

To: Policy Council of the System Dynamics Society  
From: David Andersen, VP Finance  
Subject: VP Finance Narrative Report for July, 2007  
Date: July 22, 2007

*Summary: The Society is on a stable financial footing. While all of our operations are not yet sustainable from dues and conference activities, the continuing hustle and entrepreneurial spirit of our home office staff continues to keep us healthy by selling products and sustaining sponsor support for the Society. A healthy reserve of net unrestricted assets (\$555,829) both protects us from immediate financial crashes and provides us with over \$45,000 in support for our annual operations.*

I organize my report this year around six documents that have been previously posted on the web and are attached to this report: (1) Key Trends in Society Finances 1984 to Present, (2) 2008 Proposed Budget SYSTEM DYNAMICS SOCIETY, (3) Proposed Budget by Cost Centers SYSTEM DYNAMICS SOCIETY, (4) THE SYSTEM DYNAMICS SOCIETY, INC. FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (statements from our CPA), (5) System Dynamics Society Profit & Loss Budget Comparison (unaudited) January through December 2006 (reposted from winter PC meeting), and (6) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited), As of December 31, 2006 (reposted from winter PC meeting).

### **(1) Key Trends in Society Finances 1984 to Present.**

When I look at these graphs, I see several trends that have been in place for some time: (A) Considerable variability in Total Income and Total Expenses exists due primarily to differential performance of the annual conference;(B) Unrestricted Assets have taken a sharp turn upward since the modification on our dues arrangements with Wiley and an upturn in the equities market, and (C) The SUNY Contract now looks flat (but that figure masks a growth in administrative costs in other parts of the budget, especially “Professional Services”)

### **(2) 2008 Proposed Budget SYSTEM DYNAMICS SOCIETY.**

The 2008 Proposed Budget is unremarkable when compared to both our actual performance in 2006 (the last year for which complete data is available) and our budgeted performance for 2007, indicating a kind of overall healthy steady state at this point in time. We have made some beneficial changes in our investment policies at the same time that the equity markets seem to have taken off, so we can not say for sure if we are making wiser use of our funds or are just the beneficiaries of better financial times. I would like to think that our better investment policies are causing the markets to perform better☺.

### **(3) Proposed Budget by Cost Centers SYSTEM DYNAMICS SOCIETY**

I always find these views by cost center to be the most interesting way to look at the Society’s finances. For those who are looking at finances for the first time, the Proposed Budget by Cost

Centers shows a now familiar pattern. With the changed relationship with Wiley around dues and with increased membership in the Society coupled to better performance of our unrestricted assets, our core operations are now just about self-sustaining—a welcome change from the past. In addition, our conferences and strong sales programs (the \$109,366 in product sales is still made up primarily of Beer Game Sales—how long can world-wide demand for the Beer Game persist?) continue to subsidize Publications and Web operations.

It is important to note that the “Conferences” cost center will never match the budget for any particular conference for two reasons. First, the Society-wide conferences cost center includes both costs and incomes from conferences that take place over a multi-year period. At any point in time the home office is both wrapping up a past conference, working on a current conference, and planning ahead for one or more future conferences. Second, my conference cost center charges the conferences for their fair share of some expenses that typically do not make it into the conference budgets. For example, my budget charges the conference cost center \$2,357 for Staff Expenses (training) and \$5,296 for the conference fair share of the Staff Salary Market Adjustment.

#### **(4) THE SYSTEM DYNAMICS SOCIETY, INC. FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (statements from our CPA).**

The annual financial statements from our CPA firm are not full audits, rather reviews of our books. This year, our CPA has changed, making the reports a bit different from in the past (for example, there have been some minor category changes made retroactive to 2005). I think that the narrative statements by our CPA make interesting reading and give a solid narrative overview of a number of areas of Society operations. I urge you to read these statements with interest and care this year.

