

To: Policy Council of the System Dynamics Society
From: David Andersen, VP Finance
Subject: VP Finance Narrative Report for Fiscal Year 2009
Date: July 25, 2010

Summary: 2009 was a good year financially for the System Dynamics Society. We recovered most of our investment losses from 2008 and posted a net gain from the Albuquerque conference. We are in the midst of negotiating a new contract with Wiley-Blackwell for the publication of the System Dynamics Review and I expect that the new contract will move us further toward financial sustainability. The budget for 2011 anticipates that the Society will also close out 2011 with a net gain of \$64,382.

My report this year 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 2009? Overall, the net assets of the Society increased by \$90,545 in 2009, so we just about made up our losses from 2008. Our Investments gained \$103,461 and in 2009 the conference in Albuquerque posted an overall positive gain or \$28,756 and product sales of \$50,997 continued to support our overall financial position.

Impact of Revised Accounting Rules on Society Reports. For some activities, such as conferences and dues collections, the Society's accounts keep track of the year associated with that activity. For example, conference expenses for Seoul are tracked separately from conferences for Albuquerque and dues received for 2009 are segregated from dues collected for 2010. Since we now operate on an accrual rather than cash basis revenues and expenditures in the current year associated with an activity in the next year appear on the balance sheet as assets and liabilities not as current revenues and expenditures.

Impact of a possible new Wiley-Blackwell contract. I am expecting that by 2011 we will have signed a new contract with Wiley-Blackwell to publish the *System Dynamics Review*. I believe that the contract negotiating team did a good job coming to an agreement and the new contract will help the Society to move to a more sustainable financial footing.

The 2011 Society Budget does not contain a fully worked out budget for the 2011 conference. Again this year, I have not tried to integrate a complete budget for the Washington conference in 2011 into the overall Society budget. Instead, I have made the assumption that the conference will recover to the Society \$25,000 above any expenditures and efforts that the Society puts into the conference. A fully worked out conference budget needs to be reviewed by the policy council in some format other than the overall Society budget that I present here.

Data on Impact of Tiered Dues on Society Membership. I presented data on our membership profile for 2009 and the relative income from our new dues structure to the administrative committee for a second year. I see several things in this data. First, tiered dues has not yet led to

any a significant increase in the number of low income members for the Society—this is a yet to be attained goal of this program. Second, the new dues structure appears to generate slightly more revenue from a given cross-section of members, netting about \$4 less per low income member and about \$8 to \$17 more per high income member. That said, since 2007—the high point of Society membership—we have seen a slight decline in membership. I can not attribute this decline to our membership dues structure since it has taken place after the high point of our anniversary Boston conference and during a period of world-wide financial stress.

The Society Needs to Acquire Workers' Compensation, Disability, and Liability Insurance. We discovered this year that we could not process our contract with the University at Albany until we had acquired workers' compensation insurance. The Society retained the services of an attorney who agreed with this assessment and in addition recommended that the Society also purchase disability and liability insurance. I have budgeted up to \$5,000 for these new insurance needs in the 2011 budget. *The Policy Council should formally vote on and pass the motion that our attorney has drafted. This vote needs to explicitly exclude non-paid employees from the insurance and be formally posted in the minutes of the July 2010 Policy Committee Meeting.*

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 smartly due to the good performance of the Albuquerque conference and unrestricted assets rebounded in 2009 due to improved performance of our investments. The SUNY contract is growing reflecting an expansion of the permanent staff at the home office. Prior to 2008, these staff had been working as consultants and hence were not within the SUNY contract.

(2) System Dynamics Society Revenue and Expense Budget Comparison (unaudited, but reflecting final CPA Financial Statement changes), January through December 2009. (Reposted from winter PC)

Attachment #2 is a reposting of the same report that I presented in January with updates, and it shows overall better financial performance for the year. For example, in January I reported investment gains of \$86,372. I now report these gains as \$103,461, reflecting all end-of-the-year reports. Also this revised report moves some revenues and expenses to our balance sheet, reflecting the now mandated shift to accrual accounting for non profit organizations. For example, back in January, I reported the line item “Contract with University Albany” as \$311,100 (the actual amount of the contract for 2009 including a supplement to the contract). I now report that line as \$253,739, reflecting how much effort was spent by the home office on activities during this fiscal year.

