

To: Policy Council of the System Dynamics Society
From: David Andersen, VP Finance
Subject: VP Finance Report for July, 2006
Date: July 3, 2006

As was the case last year, I organize my report this year around four documents—(1) Key trends from 1984 to the present, (2) The proposed budget for 2007, (3) The proposed budget for 2007 by cost center, and (4) CPA Reviewed Financial Statements for 2005.

Key Trends in Society Finances 1984 to Present

When I look at this time series, I note several important trends around an overall growth in almost all variables:

Unrestricted Assets Have Passed \$450,000. In the past two years, the Society's unrestricted assets have shot up noticeably. I believe that this growth is due to two significant changes—(1) A tightening of policies around conferences, and (2) Our changed financial arrangements with Wiley.

Continued Volatility in Income and Expenditures. While the contract with the University at Albany is stabilizing, overall income and expenditures at least since 1996 have shown swings, representing a complex mix of home office activities to grow the Society. This year, I am not worried about these swings because our asset base is sufficient to absorb any shock from a bad year.

Proposed Budget System Dynamics Society 2007 (with Cost Centers)

I have highlighted several lines on this budget in **red** to draw your attention to some important things that are going on this year with the proposed budget for 2007.

Net Ordinary Income. I project that in 2007, the Society's retained earnings will rise by 998% to \$21,483. With the exception of 2005, a year that contained a number of one time adjustments, this is the largest surplus that I have ever projected for the Society. This is good news 😊.

Total INC Conferences. The overall Society budget for 2007 assumes that 600 persons will attend the 50th anniversary conference at a fee of US \$ 425 for a regular member.

Total EXP Conferences (Unduplicated in Society Budget). This line shows the largest growth in the expenditure side of the budget, reflecting strong anticipated growth in the expenditures for the 2007 conference. I trace this growth to plans for a special conference both in terms of attendance and amenities to mark the 50th anniversary of the field.

Investment Income. The 2007 budget shows a projected income from our investments at \$26,000, up 420% from the budgeted amount for 2006. If anything, I believe that this is a conservative projection of investment growth.

The contract with the University at Albany is level at \$203,000. We presently have two full time employees at the University at Albany, some incidental expenses, and room in the budget to hire a graduate assistant. I expect this staffing pattern to continue. This contract amount does not include a growing amount of support under the “professional services” line. Actual expenditures at UAlbany this year will be closer to \$217,000, but we have held down the contract amount because Albany’s accounts are carrying a surplus that has built up over the past several years.

Professional Fees. Between 2006 and 2007, we expect that professional fees will grow by about 27%. These additional professional fees to a large degree are being used to pay for additional staff working with the home office. These staff members are not University at Albany employees.

Staff Salary Market Adjustment. This line was new in 2005. It implements a policy designed to bring staff salaries more in line with what they would be paid on an open market. This year we paid out about \$11,000 in such adjustments to our staff based on the Society’s performance in 2005. This budget line will allow us to make similar payments in 2007 for Society and staff performance in 2006, if they are deemed warranted.

Net Income by Cost Centers. This line of figures indicates that for 2007, a slightly modified pattern of cross-subsidies emerged. In 2007, I project that core operations will be a self-sustaining cost center due primarily to the revised dues arrangements with Wiley. As has been the case in the past, web and publications cost centers will continue to be subsidized by conferences and sales of products. The overall fiscal health of the Society continues to be linked to the financial performance of our annual research conference as well as to how many beer boards (and other products) we manage to sell.

