EXP Conferences	0	1,910	138,196	0	0	0	0	0	0	0	0	0	0	0	1,412	0	141,518
Insurance	0	0	0	0	0	5,218	0	5,218	0	0	0	0	0	0	0	0	5,218
Journal Expense	0	0	0	0	0	0	0	0	0	0	20,000	0	0	0	0	0	20,000
Marketing (Sponsor Trade)	0	0	0	0	0	2,000	0	2,000	0	0	0	0	0	0	0	0	2,000
Miscellaneous Expense	0	0	0	0	0	644	0	644	0	0	0	0	0	0	152	0	796
Office Expense	0	0	0	0	0	4,291	0	4,291	0	0	0	0	0	14	975	0	5,280
Officer Expenses (=Travel CPA)	0	0	0	0	0	7,091	0	7,091	0	0	3,121	0	0	0	16	0	10,228
PHD Luncheon @ Conf	0	0	0	0	0	837	0	837	0	0	0	0	0	0	0	0	837
Professional Fees	0	465	4,238	0	81	34,329	0	34,329	750	1,807	0	0	0	0	1,161	0	42,831
<b>Total Expense</b>	<b>899</b>	<b>21,102</b>	<b>221,585</b>	<b>461</b>	<b>81</b>	<b>255,337</b>	<b>11,758</b>	<b>267,095</b>	<b>9,677</b>	<b>14,283</b>	<b>29,636</b>	<b>1,998</b>	<b>1,500</b>	<b>229</b>	<b>22,594</b>	<b>0</b>	<b>591,140</b>
<b>Net Ordinary Income</b>	<b>-899</b>	<b>-1,702</b>	<b>59,477</b>	<b>939</b>	<b>111</b>	<b>-65,507</b>	<b>-11,758</b>	<b>-77,266</b>	<b>-340</b>	<b>31,405</b>	<b>-6,515</b>	<b>-1,998</b>	<b>0</b>	<b>-229</b>	<b>-28,397</b>	<b>0</b>	<b>-25,412</b>
<b>Other Income/Expense</b>																	
Other Income																	
Investment Income	0	0	0	0	0	0	0	0	0	0	0	77,352	12,076	0	152	0	89,580
DM Investment Inc	0	0	0	0	0	0	0	0	0	0	0	0	2,164	0	0	0	2,164
Designated Inv Inc	0	0	0	0	0	-27,000	0	-27,000	0	0	0	0	-1,500	0	0	0	-28,500
<b>Total Other Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-27,000</b>	<b>0</b>	<b>-27,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>77,352</b>	<b>12,741</b>	<b>0</b>	<b>152</b>	<b>0</b>	<b>63,245</b>
<b>Net Other Income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-27,000</b>	<b>0</b>	<b>-27,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>77,352</b>	<b>12,741</b>	<b>0</b>	<b>152</b>	<b>0</b>	<b>63,245</b>
<b>Net Income</b>	<b>-899</b>	<b>-1,702</b>	<b>59,477</b>	<b>939</b>	<b>111</b>	<b>-92,507</b>	<b>-11,758</b>	<b>-104,266</b>	<b>-340</b>	<b>31,405</b>	<b>-6,515</b>	<b>75,353</b>	<b>12,741</b>	<b>-229</b>	<b>-28,245</b>	<b>0</b>	<b>37,832</b>



**SYSTEM DYNAMICS SOCIETY, INC.**

**Financial Statements**

**December 31, 2014 and 2013**

**LUBBE & HOSEY, PC**  
*CERTIFIED PUBLIC ACCOUNTANTS*

**SYSTEM DYNAMICS SOCIETY, INC.**

**YEARS ENDED DECEMBER 31, 2014 AND 2013**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

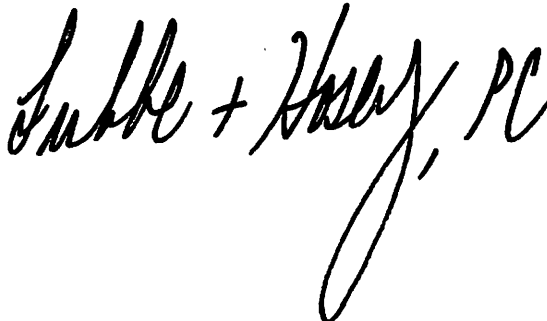
Policy Council  
System Dynamics Society, Inc.