This year for the first time ever, the profit and loss statements as well as the balance sheets posted for the Policy Council at the winter PC meeting varied quite a bit from these reviews given by our CPA. The basic reason is that the electronic version of our winter PC meeting started earlier this year and I posted reports before the entire end-of-year book keeping had been completed. This caused a number of categories (especially our investments and the final reckoning for the Nijmegen conference) to be out of line. Consequently, I have reposted the reports that we get from the Society’s books, now within a dollar or two of those released by our CPA.

#### **(5) System Dynamics Society Profit & Loss Budget Comparison (unaudited) January through December 2006 (reposted from winter PC meeting)**

When all is said and done, 2006 turned out to be even more profitable than what I had reported back in January, due in a large part to very strong performance of our assets on the equity markets and stronger than predicted financial performance by the 2006 Nijmegen conference (the final conference numbers were not available when I posted my original balance sheet for 2006). Here are some more of the “line-by-line” specifics:

**Investment Income (+\$43,417).** The equity markets were good to us in (and to everyone else) in 2006.

**Journal Income + Membership Dues + Other Income (\$9363 + \$24172 – 37,479 = \$-3944).** I lump these three lines together because they represent places where our incomes from Wiley have been accounted for. Each of these lines appear to be far from budget, but when combined, our overall income from Wiley was relatively close to what had been budgeted (off by \$3944).

**Sponsor Dues and Donations (+\$15,284).** Our Home Office works very hard at maintaining good relationships with our sponsors and it shows in this line in the budget. I am hesitant each year to increase this line in the budget because it presumes rather than earns sponsor support.

**EXP Conferences (\$-17,627).** The final books for Nijmegen closed after January 1, 2007 and I am now pleased to report that Etienne and Jac did a better than anticipated job in keeping down conference expenses. Thank you to Nijmegen!

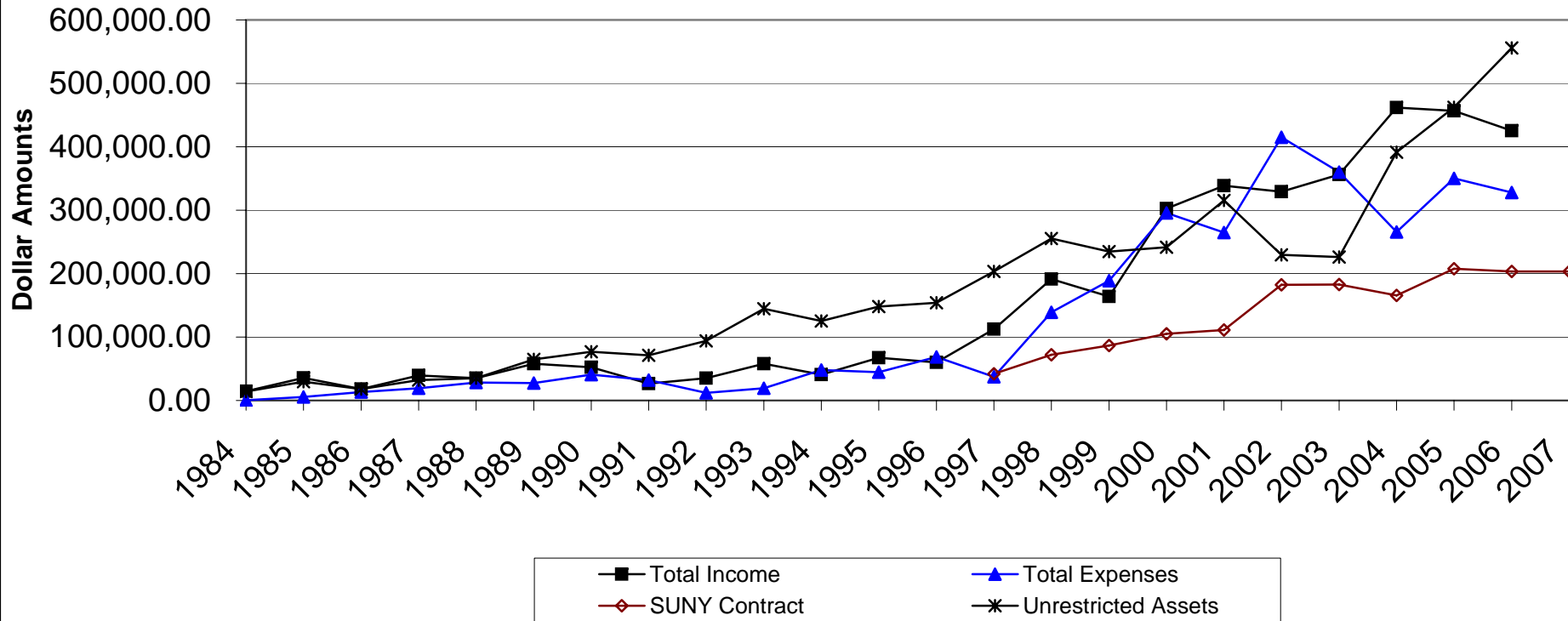
**Office Equipment Purchases (\$-10,000).** 2006 was the year when the Home Office moved into new offices at the University at Albany due to a renovation project. We had sequestered funds in a University “Income Fund Reimbursable” (IFR) account and we were able to use some of those funds to purchase new computing equipment. This is a good deal for the Society because computing equipment purchased with this type of funds is supported by the University’s IT Services unit. The surplus in the IFR account arose because we had budgeted for a Graduate Assistant to work with the Home Office but had not filled that position for several years. I should say that University IFR accounting is a bit complicated and I make additional reports on the IFR account each year to the Society’s Administrative Committee.