(3) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes), As of December 31, 2009. (Reposted from winter PC meeting)

I report our total assets at the end of 2009 as \$758,056, up \$90,545 from the same time in 2008. Because we now report on an accrual basis, this increase in overall assets reflects our net income as reported in attachment (2) above coupled with moving some expenditures and income into the balance sheet to be “rolled over” at the end of the year.

(4) System Dynamics Society Revenues and Expenditures, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes), January through December 2009.

Attachment #4 is also a reposting of my previous report from the Winter PC meeting. This attachment has some new entries that I did not report back in January. Differences between this version and the version I presented in January are for the same reasons that I just discussed in section (2) above.

(5) System Dynamics Society Revenues and Expenditures, Fiscal Year by Cost Centers (unaudited, but reflecting final CPA Financial Statement changes), January through December 2009.

The revenues and expenditures by cost centers report demonstrates how we are now tracking the Society's finances and most clearly shows some of the accounting changes that I have been describing in this report. I draw your attention to several of the columns in this report. The column labeled "audit" shows clearly and in one place all the changes recommended by our accountant to move some revenues and expenses to the balance sheet to reflect accrual versus cash accounting standards. The column labeled "IFR Transfers" tracks financial interactions between the Society and the University at Albany's IFR (Income Fund Reimbursable) account, an account that is used to pay society staff and our on-campus phone and Xerox bill. I seek to always keep a solid firewall between Society and University business, but sometimes being good neighbors requires that some time or effort by staff paid for by the Society winds up supporting what are really University activities. In 2009, we tracked \$825 worth of such activity and we always seek to recover these funds through the IFR.

(6) THE SYSTEM DYNAMICS SOCIETY, INC. FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (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. Each year after the audit, Society staff work to make sure that our own books are closely aligned with the CPA review. For example, our books report net assets as \$758,056 (see attachment 3) and this attachment shows net assets as \$758,057. Close enough.

(7) 2011 Proposed Budget SYSTEM DYNAMICS SOCIETY.

Attachment 7 is the proposed budget that I am asking the Policy Council to approve. On the income side of the budget, you will notice that Journal Support from Wiley and Journal Royalty payments are projected to increase due to the anticipated signing of a new contract. I have computed interest and dividends by taking the average return on our assets over the past four years (including some big losses) and applying it to an estimate of our liquid assets. Compared to last year, this proves to be a quite conservative estimate. Again this year, I have not tried to present a full budget for the 2011 conference within the Society's budget. Rather, I have estimated how much effort the Society will spend on conferences in 2011 (see attachment 8 for details) and then added in \$25,000 to arrive at the "Total INC Conferences" line. My overall budget projects that the Society will post a positive net ordinary income of \$64,382 in 2011 even after reserving \$25,000 for a possible one time strategic investment (to be determined between now and 2011 by the policy council).

(8) 2011 Proposed Budget by Cost Centers SYSTEM DYNAMICS SOCIETY.