We have reviewed the accompanying statements of financial position of **System Dynamics Society, Inc.** (a nonprofit organization) as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of **System Dynamics Society, Inc.**'s 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 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

A large, stylized handwritten signature in black ink that reads "Lubbe + Hosey, PC". The signature is written in a cursive, flowing style with a long, sweeping tail on the "y".

Albany, New York  
March 31, 2015

**SYSTEM DYNAMICS SOCIETY, INC.**

**Statements of Financial Position**

**December 31, 2014 and 2013**

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 153,439	167,525
Investments	972,583	898,711
Accounts receivable	61,830	60,545
Inventory	23,009	26,220
Prepaid expenses	<u>51,271</u>	<u>74,889</u>
Total current assets	<u>1,262,132</u>	<u>1,227,890</u>
<b>Property and equipment:</b>		
Office equipment	651	651
Less accumulated depreciation	<u>(651)</u>	<u>(651)</u>
Total property and equipment	<u>-</u>	<u>-</u>
<b>Other asset:</b>		
Investments - restricted	<u>117,205</u>	<u>104,465</u>
	<u>\$1,379,337</u>	<u>1,332,355</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	4,012	903
Membership subscriptions liability	11,567	12,825
Deferred revenue	55,572	48,124
Custodial account liability	<u>9,075</u>	<u>9,225</u>
Total current liabilities	<u>80,226</u>	<u>71,077</u>
<b>Net assets:</b>		
Unrestricted:		
Undesignated	37,833	167,687
Board designated	<u>1,144,073</u>	<u>989,126</u>
Total unrestricted	1,181,906	1,156,813
Temporarily restricted	<u>117,205</u>	<u>104,465</u>
Total net assets	<u>1,299,111</u>	<u>1,261,278</u>
	<u>\$1,379,337</u>	<u>1,332,355</u>

See accompanying notes and independent accountant's review report.

**SYSTEM DYNAMICS SOCIETY, INC.**

**Statements of Activities**

**Years ended December 31, 2014 and 2013**

<u><b>UNRESTRICTED NET ASSETS</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>Revenue:</b>		
<b>Conferences</b>	\$ 294,654	303,764
<b>Publications</b>	84,621	81,676
<b>Membership dues and subscriptions</b>	65,908	64,487
<b>Educational products, net expenses of \$7,915 and \$10,249         in 2014 and 2013, respectively</b>	55,026	46,899
<b>Donations</b>	36,350	33,150
<b>Investment income</b>	77,505	151,620
<b>Other income</b>	668	725
<b>Net assets released from restrictions</b>	<u>1,500</u>	<u>750</u>
<b>Total revenue</b>	<u><b>616,232</b></u>	<u><b>683,071</b></u>
<b>Expenses:</b>		
<b>Awards</b>	2,720	750
<b>Bank and credit card fees</b>	9,728	12,528
<b>Chapter development</b>	17,500	6,405
<b>Contract - University of New York at Albany</b>	332,483	298,280
<b>Conferences</b>	141,518	133,283
<b>Insurance</b>	5,218	4,645
<b>Publications</b>	20,000	20,000
<b>Marketing</b>	2,000	-
<b>Membership services</b>	-	615
<b>Travel and training</b>	11,065	10,871
<b>Office expenses</b>	5,280	4,416
<b>Professional fees and consultants</b>	42,831	35,132
<b>Miscellaneous</b>	796	682
<b>Total expenses</b>	<u><b>591,139</b></u>	<u><b>527,607</b></u>
<b>Change in unrestricted net assets</b>	<u><b>25,093</b></u>	<u><b>155,464</b></u>
 <u><b>TEMPORARILY RESTRICTED NET ASSETS</b></u>		
<b>Investment income</b>	14,240	12,973
<b>Net assets released from restrictions</b>	<u>(1,500)</u>	<u>(750)</u>
<b>Change in temporarily restricted net assets</b>	<u><b>12,740</b></u>	<u><b>12,223</b></u>
 <b>Change in net assets</b>	 <b>37,833</b>	 <b>167,687</b>
 <b>Net assets, beginning of year</b>	 <u><b>1,261,278</b></u>	 <u><b>1,093,591</b></u>
<b>Net assets, end of year</b>	<u><b>\$1,299,111</b></u>	<u><b>1,261,278</b></u>

See accompanying notes and independent accountant's review report.