**Professional Fees (\$+7,064).** The relatively stable level of the administrative contract with the University at Albany since 2002 has masked growth in administrative expenses primarily located in this “Professional Fees” line. This line carries expenses for our CPA and book keeper, but also pays for the services of Joan Yanni (who supports much of our Sales operations) and Robin Langer (whose invaluable assistance is across the board in many areas, but I especially appreciate her help with our financial matters). In 2008 I have budgeted Professional Fees at \$64,596.

## **(6) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited), As of December 31, 2006 (reposted from winter PC meeting).**

The System Dynamics Society operates on a modified cash basis. We do depreciate our durable assets (such as computer equipment), maintain restricted funds to support the Dana Meadows Fund, and maintain some liability accounts that help to manage our funds. This year our CPA made some retroactive changes to our accounting categories so that their report could more accurately reflect some of these practices. I am pleased to report the bottom line for the Society’s books match those from our CPA review to within one dollar. I would like to thank Robin Langer for all her work reconciling these reports.

# Key Trends in Society Finances 1984 to Present



2008 Proposed Budget SYSTEM DYNAMICS SOCIETY  
(previous year comparison and % increase/decrease)

7/11/2007

	2006 actual (unaudited)	2007 Budget approved	2008 Budget proposed	% Change
<b>Income</b>				
DMA Endow. Fund Camp.	100			
Products	106,914	105,251	109,366	4%
<b>Total INC Conferences</b>	<b>214,907</b>	<b>243,584</b>	<b>244,708</b>	0%
Investment Income	51,235	26,000	47,168	81%
Net Membership Dues	78,579	55,463	51,290	-8%
Income from Wiley/Journal	9,363	39,537	42,107	7%
Shipping and Handling	20,191	17,109	21,873	28%
Publications Sales	7,546	500	2,721	444%
Sponsor Dues and Donations	40,284	27,962	28,896	3%
Conversion from Accrual to Cash	3,185	-722		-100%
<b>Total Income</b>	<b>532,304</b>	<b>514,684</b>	<b>548,131</b>	6%
<b>Cost of Goods Sold</b>				
Proceedings		1,992	750	-62%
Bibliography Update Expense		500	500	0%
Literature Collection				N/A
Management Game	25,480	20,963	21,084	1%
PhD Seminar in System Dynamics	8,288			N/A
Reprint Outdated SDR/Proceedings		1,500	8,000	433%
<b>Total COGS</b>	<b>33,768</b>	<b>24,955</b>	<b>30,334</b>	22%
<b>Gross Profit</b>	<b>498,536</b>	<b>489,729</b>	<b>517,797</b>	6%
<b>Expense</b>				
Awards	5,086	7,000	7,000	0%
Bank Adjustments (Expense)	281	605	800	32%
<b>Contract w/ UAlbany</b>				
Office Expenses through UAlbany		19,000	22,507	18%
IFR Indirect Costs		18,040	19,111	6%
Salaries & Fringe		180,402	191,109	6%
Other				
Adjustments from Previous Year		(14,086)	(29,371)	109%
<b>Total Contract w/ UAlbany</b>	<b>203,355</b>	<b>203,356</b>	<b>203,356</b>	0%
Credit card fees	11,378	10,844	13,411	24%
Depreciation Expense	273	1,209	1,500	24%
Electronic Presence Support	428	520	1,500	188%
<b>EXP Conferences outside Alb.contract</b>				
Other Expenses from Home Office				
<b>Total EXP Unduplicated in Society Budget</b>	<b>81,490</b>	<b>125,744</b>	<b>105,063</b>	-16%
Foreign Taxes	70			N/A
Journal Expense	12,000	12,000	12,000	0%
Membership Directory Exp	1,800	2,000	2,000	0%
Membership Services (Newsletter)	1,165	1,000	1,218	22%
Membership Subsidies		2,517	3,000	19%
Miscellaneous Exp.(MA fees, gifts)	416	150	150	0%
Office Equipment Purchases		5,000	7,500	50%
Officer Expenses	6,633	8,000	8,000	0%
Printing & Duplicating	2,010	4,272	4,000	-6%
Product Development	528	0	1,000	N/A
Professional Fees	58,573	51,471	64,596	25%
Shipping /Postage Expense	14,640	15,705	19,191	22%
Staff Expenses (training)		5,000	5,000	0%
Staff Salary Market Adjustment		10,854	11,234	3%
Supplies	921	1,000	2,000	100%
<b>Total Expense</b>	<b>401,046</b>	<b>468,247</b>	<b>473,518</b>	1%
<b>Net Ordinary Income</b>	<b>97,490</b>	<b>21,482</b>	<b>44,279</b>	106%
<b>Other: Restricted DMA Donations / Interest</b>	744	N/A	1,500	N/A
<b>Net Income</b>	<b>98,234</b>	<b>21,482</b>	<b>45,779</b>	113%