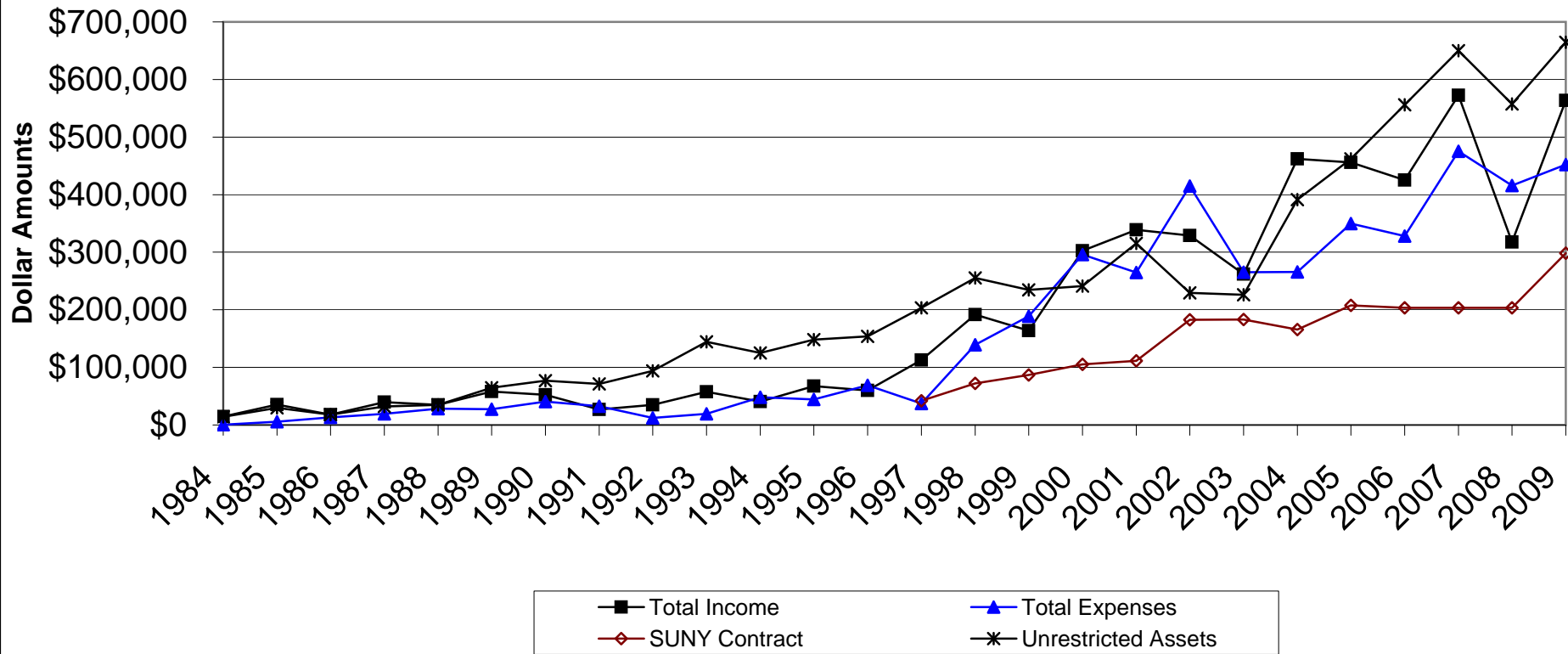
I always find these views by cost center to be the most interesting way to look at the Society's finances. Again this year, I show our investments as their own cost center and have ear-marked a \$25,000 future possible strategic investment to be paid for from these investments. What I see in

this data is a familiar pattern. Society Core Operations and support for our publication activities are cost centers that run at a loss and are subsidized by continuing strong sales (mostly of the Beer Game) and the conference and our investments. The degree of cross-subsidy this year is projected to be less than in the past because of the projected new contract with Wiley-Blackwell. Overall, I now expect that the Society will come out of 2011 running in the black.

Attachments:

- (1) Key Trends in Society Finances 1984 to Present.
- (2) System Dynamics Society Revenue and Expense Budget Comparison, Fiscal Year (unaudited, but reflecting final CPA Financial Statement changes) January through December 2009 (updated from winter PC meeting report).
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) As of December 31, 2009 (updated from winter PC report).
- (4) System Dynamics Society Revenues and Expenditures, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) January through December 2009.
- (5) System Dynamics Society Revenues and Expenditures, Fiscal Year, by Cost Centers (unaudited, but reflecting final CPA Financial Statement changes) January through December 2009.
- (6) THE SYSTEM DYNAMICS SOCIETY, INC. FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (final statements from our CPA).
- (7) 2011 Proposed Budget SYSTEM DYNAMICS SOCIETY.
- (8) 2011 Proposed Budget by Cost Centers SYSTEM DYNAMICS SOCIETY.

Attachment (1) Key Trends in Society Finances since 1984



07/02/10
Accrual Basis

System Dynamics Society

Attachment (2) Revenue & Expenses, Budget Comparison (unaudited)