**SYSTEM DYNAMICS SOCIETY, INC.**

**Statements of Cash Flows**

**Years ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash flows provided (used) by operating activities:</b>		
Change in net assets	\$ 37,833	167,687
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Net gain on investments	(72,217)	(142,223)
Changes in operating assets and liabilities:		
Accounts receivable	(1,285)	2,108
Inventory	3,211	(6,377)
Prepaid expenses	23,618	6,893
Accounts payable and accrued expenses	3,109	(839)
Membership subscriptions liability	(1,258)	359
Deferred revenue	7,448	958
Custodial account liability	<u>(150)</u>	<u>(675)</u>
Net cash provided by operating activities	<u>309</u>	<u>27,891</u>
<b>Cash flows provided (used) by investing activities:</b>		
Proceeds from sales of investments	78,328	446,124
Purchases of investments	<u>(92,723)</u>	<u>(462,294)</u>
Net cash (used) by investing activities	<u>(14,395)</u>	<u>(16,170)</u>
Net (decrease) increase in cash and cash equivalents	(14,086)	11,721
Cash and cash equivalents, beginning of year	<u>167,525</u>	<u>155,804</u>
Cash and cash equivalents, end of year	<u>\$153,439</u>	<u>167,525</u>

See accompanying notes and independent accountant's review report.

# SYSTEM DYNAMICS SOCIETY, INC.

## Notes to Financial Statements

December 31, 2014 and 2013

(1) **Nature of Activities and Summary of Significant Accounting Policies**

(a) **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.

(b) **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 expenditures are recognized when incurred.

(c) **Basis of Presentation**

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC). SDS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the existence or absence of donor-imposed restrictions on the use of net assets.

(d) **Cash and Cash Equivalents**

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

(e) **Concentration of Credit Risk**

Financial instruments that potentially subject SDS to concentrations of credit risk consist principally of cash accounts in a financial institution which, from time to time, may exceed the Federal depository insurance coverage limit of \$250,000. SDS has not experienced any loss in such accounts. No amounts exceeded federally insured limits at December 31, 2014 or December 31, 2013.

(f) **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. SDS is required to file Federal Form 990 "Return of Organization Exempt from Income Tax". The Agency is generally no longer subject to examination by the Internal Revenue Service for years before 2011.

(Continued)

**SYSTEM DYNAMICS SOCIETY, INC.****Notes to Financial Statements (Continued)****(1) Nature of Activities and Summary of Significant Accounting Policies (Continued)****(g) Investments**

Investments consist of a common stock and mutual funds (equity and bond funds) which are carried at fair value. Fair value is determined based on quoted market prices. Investment gains and losses are recognized in the statement of activities. Investment income is reported as an increase in unrestricted net assets unless a donor or law restricts its use.

**(h) Accounts Receivable**

Management has concluded all accounts will be collected by April 30 of the following year and that no allowance is necessary at December 31, 2014 and 2013.

**(i) Revenue Recognition****Conference Revenue**

SDS receives revenue for conferences held and recognizes this revenue when earned.

**Contributions and Investment Income**

Contributions and investment income are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions imposed that are met in the same year they are received are included in unrestricted net assets.

**Contributed Services**

No amounts have been reflected in the financial statements for 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.

**(j) 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.

**(k) Inventory**

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

**(l) Property and Equipment**

Property and equipment are recorded at cost at date of acquisition or estimated fair value at date of donation. SDS' policy is to capitalize property and equipment with a unit value equal to or greater than \$1,000 and a useful life greater than one year. Depreciation is computed under the straight-line method over the estimated useful lives of property and equipment (5 years).