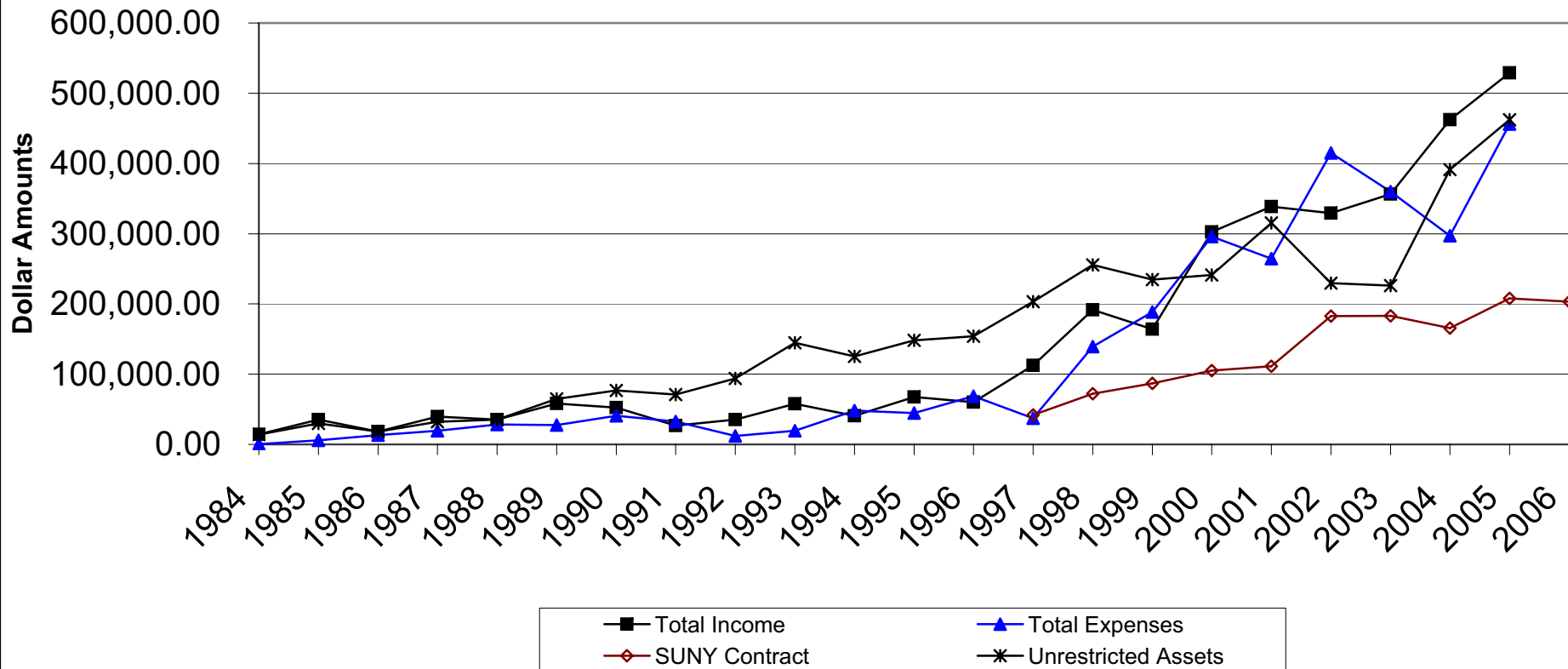
Reviewed Financial Statements for the Years Ended December 31 2003 and 2004.

Each year our accountants, Hall, Vasil, & Dowd review our financial statements. I present below their report to the Policy Council. These figures differ somewhat from the figures that I presented last February because my unaudited figures failed to show the Dana Meadows Fund as restricted assets. With this correction plus a number of technical adjustments the Society’s books match these audited statements. Overall, our accountant is tickled pink by the record keeping procedures and practices of the home office.

Attachments

1. Key Trends in Society Finances, 1984 to Present
2. Proposed Budget System Dynamics Society for 2007
3. Proposed Budget System Dynamics Society for 2007 By Cost Center
4. Auditor’s Review of System Dynamics Society Financial Statements for the Years Ended December 31, 2005 and 2004