January through December 2009

	Jan - Dec 09	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
DM Investment Inc	1,833	1,500	333	122%
INC Conferences	233,148	204,400	28,748	114%
Investment Income	103,461	35,478	67,983	292%
Journal Income	51,963	44,414	7,549	117%
Membership Dues	57,389	53,567	3,822	107%
Other Income	0			
Products	70,887	114,982	-44,095	62%
Publications Sales	750	700	50	107%
Shipping and Handling Income	13,878	22,996	-9,118	60%
Sponsor Dues and Donations	30,125	26,545	3,580	113%
Vendor Collection Credit	17			
Total Income	563,450	504,582	58,868	112%
Cost of Goods Sold				
Beer Game (Management Game)	12,578	28,793	-16,215	44%
Cost of Goods Sold	0			
Elec Oracle	-2,763			
Fireside Chat	-198			
Forrester PhD Seminar Series	-5,973			
MIT Collection	-80			
Total COGS	3,564	28,793	-25,229	12%
Gross Profit	559,886	475,789	84,097	118%
Expense				
Awards	0	6,907	-6,907	0%
Awards-Dana Meadows	1,200			
Bank Adjustments (Expense)	2,404	1,269	1,135	189%
Contracted Expenses at UAlbany	253,739	298,355	-44,616	85%
Credit card fees	12,688	13,202	-514	96%
Depreciation Expense	0	633	-633	0%
Electronic Presence Support	976	813	163	120%
EXP Conferences	92,754	50,458	42,296	184%
Foreign Taxes	58	100	-42	58%
Journal Expense	20,000	20,000	0	100%
Membership Directory Exp	1,958	2,000	-42	98%
Membership Services	2,765	1,252	1,513	221%
Miscellaneous Expense	253	400	-147	63%
Office Equipment Purchases	0	1,915	-1,915	0%
Officer Expenses	5,955	8,622	-2,667	69%
Phone, Fax, E-mail Services	10	20	-10	52%
Printing & Duplicating	1,805	3,229	-1,424	56%
Professional Fees	40,284	38,349	1,935	105%
Shipping and Postage Expense	10,290	20,598	-10,308	50%
Supplies	1,336	1,920	-584	70%
Total Expense	448,475	470,042	-21,567	95%
Net Ordinary Income	111,412	5,747	105,665	1,939%
Net Income	111,412	5,747	105,665	1,939%

07/01/10

Accrual Basis

System Dynamics Society
Attachment (3) Balance Sheet, Prev Year Comparison (unaudited)
As of December 31, 2009

	Dec 31, 09	Dec 31, 08	\$ Change	% Change
ASSETS				
Current Assets				
Checking/Savings				
Bank of America Checking	17,477	78,343	-60,866	-78%
Bank Paypal	313	495	-182	-37%
Companion Savings - BoA	16,506	16,489	17	0%
Travel Cash	135	211	-77	-36%
UBS Financial (was PaineWebber)	22,654	53,024	-30,370	-57%
Vanguard Society (88008478957)	537,463	438,146	99,317	23%
Total Checking/Savings	594,547	586,709	7,839	1%
Accounts Receivable				
Accounts Receivable	31	1,171	-1,140	-97%
Total Accounts Receivable	31	1,171	-1,140	-97%
Other Current Assets				
Inventory	23,447	10,695	12,751	119%
Prepaid Conf Contract Deposit	8,300	16,000	-7,700	-48%
Prepaid SUNY Contract	35,925	0	35,925	100%
Undeposited Funds	350	0	350	100%
Work In Process Conference Cost	23,799	16,294	7,505	46%
Total Other Current Assets	91,820	42,989	48,831	114%
Total Current Assets	686,398	630,869	55,529	9%
Fixed Assets				
Accumulated Depreciation	-11,046	-11,046	0	0%
Equipment	11,046	11,046	0	0%
Total Fixed Assets	0	-0	0	100%
Other Assets				
UBS DM CD	30,709	0	30,709	100%
Vanguard DMA (88006930361)	40,948	36,643	4,306	12%
Total Other Assets	71,658	36,643	35,015	96%
TOTAL ASSETS	758,056	667,511	90,545	14%
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Accounts Payable				
Accounts Payable	612	1,282	-670	-52%
Total Accounts Payable	612	1,282	-670	-52%
Other Current Liabilities				
Advance on Journal Royalty	5,000	5,000	0	0%
Customer Prepayments	1,393	0	1,393	100%
Deferred Conference Receipts	2,000	15,900	-13,900	-87%
LESS SNL K-12 Track to Disperse	-3,755	0	-3,755	-100%
Membership Sub Payable 2005+	12,517	19,957	-7,441	-37%
Sales Tax Payable	65	314	-249	-79%
SNL K-12 Track Schol& Exp	3,755	0	3,755	100%
Total Other Current Liabilities	20,975	41,172	-20,197	-49%
Total Current Liabilities	21,587	42,454	-20,867	-49%
Total Liabilities	21,587	42,454	-20,867	-49%
Equity				
Net Assets - Restricted (DMA)	71,657	67,437	4,220	6%
Net Assets - Unrestricted	553,400	655,729	-102,329	-16%
Net Income	111,412	-98,109	209,520	214%
Total Equity	736,469	625,057	111,412	18%
TOTAL LIABILITIES & EQUITY	758,056	667,511	90,545	14%