2008 Proposed Budget by Cost Centers  
SYSTEM DYNAMICS SOCIETY

7/11/2007

	2008 Proposed	Conferences	Core	Web	Publications	Sales
<b>Income</b>						
DMA Endow. Fund Camp.						
Products	109,366					109,366
<b>Total INC Conferences</b>	<b>244,708</b>	<b>244,708</b>				
Investment Income	47,168		47,168			
Net Membership Dues	51,290		51,290			
Income from Wiley/Journal	42,107		32,496		9,611	
Shipping and Handling	21,873					21,873
Publications Sales	2,721				2,721	
Sponsor Dues and Donations	28,896		28,896			
Conversion from Accrual to Cash						
<b>Total Income</b>	<b>548,131</b>	<b>244,708</b>	<b>159,851</b>		<b>12,332</b>	<b>131,240</b>
<b>Cost of Goods Sold</b>						
Proceedings	750					750
Bibliography Update Expense	500					500
Literature Collection						
Management Game	21,084					21,084
PhD Seminar in System Dynamics						
Reprint Outdated SDR/Proceedings	8,000				8,000	
<b>Total COGS</b>	<b>30,334</b>				<b>8,000</b>	<b>22,334</b>
<b>Gross Profit</b>	<b>517,797</b>	<b>244,708</b>	<b>159,851</b>		<b>4,332</b>	<b>108,906</b>
<b>Expense</b>						
Awards	7,000		7,000			
Bank Adjustments (Expense)	800		400			400
<b>Contract w/ UAlbany</b>						
Office Expenses through UAlbany	22,507	10,610	8,529	1,118	628	1,621
IFR Indirect Costs	19,111	9,009	7,242	950	533	1,377
Salaries & Fringe	191,109	90,093	72,419	9,496	5,334	13,768
Other						
Ajustments from Previous Year	-29,371	-13,846	-11,130	-1,459	-820	-2,116
<b>Total Contract w/ UAlbany</b>	<b>203,356</b>	<b>95,866</b>	<b>77,060</b>	<b>10,104</b>	<b>5,676</b>	<b>14,650</b>
Credit card fees	13,411		6,572		134	6,706
Depreciation Expense	1,500	707	568	75	42	108
Electronic Presence Support	1,500			1,500		
<b>Total EXP Unduplicated in Society Budget</b>	<b>105,063</b>	<b>105,063</b>				
Journal Expense	12,000				12,000	
Membership Directory Exp	2,000		2,000			
Membership Services (Newsletter)	1,218		1,218			
Membership Subsidies	3,000		3,000			
Miscellaneous Exp.(MA fees, gifts)	150		150			
Office Equipment Purchases	7,500	3,536	2,842	373	209	540
Officer Expenses	8,000		4,800		3,200	
Printing & Duplicating	4,000		1,600		800	1,600
Product Development	1,000					1,000
Professional Fees	64,596	14,600	41,380	1,973	2,021	4,621
Shipping /Postage Expense	19,191		768		768	17,655
Staff Expenses (training)	5,000	2,357	1,895	248	140	360
Staff Salary Market Adjustment	11,234	5,296	4,257	558	314	809
Supplies	2,000	943	758	99	56	144
<b>Total Expense</b>	<b>473,518</b>	<b>228,368</b>	<b>156,267</b>	<b>14,931</b>	<b>25,359</b>	<b>48,594</b>
<b>Net Ordinary Income</b>	<b>44,279</b>	<b>16,340</b>	<b>3,584</b>	<b>-14,931</b>	<b>-21,027</b>	<b>60,312</b>
Other: Restricted DMA Donations / Interest	1,500	1,500				
<b>Net Income</b>	<b>45,779</b>	<b>17,840</b>	<b>3,584</b>	<b>-14,931</b>	<b>-21,027</b>	<b>60,312</b>

THE SYSTEM DYNAMICS SOCIETY, INC.  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005

THE SYSTEM DYNAMICS SOCIETY, INC.  
REPORT ON REVIEW OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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# MURPHY~HALL & COMPANY

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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, 2006 and 2005 and the related statements of revenues, expenses, and other changes in net assets – modified cash basis, statements of functional expenses – 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 14, 2007

THE SYSTEMS DYNAMICS SOCIETY, INC.  
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS -  
MODIFIED CASH BASIS  
DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 150,573	\$ 132,148
Money market mutual funds	16,829	16,064
Marketable securities	457,997	342,833
Total current assets	625,399	491,045
PROPERTY		
Furniture and equipment	11,046	11,046
Less: Accumulated depreciation	(10,963)	(10,690)
	83	356
OTHER ASSETS		
Restricted marketable securities	41,198	37,581
Restricted certificate of deposit	29,143	28,947
	70,341	66,528
Total assets	\$ 695,823	\$ 557,929
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accrued expenses	\$ 32,536	1,060
Memberships subscriptions payable	32,068	23,190
Sales tax payable	49	-
Royalty payable	5,000	5,000
Total current liabilities	69,653	29,250
NET ASSETS		
Unrestricted - General fund	\$ 555,829	\$ 462,151
Permanently restricted	70,341	66,528
	626,170	528,679
Total net assets	\$ 695,823	\$ 557,929

See accompanying notes and accountants' report.