Key Trends in Society Finances 1984 to Present



| | 2005 actual | 2006 Budget approved | 2007 Budget proposed | % Change |
|---|----------------|-------------------------|-------------------------|-------------|
| Income | | | | |
| DMA Endow. Fund Camp. | 34,125 | 0 | 0 | 0% |
| Products | 109,282 | 113,000 | 105,251 | -7% |
| Total INC Conferences | 219,255 | 195,000 | 243,584 | 25% |
| Investment Income | 16,733 | 5,000 | 26,000 | 420% |
| Net Membership Dues | 109,272 | 54,407 | 55,463 | 2% |
| Income from Wiley/Journal | 12,479 | 37,643 | 39,537 | 5% |
| Shipping and Handling | 18,624 | 16,950 | 17,109 | 1% |
| Publications Sales | 2,839 | 5,000 | 500 | -90% |
| Sponsor Dues and Donations | 35,952 | 25,000 | 27,962 | 12% |
| Conversion from Accrual to Cash | 392 | 0 | -722 | NA |
| Total Income | 558,953 | 452,000 | 514,684 | 14% |
| Cost of Goods Sold | | | | |
| Proceedings | 775 | 2,000 | 1,992 | 0% |
| Bibliography Update Expense | 333 | 500 | 500 | 0% |
| Literature Collection | 0 | 1,000 | 0 | -100% |
| Management Game | 20,852 | 25,000 | 20,963 | -16% |
| PhD Seminar in System Dynamics | 162 | 1,500 | 0 | -100% |
| Reprint Outdated SDR/Proceedings | 7,942 | 200 | 1,500 | 650% |
| Total COGS | 30,062 | 30,200 | 24,955 | -17% |
| Gross Profit | 528,891 | 421,800 | 489,729 | 16% |
| Expense | | | | |
| Awards | 5,494 | 7,000 | 7,000 | 0% |
| Bank Adjustments (Expense) | 656 | 800 | 605 | -24% |
| Contract w/ UAlbany | | | | |
| Office Expenses through UAlbany | | 19,550 | 19,000 | -3% |
| IFR Indirect Costs | | 18,284 | 18,040 | -1% |
| Salaries & Fringe | | 182,837 | 180,402 | -1% |
| Adjustments from Previous Year | | -17,316 | -14,086 | -19% |
| Total Contract w/ UAlbany | 207,855 | 203,355 | 203,356 | 0% |
| Credit card fees | 11,444 | 9,638 | 10,844 | 13% |
| Depreciation Expense | 697 | 1,500 | 1,209 | -19% |
| Electronic Presence Support | 0 | 500 | 520 | 4% |
| Total EXP Unduplicated in Society Budget | 72,291 | 99,117 | 125,744 | 27% |
| Journal Expense | 12,000 | 12,000 | 12,000 | 0% |
| Membership Directory Exp | 1,526 | 2,000 | 2,000 | 0% |
| Membership Services (Newsletter) | | 0 | 1,000 | NA |
| Membership Subsidies | | 2,250 | 2,517 | 12% |
| Miscellaneous Exp.(MA fees, gifts) | 25,000 | 150 | 150 | 0% |
| Office Equipment Purchases | | 10,000 | 5,000 | -50% |
| Officer Expenses | 7,748 | 3,000 | 8,000 | 167% |
| Phone, Fax, E-mail Services | | 25 | 0 | -100% |
| Printing & Duplicating | 5,152 | 3,000 | 4,272 | 42% |
| Professional Fees | 46,349 | 40,509 | 51,471 | 27% |
| Shipping /Postage Expense | 14,068 | 13,000 | 15,705 | 21% |
| Staff Expenses (training) | | 0 | 5,000 | NA |
| Staff Salary Market Adjustment | 9,667 | 11,000 | 10,854 | -1% |
| Supplies | 1,860 | 1,000 | 1,000 | 0% |
| Total Expense | 421,806 | 419,844 | 468,245 | 12% |
| Net Ordinary Income | 107,085 | 1,956 | 21,483 | 998% |
| Other Income/Expense | | | | |
| Restricted DMA Donations and Interest E | -34,125 | | | |
| Net Income | 72,960 | | | |