07/02/10
Accrual Basis

System Dynamics Society Attachment (4) Revenue & Expense Prev Year Comparison (unaudited) January through December 2009

	Jan - Dec 09	Jan - Dec 08	% Change
Ordinary Income/Expense			
Income			
DM Investment Inc	1,833	3,073	-40%
INC Conferences	233,148	156,401	49%
Investment Income	103,461	-142,709	173%
Journal Income	51,963	43,499	20%
Membership Dues	57,389	61,696	-7%
Other Income	0	-165	100%
Products	70,887	126,092	-44%
Publications Sales	750	591	27%
Shipping and Handling Income	13,878	25,010	-45%
Sponsor Dues and Donations	30,125	44,375	-32%
Vendor Collection Credit	17	3	555%
Total Income	563,450	317,866	77%
Cost of Goods Sold			
Beer Game (Management Game)	12,578	14,874	-15%
Cost of Goods Sold	0	0	0%
Elec Oracle	-2,763	0	-100%
Fireside Chat	-198	0	-100%
Forrester PhD Seminar Series	-5,973	0	-100%
MIT Collection	-80	0	-100%
Proceedings	0	0	0%
Total COGS	3,564	14,874	-76%
Gross Profit	559,886	302,991	85%
Expense			
Awards	0	5,097	-100%
Awards-Dana Meadows	1,200	1,200	0%
Bank Adjustments (Expense)	2,404	1,915	26%
Contracted Expenses at UAlbany	253,739	190,610	33%
Credit card fees	12,688	12,949	-2%
Depreciation Expense	0	21	-100%
Electronic Presence Support	976	1,414	-31%
EXP Conferences	92,754	98,777	-6%
Foreign Taxes	58	136	-57%
Journal Expense	20,000	20,000	0%
Membership Directory Exp	1,958	1,872	5%
Membership Services	2,765	1,220	127%
Miscellaneous Expense	253	243	4%
Officer Expenses	5,955	5,153	16%
Phone, Fax, E-mail Services	10	0	100%
Printing & Duplicating	1,805	2,215	-19%
Product Development	0	64	-100%
Professional Fees	40,284	35,642	13%
Shipping and Postage Expense	10,290	21,980	-53%
Supplies	1,336	591	126%
Total Expense	448,475	401,100	12%
Net Ordinary Income	111,412	-98,109	214%
Net Income	111,412	-98,109	214%

System Dynamics Society
Attachment (5) Revenue & Expense, Last Fiscal Year, by Cost Centers
 January through December 2009