THE SYSTEMS DYNAMICS SOCIETY, INC.  
STATEMENTS OF REVENUES, EXPENSES, AND  
OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Changes in unrestricted net assets		
Revenues and gains		
Conferences	\$ 133,417	\$ 146,964
Bibliographies and teaching games	84,453	88,222
Donations	40,284	35,952
Membership dues and subscriptions	78,579	109,272
Prepaid postage	20,191	18,624
Interest and dividends	11,926	11,257
Publications	16,909	6,440
Unrealized gain on securities	34,095	5,476
Miscellaneous	166	269
Total unrestricted revenues and gains	<u>420,020</u>	<u>422,476</u>
Expenses		
Administration	203,355	207,855
Bank fees	11,659	12,100
Depreciation	273	697
Donations	-	25,000
Foreign taxes	70	-
Grants	5,086	5,494
Membership mailings and services	2,965	1,526
Office expenses	2,293	1,971
Professional fees	58,573	56,015
Publications	14,010	17,152
Seminars	8,288	-
Shipping and postage	14,638	14,069
Travel	6,633	7,748
Total expenses	<u>327,843</u>	<u>349,627</u>
INCREASE IN UNRESTRICTED NET ASSETS	92,177	72,849
Other changes in permanently restricted net assets		
Revenues and gains		
Donations	100	34,125
Interest and dividends	2,818	-
Unrealized gain/(loss) on securities	2,396	(615)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>5,314</u>	<u>33,510</u>
NET ASSETS - beginning of year	<u>528,679</u>	<u>422,320</u>
NET ASSETS - end of year	<u>\$ 626,170</u>	<u>\$ 528,679</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2006, WITH COMPARATIVE TOTALS FOR 2005

	<u>Program Services</u>	<u>Supporting Services</u>	<u>2006</u>	<u>2005</u>
<b>EXPENSES</b>				
Administration	\$ 101,677	\$ 101,678	\$ 203,355	\$ 207,855
Bank fees	-	11,659	11,659	12,100
Depreciation	-	273	273	697
Donations	-	-	-	25,000
Foreign taxes	-	70	70	-
Grants	5,086	-	5,086	5,494
Membership mailings	2,965	-	2,965	1,526
Office expenses	-	2,293	2,293	1,971
Professional fees	-	58,573	58,573	56,015
Publications	14,010	-	14,010	17,152
Seminars	8,288	-	8,288	-
Shipping and postage	11,710	2,928	14,638	14,069
Travel	-	6,633	6,633	7,748
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 143,736</u>	<u>\$ 184,107</u>	<u>\$ 327,843</u>	<u>\$ 349,627</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.  
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS  
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Cash received	\$ 372,781	\$ 439,868
Cash paid to suppliers and employees	(285,848)	(338,659)
Interest and dividends	14,744	11,257
Net cash provided by operating activities	<u>101,677</u>	<u>112,466</u>
Cash flows from investing activities		
Acquisition of available for sale securities	<u>(83,252)</u>	<u>(223,713)</u>
Net cash (used) in investing activities	(83,252)	(223,713)
Net increase (decrease) in cash	18,425	(111,247)
Cash beginning of year	<u>132,148</u>	<u>243,395</u>
Cash at end of year	<u><u>\$ 150,573</u></u>	<u><u>\$ 132,148</u></u>

Reconciliation of increase in net assets  
provided by operating activities

Increase in net assets	\$ 97,491
Adjustments to reconcile net income to net cash provided by operating activities	
Add: Depreciation	273
Add: Increase in accounts payable	40,404
Less: Unrealized gain	<u>(36,491)</u>
Total adjustments	<u>4,186</u>
Cash provided by operating activities	<u><u>\$ 101,677</u></u>

THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

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

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.

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.

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.

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.

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, 2006 AND 2005

B. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Administrative expenses – The Society has a contract with the University of New York at Albany for administrative support services. In 2006 and 2005 the Society paid \$203,355 and \$207,855, respectively, to the University for the necessary support service.