**Proposed Budget SYSTEM DYNAMICS SOCIETY 2007
by Cost Centers**

7/3/2006

| | 2007 Proposed | Conferences | Core | Web | Publications | Sales |
|---|------------------|-------------|---------|---------|--------------|---------|
| Income | | | | | | |
| DMA Endow. Fund Camp. | 0 | | | | | |
| Products | 105,251 | | | | | 105,251 |
| INC Conferences | | | | | | |
| Total INC Conferences | 243,584 | 243,584 | 0 | 0 | 0 | 0 |
| Investment Income | 26,000 | | 26,000 | | | |
| Membership Dues | 55,463 | | 55,463 | | | |
| Income from Wiley/Journal | 39,537 | | 30,537 | | 9,000 | |
| Shipping and Handling | 17,109 | | | | | 17,109 |
| Publications Sales | 500 | | | | 500 | |
| Sponsor Dues and Donations | 27,962 | | 27,962 | | | |
| Conversion from Accrual to Cash | -722 | | -722 | | | |
| Total Income | 514,684 | 243,584 | 139,240 | 0 | 9,500 | 122,360 |
| Cost of Goods Sold | | | | | | |
| Proceedings | 1,992 | | | | | 1,992 |
| Bibliography Update Expense | 500 | | | | | 500 |
| Fireside Chat | 0 | | | | | 0 |
| Literature Collection | 0 | | | | | 0 |
| Management Game | 20,963 | | | | | 20,963 |
| PhD Seminar in System Dynamics | 0 | | | | | 0 |
| Reprint Outdated SDR/Proceedings | 1,500 | | | | 1,500 | |
| Total COGS | 24,955 | 0 | 0 | 0 | 1,500 | 23,455 |
| Gross Profit | 489,729 | 243,584 | 139,240 | 0 | 8,000 | 98,905 |
| Expense | | | | | | |
| Awards | 7,000 | | 7,000 | | | |
| Bank Adjustments (Expense) | 605 | | 302 | | | 302 |
| Contract w/ UAlbany | 0 | | | | | |
| Office Expenses through UAlbany | 19,000 | 7,340 | 7,838 | 2,470 | 385 | 967 |
| IFR Indirect Costs | 18,040 | 6,969 | 7,442 | 2,345 | 366 | 918 |
| Salaries & Fringe | 180,402 | 69,690 | 74,421 | 23,448 | 3,660 | 9,182 |
| Ajustments from Previous Year | -14,086 | -5,442 | -5,811 | -1,831 | -286 | -717 |
| Total Contract w/ UAlbany | 203,356 | 78,557 | 83,891 | 26,432 | 4,125 | 10,350 |
| Credit card fees | 10,844 | | 5,314 | | 108 | 5,422 |
| Depreciation Expense | 1,209 | 467 | 499 | 157 | 25 | 62 |
| Electronic Presence Support | 520 | | | 520 | | |
| Total EXP Unduplicated in Society Budget | 125,744 | 125,744 | | | | |
| Journal Expense | 12,000 | | | | 12,000 | |
| Membership Directory Exp | 2,000 | | | | 2,000 | |
| Membership Services (Newsletter) | 1,000 | | 1,000 | | | |
| Membership Subsidies | 2,517 | | 2,517 | | | |
| Miscellaneous Exp.(MA fees, gifts) | 150 | | 150 | | | |
| Office Equipment Purchases | 5,000 | | | 5,000 | | |
| Officer Expenses | 8,000 | | 4,800 | | 3,200 | |
| Printing & Duplicating | 4,272 | | 1,709 | | 854 | 1,709 |
| Professional Fees | 51,471 | 15,884 | 17,234 | 6,690 | 1,044 | 10,620 |
| Shipping /Postage Expense | 15,705 | | 628 | | 628 | 14,448 |
| Staff Expenses | 5,000 | 1,932 | 2,063 | 650 | 101 | 254 |
| Staff Salary Market Adjustment | 10,854 | 4,193 | 4,478 | 1,411 | 220 | 552 |
| Supplies | 1,000 | | 1,000 | | | |
| Total Expense | 468,245 | 226,777 | 132,583 | 40,859 | 24,307 | 43,720 |
| Net Income | 21,483 | 16,807 | 6,657 | -40,859 | -16,307 | 55,185 |

THE SYSTEM DYNAMICS SOCIETY, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

THE SYSTEM DYNAMICS SOCIETY, INC.
REPORT ON REVIEW OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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Policy Council
The System Dynamics Society, Inc.
Albany, New York

We have reviewed the accompanying statements of assets, liabilities, and net assets – modified cash basis of The System Dynamics Society, Inc., as of December 31, 2005 and 2004 and the related statements of revenues, expenses, and other changes in net assets – modified cash basis and statements of cash flows – modified cash basis for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of The System Dynamics Society, Inc.

A review consists principally of inquiries of Society personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based upon 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 conformity with the modified cash basis of accounting, as described in Note B.