including year-end adjusting entries		audit	2010 Korea	2009 ABQ	MiscConf	Core Ops	Sales	Pubs	Invest	DMC	IFR	TOTAL
Ordinary Income/Expense												
Income	DM Investment Inc	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,833.05	0.00	1,833.05
	INC Conferences	13,900.00	2,000.00	214,797.50	180.00	2,270.00	0.00	0.00	0.00	0.00	0.00	233,147.50
	Investment Income	57.94	0.00	0.00	0.00	395.00	0.00	0.00	99,825.57	3,182.24	0.00	103,460.75
	Journal Income	0.00	0.00	0.00	0.00	42,826.00	0.00	9,137.00	0.00	0.00	0.00	51,963.00
	Membership Dues	0.00	0.00	0.00	0.00	57,389.15	0.00	0.00	0.00	0.00	0.00	57,389.15
	Other Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Products	0.00	0.00	0.00	0.00	450.00	70,436.53	0.00	0.00	0.00	0.00	70,886.53
	Publications Sales	0.00	0.00	0.00	0.00	0.00	0.00	750.00	0.00	0.00	0.00	750.00
	Shipping and Handling Income	0.00	0.00	0.00	0.00	0.00	13,818.00	60.00	0.00	0.00	0.00	13,878.00
	Sponsor Dues and Donations	0.00	0.00	0.00	0.00	30,125.00	0.00	0.00	0.00	0.00	0.00	30,125.00
	Vendor Collection Credit	0.00	0.00	0.00	0.00	17.43	0.00	0.00	0.00	0.00	0.00	17.43
Total Income		13,957.94	2,000.00	214,797.50	180.00	133,472.58	84,254.53	9,947.00	99,825.57	5,015.29	0.00	563,450.41
Cost of Goods Sold												
	Beer Game (Management Game)	0.00	0.00	0.00	0.00	0.00	12,578.38	0.00	0.00	0.00	0.00	12,578.38
	Elec Oracle	0.00	0.00	0.00	0.00	0.00	-2,763.40	0.00	0.00	0.00	0.00	-2,763.40
	Fireside Chat	0.00	0.00	0.00	0.00	0.00	-198.11	0.00	0.00	0.00	0.00	-198.11
	Forrester PhD Seminar Series	0.00	0.00	0.00	0.00	0.00	-5,973.12	0.00	0.00	0.00	0.00	-5,973.12
	MIT Collection	0.00	0.00	0.00	0.00	0.00	-79.75	0.00	0.00	0.00	0.00	-79.75
Total COGS		0.00	0.00	0.00	0.00	0.00	3,564.00	0.00	0.00	0.00	0.00	3,564.00
Gross Profit		13,957.94	2,000.00	214,797.50	180.00	133,472.58	80,690.53	9,947.00	99,825.57	5,015.29	0.00	559,886.41
Expense												
	Awards	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Awards-Dana Meadows	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,200.00	0.00	1,200.00
	Bank Adjustments (Expense)	15.00	0.00	520.00	-6.98	1,758.12	43.00	0.00	75.00	0.00	0.00	2,404.14
	Contracted Expenses at UAlbany	-8,690.02	20,036.42	86,722.52	9,051.87	121,571.36	15,030.05	9,258.42	0.00	0.00	758.41	253,739.03
	Credit card fees	142.25	25.68	4,503.67	42.00	6,387.91	1,586.05	0.00	0.00	0.00	0.00	12,687.56
	Electronic Presence Support	0.00	0.00	0.00	0.00	976.44	0.00	0.00	0.00	0.00	0.00	976.44
	EXP Conferences	1,156.73	1,903.59	89,693.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	92,753.72
	Foreign Taxes	57.94	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	57.94
	Journal Expense	0.00	0.00	0.00	0.00	0.00	0.00	20,000.00	0.00	0.00	0.00	20,000.00
	Membership Directory Exp	0.00	0.00	0.00	0.00	0.00	0.00	1,957.80	0.00	0.00	0.00	1,957.80
	Membership Services	0.00	0.00	0.00	0.00	2,765.00	0.00	0.00	0.00	0.00	0.00	2,765.00
	Miscellaneous Expense	-0.47	0.00	0.00	0.00	253.88	0.00	0.00	0.00	0.00	0.00	253.41
	Officer Expenses	15.77	0.00	0.00	0.00	4,725.36	0.00	1,213.88	0.00	0.00	0.00	5,955.01
	Phone, Fax, E-mail Services	0.00	0.00	0.00	0.00	10.30	0.00	0.00	0.00	0.00	0.00	10.30
	Printing & Duplicating	310.00	0.00	0.00	0.00	1,495.00	0.00	0.00	0.00	0.00	0.00	1,805.00
	Professional Fees	-1,165.82	433.23	4,601.73	255.60	31,763.11	3,892.95	436.00	0.00	0.00	66.83	40,283.63
	Shipping and Postage Expense	40.94	0.00	0.00	0.00	1,105.87	9,140.94	2.23	0.00	0.00	0.00	10,289.98
	Supplies	0.00	0.00	0.00	0.00	1,335.70	0.00	0.00	0.00	0.00	0.00	1,335.70
Total Expense		-8,117.68	22,398.92	186,041.32	9,342.49	174,148.05	29,692.99	32,868.33	75.00	1,200.00	825.24	448,474.66
Net Ordinary Income / Net Income		22,075.62	-20,398.92	28,756.18	-9,162.49	-40,675.47	50,997.54	-22,921.33	99,750.57	3,815.29	-825.24	111,411.75