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. MARKETABLE DEBT AND EQUITY SECURITIES

Cost and fair value marketable debt and equity securities at December 31, 2006 are as follows:

Available for sale:	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
Money market funds-unrestricted	\$ 16,829	\$ 0	\$ 16,829
Stock/bond mutual fund-unrestricted	414,304	39,204	453,508
Stock equities-unrestricted	4,122	367	4,489
Certificate of deposit-restricted	30,000	(857)	29,143
Bond funds – restricted	<u>37,816</u>	<u>3,382</u>	<u>41,198</u>
	<u>\$503,071</u>	<u>\$42,096</u>	<u>\$545,167</u>

THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2006 AND 2005

D. 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. The Society established the endowment with two investment accounts and a certificate of deposit. The certificate bears interest at 5% and has a maturity date of November 2014, callable in May 2007, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. The balance in the certificate of deposit as of December 31, 2006 and 2005 was \$29,143 and \$28,947, respectively. During the years ended December 31, 2006 and 2005, the Society raised gross donations of \$100 and \$34,125, respectively.

E. RECLASSIFICATIONS

Certain reclassifications have been made to the 2005 financial statements to conform with 2006.



07/11/07  
 Accrual Basis

## System Dynamics Society Profit & Loss, Budget Comparison (unaudited) January through December 2006

	Jan - Dec 06	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
DMA Endow. Fund Camp.	100	0	100	100%
Products	106,748	113,000	-6,252	94%
INC Conferences	214,907	195,000	19,907	110%
DM Investment Inc	2,818			
Investment Income	48,417	5,000	43,417	968%
Journal Income	9,363			
Membership Dues	78,579	54,407	24,172	144%
Other Income	164	37,643	-37,479	0%
Publications Sales	7,546	5,000	2,546	151%
Shipping and Handling Income	20,191	16,950	3,241	119%
Sponsor Dues and Donations	40,284	25,000	15,284	161%
Vendor Collection Credit	2			
Conversion from Accrual to Cash	3,185	0	3,185	100%
<b>Total Income</b>	<b>532,304</b>	<b>452,000</b>	<b>80,304</b>	<b>118%</b>
<b>Cost of Goods Sold</b>				
Bibliography Update Expense	0	500	-500	0%
Fireside Chat	0	0	0	0%
Literature Collection	0	1,000	-1,000	0%
Management Game	25,480	25,000	480	102%
PhD Seminar in System Dynamics	8,288	1,500	6,788	553%
Proceedings	0	2,000	-2,000	0%
SD Review Reprints	0	200	-200	0%
Cost of Goods Sold	0			
<b>Total COGS</b>	<b>33,768</b>	<b>30,200</b>	<b>3,568</b>	<b>112%</b>
<b>Gross Profit</b>	<b>498,536</b>	<b>421,800</b>	<b>76,736</b>	<b>118%</b>
<b>Expense</b>				
Awards	5,086	7,000	-1,914	73%
Bank Adjustments (Expense)	281	800	-519	35%
Contract with Univ at Albany	203,355	203,355	0	100%
Credit card fees	11,378	9,638	1,740	118%
Depreciation Expense	273	1,500	-1,227	18%
Electronic Presence Support	428	500	-72	86%
EXP Conferences	81,490	99,117	-17,627	82%
Foreign Taxes	70			
Journal Expense	12,000	12,000	0	100%
Membership Directory Exp	1,800	2,000	-200	90%
Membership Services	1,165	0	1,165	100%
Membership Subsidies	0	2,250	-2,250	0%
Miscellaneous Expense	416	150	266	277%
Office Equipment Purchases	0	10,000	-10,000	0%
Officer Expenses	6,633	3,000	3,633	221%
Phone, Fax, E-mail Services	0	25	-25	0%
Printing & Duplicating	2,010	3,000	-990	67%
Product Development	528			
Professional Fees	58,573	51,509	7,064	114%
Shipping / Postage Expense	14,640	13,000	1,640	113%
Supplies	921	1,000	-79	92%
DM Exp reallocated to Core	0			
<b>Total Expense</b>	<b>401,046</b>	<b>419,844</b>	<b>-18,798</b>	<b>96%</b>
<b>Net Ordinary Income</b>	<b>97,490</b>	<b>1,956</b>	<b>95,534</b>	<b>4,984%</b>
<b>Net Income</b>	<b>97,490</b>	<b>1,956</b>	<b>95,534</b>	<b>4,984%</b>