Certified Public Accountants

June 20, 2006

THE SYSTEMS DYNAMICS SOCIETY, INC.
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS -
MODIFIED CASH BASIS
DECEMBER 31, 2005 AND 2004

| | <u>2005</u> | <u>2004</u> |
|--|-------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 132,259 | \$ 243,395 |
| Money market mutual funds | 16,064 | 131,931 |
| Marketable securities | <u>380,414</u> | <u>35,481</u> |
| Total current assets | <u>528,737</u> | <u>410,807</u> |
| PROPERTY | | |
| Furniture and equipment | 11,046 | 11,046 |
| Less: Accumulated depreciation | <u>(10,690)</u> | <u>(9,993)</u> |
| | <u>356</u> | <u>1,053</u> |
| OTHER ASSETS | | |
| Cash - reserved | <u>28,947</u> | <u>29,439</u> |
| Total assets | <u>\$ 558,040</u> | <u>\$ 441,299</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Conference scholarship awards payable | \$ 1,060 | 1,285 |
| Prepaid travel | - | 3,054 |
| Royalty payable | 5,000 | - |
| Memberships subscriptions payable | <u>23,190</u> | <u>14,640</u> |
| Total current liabilities | 29,250 | 18,979 |
| NET ASSETS | | |
| Unrestricted - General fund | \$ 462,262 | \$ 391,354 |
| Permanently restricted | <u>66,528</u> | <u>30,966</u> |
| | <u>528,790</u> | <u>422,320</u> |
| Total net assets | <u>\$ 558,040</u> | <u>\$ 441,299</u> |

See accompanying notes and accountants' report.

THE SYSTEMS DYNAMICS SOCIETY, INC.
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| Changes in unrestricted net assets | | |
| Revenues and gains | | |
| Conference | \$ 146,964 | \$ 213,974 |
| Bibliographies and teaching games | 88,222 | 99,871 |
| Donations | 35,952 | 32,190 |
| Membership dues and subscriptions | 109,272 | 49,402 |
| Prepaid postage | 18,624 | 20,157 |
| Interest and dividends | 11,257 | 3,443 |
| Publications | 6,440 | 8,391 |
| Unrealized (loss)/gain on securities | 5,476 | 2,685 |
| Miscellaneous | 269 | 264 |
| Total unrestricted revenues and gains | <u>422,476</u> | <u>430,377</u> |
| Expenses and losses | | |
| Administration | 207,855 | 165,788 |
| Bank fees | 12,100 | 19,571 |
| Depreciation | 697 | 1,011 |
| Donations | 25,000 | - |
| Grants | 5,494 | 5,560 |
| Membership mailings | 1,526 | 1,718 |
| Membership subsidies | - | 2,430 |
| Office expenses | 1,860 | 762 |
| Professional fees | 56,016 | 33,758 |
| Publications | 17,152 | 16,510 |
| Shipping and postage | 14,068 | 14,794 |
| Travel | 7,748 | 3,121 |
| Total expenses and losses | <u>349,516</u> | <u>265,023</u> |
| INCREASE IN UNRESTRICTED NET ASSETS | 72,960 | 165,354 |
| Changes in permanently restricted net assets | | |
| Revenues and gains | | |
| Donations | 34,125 | 31,528 |
| Unrealized (loss) on securities | (615) | (561) |
| INCREASE IN PERMANENTLY RESTRICTED NET ASSETS | <u>33,510</u> | <u>30,967</u> |
| NET ASSETS - beginning of year | <u>422,320</u> | <u>225,999</u> |
| NET ASSETS - end of year | <u>\$ 528,790</u> | <u>\$ 422,320</u> |

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2005 AND 2004

| | 2005 | 2004 |
|--|------------|------------|
| Cash flows from operating activities | | |
| Cash received | \$ 439,868 | \$ 441,941 |
| Cash paid to suppliers and employees | (338,548) | (265,253) |
| Interest and dividends | 11,257 | 3,751 |
| Net cash provided by operating activities | 112,577 | 180,439 |
| Cash flows from investing activities | | |
| Capital expenditures | - | |
| Acquisition of available for sale securities | (223,713) | |
| Net cash (used) in investing activities | (223,713) | 0 |
| Net increase (decrease) in cash | (111,136) | 180,439 |
| Cash beginning of year | 243,395 | 62,955 |
| Cash at end of year | \$ 132,259 | \$ 243,394 |