THE SYSTEM DYNAMICS SOCIETY, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008

THE SYSTEM DYNAMICS SOCIETY, INC.
REPORT ON REVIEW OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

CONTENTS

	<u>Page</u>
Accountants' report.....	1
FINANCIAL STATEMENTS	
Statements of financial position.....	2
Statements of activities.....	3
Statements of functional expenses.....	4
Statements of cash flows.....	5
Notes to financial statements.....	6-8

MURPHY HALL & COMPANY

Certified Public Accountants

~

83 Cambridge Street, Suite 3D, Burlington, MA 01803

Tel. (781) 272-7500

Fax (781) 272-7510

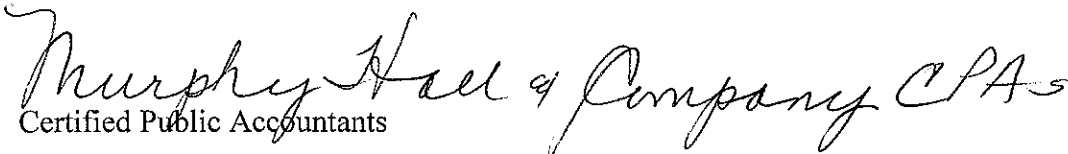
Policy Council
The System Dynamics Society, Inc.
Albany, New York

We have reviewed the accompanying statements of financial position of The System Dynamics Society, Inc., (a non-profit organization) as of December 31, 2009 and 2008 and the related statements of activities, functional expenses and cash flows 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 generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.


Certified Public Accountants

March 31, 2010

THE SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 34,781	\$ 95,538
Money market mutual funds	18,274	18,160
Marketable securities	541,843	442,214
Accounts receivable	31	1,171
Inventory (at cost)	23,447	10,695
Prepaid expenses	<u>68,024</u>	<u>32,294</u>
Total current assets	<u>686,400</u>	<u>600,072</u>
PROPERTY		
Furniture and equipment	11,046	11,046
Less: Accumulated depreciation	<u>(11,046)</u>	<u>(11,046)</u>
	<u>-</u>	<u>-</u>
OTHER ASSETS		
Restricted marketable securities	<u>71,657</u>	<u>67,437</u>
Total assets	<u>\$ 758,057</u>	<u>\$ 667,509</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 612	1,282
Deferred revenue	3,393	15,900
Memberships subscriptions payable	12,517	19,957
Sales tax payable	65	314
Royalty payable	<u>5,000</u>	<u>5,000</u>
Total current liabilities	21,587	42,453
NET ASSETS		
Unrestricted - General fund	\$ 664,813	\$ 557,619
Permanently restricted	<u>71,657</u>	<u>67,437</u>
Total net assets	<u>736,470</u>	<u>625,056</u>
Total liabilities and net assets	<u>\$ 758,057</u>	<u>\$ 667,509</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and gains		
Conferences	\$ 233,148	\$ 156,401
Donations	30,125	44,375
Educational products	70,887	125,927
Interest and dividends	15,854	17,503
Membership dues and subscriptions	57,389	61,696
Publications	52,713	44,090
Shipping and postage	13,878	25,010
Transfer from restricted net assets	795	-
Unrealized gain (loss) on securities	84,425	(152,188)
Miscellaneous	17	3
Total unrestricted revenues and gains	<u>559,231</u>	<u>322,817</u>
EXPENSES		
Administration	253,739	190,610
Bank fees	15,092	14,865
Conferences	92,754	98,777
Depreciation	-	21
Educational products	3,564	14,874
Foreign taxes	58	136
Grants and awards	1,200	6,297
Membership mailings and services	4,723	3,092
Office expenses	4,378	4,527
Professional fees	40,283	35,642
Publications	20,000	20,000
Shipping and postage	10,291	21,983
Travel	5,955	5,152
Total expenses	<u>452,037</u>	<u>415,976</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	107,194	(93,159)
Other changes in permanently restricted net assets		
Interest and dividends	1,833	3,073
Transfer to unrestricted net assets	(795)	-
Unrealized gain (loss) on securities	<u>3,182</u>	<u>(8,024)</u>
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	<u>4,220</u>	<u>(4,951)</u>
NET ASSETS - beginning of year	<u>625,056</u>	<u>723,166</u>
NET ASSETS - end of year	<u>\$ 736,470</u>	<u>\$ 625,056</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009, WITH COMPARATIVE TOTALS FOR 2008