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## SYSTEM DYNAMICS SOCIETY, INC.

## Notes to Financial Statements (Continued)

(2) University of New York at Albany

SDS has a two year contract with the University of New York at Albany for administrative support services through December 31, 2015. Support services includes personnel services and the use of property and equipment owned by the University. SDS incurred \$332,483 and \$298,280 to the University for support services during the years ended December 31, 2014 and 2013, respectively. There were no amounts receivable from or payable to the University at December 31, 2014 or 2013. Prepaid contract costs totaled \$16,206 and \$18,229 at December 31, 2014 and 2013, respectively.

(3) Investments

A summary of investments at December 31, 2014 and 2013 is set forth below:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 4,122	7,111	4,122	6,228
Mutual funds	<u>731,298</u>	<u>1,082,677</u>	<u>713,882</u>	<u>996,948</u>
	<u>\$735,420</u>	<u>1,089,788</u>	<u>718,004</u>	<u>1,003,176</u>

Investment income for the years ending December 31, 2014 and 2013 consists of:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$19,528	22,370
Net gain on investments	<u>72,217</u>	<u>142,223</u>
	<u>\$91,745</u>	<u>164,593</u>

Investment fees are paid to outside custodians for managing investments. These fees are included in bank and credit card fees expense on the accompanying statements of activities.

(4) Functional Reporting of Expenses

SDS is required to present its expenses by functional classification, which shows the amount spent for program and support services. Expenses that can be specifically identified as a program or support service are charged directly to program or support services. Costs common to both functions have been allocated among the functions benefitted. Expenses for the years ending December 31, 2014 and 2013 are functionally classified as:

	<u>2014</u>	<u>2013</u>
Program expenses - system dynamics	\$445,295	395,442
Support services - management and general	<u>145,844</u>	<u>132,165</u>
	<u>\$591,139</u>	<u>527,607</u>

(Continued)

## SYSTEM DYNAMICS SOCIETY, INC.

## Notes to Financial Statements (Continued)

(5) Restriction on Net Assets

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

	<u>2014</u>	<u>2013</u>
Beginning balance	\$104,465	92,242
Investment income	14,240	12,973
Award provided	<u>(1,500)</u>	<u>(750)</u>
Ending balance	<u>\$117,205</u>	<u>104,465</u>

(6) Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurement*, 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 other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The fair value of assets measured (Level 1) on a recurring basis at December 31, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Cash equivalents	\$ 26,592	25,123
Common stock	7,111	6,228
Mutual funds	<u>1,082,677</u>	<u>996,948</u>
	<u>\$1,116,380</u>	<u>1,028,299</u>

Cash, accounts receivable, and current liabilities - carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

(7) Subsequent Events

Management has evaluated subsequent events through March 31, 2015, the date on which the financial statements were available to be issued, and determined that there are no subsequent events that require disclosure.