Reconciliation of increase in net assets
provided by operating activities

| | |
|--|------------|
| Increase in net assets | \$ 106,470 |
| Adjustments to reconcile net income to net cash provided by operating activities | |
| Add: Depreciation | 697 |
| Add: increase in accounts payable | 10,271 |
| Less: Realized gain | (4,861) |
| Total adjustments | 6,107 |
| Cash provided by operating activities | \$ 112,577 |

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

A. Organization

The System Dynamics Society, Inc., incorporated on November 7, 1985, as an international non-profit corporation, was organized to encourage the development and use of system dynamics in solving problems in such areas as environmental change, economic development, social unrest, urban decay, psychology, and physiology.

B. Significant Accounting Policies

1. Basis of accounting – The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Non-cash transactions are recognized in the financial statements.

The modified cash basis differs from generally accepted accounting principles primarily due to the effects of accounts receivable and accounts payable not being reflected in the accompanying financial statements. In addition to recording cash receipts and disbursements, the Society records property acquisitions as fixed assets and records the corresponding depreciation over the useful life of the assets. The Society records the acquisition of investments (money market mutual funds, U. S. Treasury notes, and marketable securities) as assets and recognizes the unrealized gain or loss on the value of the investments due to market fluctuations. The Society accrues conference scholarships payable, prepaid travel and membership subscriptions payable, rather than recording these as income in the period received.

2. Income taxes – The Society qualifies under IRS Section 501(c) (3) as an organization exempt from federal taxation on income related to its stated purpose.
3. Property and equipment and depreciation – Property and equipment are recorded at cost. Depreciation is computed using accelerated methods over the estimated useful lives of the assets.
4. Use of estimates – The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005 AND 2004

B. Significant Accounting Policies (Continued)

5. Basis of presentation – In 1995, the Organization adopted Statement of Financial Accounting Standards No. 116, “Accounting for Contributions Received and Contributions Made” and Statement of Financial Accounting Standards No. 117, “Financial Statements for Not-for-Profit Organizations.” Under these standards, net assets and revenues and expenses are classified on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are all classified and reported according to the level of restriction imposed by donors into either “unrestricted” or “permanently restricted” categories.
6. Restricted and unrestricted income – Contributions received are recorded as increases in unrestricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.
7. Administrative expenses – The Society has a contract with the University of New York at Albany for administrative support services. In 2005 and 2004 the Society paid \$207,855 and \$165,788, respectively, to the University for the necessary support service.
8. Cash and cash equivalents – The Society maintains operating cash balances at one bank. The account at this institution is insured by the Federal Deposit Insurance Corporation up to \$100,000. The Society also maintains a money market mutual fund account at an investment company, with balances insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation.

C. Certificate of Deposit

A certificate of deposit totaling \$28,947 is included in cash (Other Assets) in the accompanying financial statements. The certificate bears interest of 5.0% and has a maturity date of November 2014, callable in May 2006, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

THE SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2005 AND 2004

D. Marketable Debt and Equity Securities

Cost and fair value marketable debt and equity securities at December 31, 2005 are as follows:

| Available for sale: | <u>Cost</u> | Unrealized Appreciation (Depreciation) | <u>Fair Value</u> |
|-------------------------------------|------------------|--|-----------------------|
| Money market funds-unrestricted | \$16,064 | \$ 0 | \$16,064 |
| Stock/bond mutual fund-unrestricted | 333,205 | 5,512 | 338,717 |
| Stock equities-unrestricted | 4,122 | (35) | 4,087 |
| Certificate of deposit-restricted | <u>30,000</u> | <u>(1,053)</u> | <u>28,947</u> |
| | <u>\$383,391</u> | <u>\$4,424</u> | <u>\$387,815</u> |

E. Restrictions on Net Assets

In 2005, the Society's Policy Council voted to raise funds to endow the System Dynamics Society's Dana Meadows Award, given for the best work presented by students at the annual Society conference. These funds are permanently restricted, with only the investment earnings used for the annual awards. During the years ended December 31, 2005 and 2004, the Society raised gross donations of \$34,125 and \$31,528, respectively.