**System Dynamics Society**  
**Balance Sheet, Prev Year Comparison (unaudited)**  
**As of December 31, 2006**

07/11/07

Accrual Basis

	Dec 31, 06	Dec 31, 05	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
<b>Checking/Savings</b>				
Bank of America (Fleet)	147,109	103,187	43,922	43%
Bank Paypal	2,813	2,594	219	8%
UBS Financial (was PaineWebber)	21,318	20,151	1,167	6%
Vanguard Society (88008478957)	453,508	338,717	114,791	34%
Travel Cash	650	179	471	263%
<b>Total Checking/Savings</b>	<b>625,398</b>	<b>464,828</b>	<b>160,570</b>	<b>35%</b>
<b>Accounts Receivable</b>				
Accounts Receivable	0	-280	280	100%
<b>Total Accounts Receivable</b>	<b>0</b>	<b>-280</b>	<b>280</b>	<b>100%</b>
<b>Other Current Assets</b>				
Refunds Receivable	0	45	-45	-100%
Transfers in Transit	0	25,556	-25,556	-100%
Undeposited Funds	0	632	-632	-100%
<b>Total Other Current Assets</b>	<b>0</b>	<b>26,233</b>	<b>-26,233</b>	<b>-100%</b>
<b>Total Current Assets</b>	<b>625,398</b>	<b>490,781</b>	<b>134,617</b>	<b>27%</b>
<b>Fixed Assets</b>				
Accumulated Depreciation	-10,963	-10,690	-273	-3%
Equipment	11,046	11,046	0	0%
<b>Total Fixed Assets</b>	<b>83</b>	<b>356</b>	<b>-273</b>	<b>-77%</b>
<b>Other Assets</b>				
UBS DM CD	29,143	28,947	196	1%
Vanguard DMA (88006930361)	41,198	37,580	3,618	10%
<b>Total Other Assets</b>	<b>70,341</b>	<b>66,528</b>	<b>3,814</b>	<b>6%</b>
<b>TOTAL ASSETS</b>	<b>695,822</b>	<b>557,664</b>	<b>138,157</b>	<b>25%</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
<b>Other Current Liabilities</b>				
Due from(to) ED	3	0	3	100%
Foreign Currency Checking	32,674	0	32,674	100%
Sales Tax Payable	49	0	49	100%
Advance on Journal Royalty	5,000	5,000	0	0%
Restricted Conf.Scholar/Awards	-140	1,060	-1,200	-113%
Membership Sub Payable 2005+	32,068	23,190	8,878	38%
Refunds Pending CLEARING	0	16	-16	-100%
<b>Total Other Current Liabilities</b>	<b>69,653</b>	<b>29,266</b>	<b>40,387</b>	<b>138%</b>
<b>Total Current Liabilities</b>	<b>69,653</b>	<b>29,266</b>	<b>40,387</b>	<b>138%</b>
<b>Total Liabilities</b>	<b>69,653</b>	<b>29,266</b>	<b>40,387</b>	<b>138%</b>
<b>Equity</b>				
Net Assets - Restricted (DMA)	70,341	66,528	3,814	6%
Net Assets - Unrestricted	458,337	356,230	102,108	29%
Net Income	97,490	105,641	-8,151	-8%
<b>Total Equity</b>	<b>626,168</b>	<b>528,398</b>	<b>97,770</b>	<b>19%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>695,822</b>	<b>557,664</b>	<b>138,157</b>	<b>25%</b>