System Dynamics Society  
(7) 2016 Proposed Budget

	Actual Amts Jan - Dec 14	Budget 2015	PROPOSED Budget 2016	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
<b>INC Conferences</b>	294,654.48	250,003.81	291,751.20	14%
<b>Journal Income</b>	84,621.00	81,676.00	86,398.00	5%
<b>Membership Dues</b>	65,908.52	67,575.00	69,203.00	2%
<b>Other Income</b>	668.15	0.00	0.00	
<b>Products</b>	53,908.28	43,026.26	50,302.27	14%
<b>Shipping and Handling Income</b>	9,032.38	9,514.17	8,727.05	-9%
<b>Sponsor Dues and Donations</b>	36,349.59	38,085.67	40,188.72	5%
<b>Total Income</b>	545,142.40	489,880.91	546,570.24	10%
<b>Cost of Goods Sold</b>				
<b>Cost of Goods</b>	7,914.93	11,885.61	7,820.13	-52%
<b>Total COGS</b>	7,914.93	11,885.61	7,820.13	-52%
<b>Gross Profit</b>	537,227.47	477,995.30	538,750.11	11%
<b>Expense</b>				
<b>Awards-Dana Meadows</b>	1,500.00	1,500.00	2,000.00	25%
<b>Awards-Others</b>	1,220.07	6,000.00	6,000.00	0%
<b>Bank &amp; CC Fees</b>	9,728.64	13,072.12	11,763.60	-11%
<b>Field Dev (\$20K Max)</b>	17,500.00	20,000.00	20,000.00	0%
<b>Contracted Expenses at UAlbany</b>	332,483.36	317,356.22	382,950.64	17%
<b>EXP Conferences</b>	141,517.69	119,588.02	136,882.73	13%
<b>Insurance</b>	5,217.88	5,105.49	5,667.91	10%
<b>Journal Expense</b>	20,000.00	20,000.00	20,000.00	0%
<b>Marketing (Sponsor Trade)</b>	2,000.00	0.00	0.00	
<b>Miscellaneous Expense</b>	796.36	1,165.02	1,158.49	-1%
<b>Office Expense</b>	5,279.81	4,334.84	4,349.82	0%
<b>Officer Expenses (=Travel CPA)</b>	10,227.88	9,893.77	9,904.19	0%
<b>PHD Luncheon @ Conf</b>	836.98	1,000.00	1,000.00	0%
<b>Professional Fees</b>	42,831.05	42,110.10	45,510.85	7%
<b>Total Expense</b>	591,139.72	561,125.58	647,188.22	13%
<b>Net Ordinary Income</b>	-53,912.25	-83,130.28	(108,438.12)	23%
<b>Other Income/Expense</b>				
<b>Other Income</b>				
<b>Investment Income</b>	89,580.26			
<b>Budgeted wt designated funds (3 items)</b>		27,000.00	27,000.00	0%
<b>Unbudgeted</b>		68,359.96	88,931.81	23%
<b>DM Investment Inc</b>	2,164.46	3,144.07	2,923.61	-8%
<b>Total Other Income</b>	91,744.72	98,504.03	118,855.42	17%
<b>Net Other Income</b>	91,744.72	98,504.03	118,855.42	17%
<b>Net Income</b>	37,832.47	15,373.75	10,417.31	-48%

# System Dynamics Society

## (8) Investments-at-a Glance

### 1. Investment Goals and Designated Net Assets for the System Dynamics Society

		Goal Amounts as of Jun 30, prev year		Designated Net Assets as of Dec 31st each year	
		for 2015	for 2016	2014, Actual	2015, Est.
<b>Reserves for Rainy Day Expenses</b>					
	Capital Reserve	500,000	500,000	281,903	354,970
	Executive Director's Salary Reserve	109,977	113,136	109,977	113,136
	Operating Surplus/ "Buffer Funds"	100,000	100,000	100,000	100,000
<b>Sub-total Reserves-Rainy Day</b>		<b>\$709,977</b>	<b>\$713,136</b>	<b>\$491,880</b>	<b>\$568,106</b>
<b>Reserves Budgeted for Operating Expenses</b>					
	Chapter/Field Development Fund	400,000	400,000	400,000	400,000
	Jay Wright Forrester Award	100,000	100,000	100,000	100,000
	Dana Meadows Award*	92,242	92,242	104,500	117,205
	PhD Luncheon	20,000	20,000	20,000	20,000
<b>Sub-total Reserves-OpExp</b>		<b>\$612,242</b>	<b>\$612,242</b>	<b>\$624,500</b>	<b>\$637,205</b>
<b>Fair Value of Financial Instruments at year end**</b>		<b>\$1,322,219</b>	<b>\$1,325,378</b>	<b>\$1,116,380</b>	<b>\$1,205,311</b>

\*Classed as Temporarily Restricted Net Asset

\*\*Previously Total Assests/Equity

### 2. 2015 Budget expense items designated for support from Investment Income

Jay W. Forrester Award	\$6,000
Dana Meadows Award	\$2,000
PhD Luncheon	\$1,000
Chapter/Field Development Fund	\$20,000
TOTAL	<b>\$29,000</b>

### 3. Investment Income for the year ended December 31, 2014

See CPA report, page 3--note (3)

**\$91,745**