	<u>Program Services</u>	<u>Supporting Services</u>	<u>2009</u>	<u>2008</u>
EXPENSES				
Administration	\$ 126,870	\$ 126,869	\$ 253,739	\$ 190,610
Bank fees	-	15,092	15,092	14,865
Conferences	92,754	-	92,754	98,777
Depreciation	-	-	-	21
Educational products	3,564	-	3,564	14,874
Foreign taxes	-	58	58	136
Grants	1,200	-	1,200	6,297
Membership mailings	4,723	-	4,723	3,092
Office expenses	-	2,573	2,573	2,312
Professional fees	25,203	15,080	40,283	35,642
Publications	21,805	-	21,805	22,215
Shipping and postage	9,147	1,144	10,291	21,983
Travel	-	5,955	5,955	5,152
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 285,266</u>	<u>\$ 166,771</u>	<u>\$ 452,037</u>	<u>\$ 415,976</u>

THE SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Cash received	\$ 459,297	\$ 456,333
Cash paid to suppliers and employees	(521,385)	(404,463)
Interest and dividends	17,687	20,576
	<u> </u>	<u> </u>
Net cash (used) provided by operating activities	(44,401)	72,446
Cash flows from investing activities		
Acquisition of securities	<u>(16,356)</u>	<u>(19,523)</u>
Net cash (used) in investing activities	<u>(16,356)</u>	<u>(19,523)</u>
Net (decrease) increase in cash	(60,757)	52,923
Cash beginning of year	<u>95,538</u>	<u>42,615</u>
Cash at end of year	<u>\$ 34,781</u>	<u>\$ 95,538</u>

Reconciliation of increase in net assets
used by operating activities

Increase in net assets	\$ 111,414
Adjustments to reconcile net income to net cash provided by operating activities	
Add: Decrease in accounts receivable	1,140
Less: Increase in inventory	(12,752)
Less: Increase in prepaid expenses	(35,730)
Less: Decrease in accounts payable	(670)
Less: Decrease in deferred revenue	(12,507)
Less: Decrease in memberships payable	(7,440)
Less: Decrease in sales tax payable	(249)
Less: Unrealized gain	(87,607)
Total adjustments	<u>(155,815)</u>
Cash (used) by operating activities	<u>\$ (44,401)</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

A. NATURE OF ACTIVITIES

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

Contributed Services – Certain contributed services are recorded as support and expenses at fair market value when determinable, otherwise at values indicated by the donor.

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. Accordingly, actual results could differ from those estimates.

Property and equipment and depreciation – Property and equipment are recorded at cost. Expenditures for maintenance, repairs, and renewals are charged to expense as incurred whereas betterments are capitalized. Depreciation is computed using accelerated methods over the estimated useful lives of the assets.

Financial statement presentation – Under statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organization*, the Organization 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.

Contributions – Under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Taxes – The Organization is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

THE SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

B. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative expenses – The Society has a contract with the University of New York at Albany for administrative support services. In 2009 and 2008 the Society paid \$253,739 and \$190,610, 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 \$250,000. 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. The company has not experienced any losses in such accounts. The company believes it is not exposed to any significant credit risk on cash and cash equivalents.

C. MARKETABLE DEBT AND EQUITY SECURITIES

Cost and fair value marketable debt and equity securities at December 31, 2009 are as follows:

Available for sale:	<u>Cost</u>	Unrealized Appreciation (Depreciation)	Fair Value
Money market funds-unrestricted	\$ 18,274	\$ 0	\$ 18,274
Stock/bond mutual fund-unrestricted	541,936	(4,473)	537,463
Stock equities-unrestricted	4,122	258	4,380
Certificate of deposit - restricted	30,000	709	30,709
Stock/bond funds – restricted	<u>42,313</u>	<u>(1,365)</u>	<u>40,948</u>
	<u>\$636,645</u>	<u>\$ (4,871)</u>	<u>\$631,774</u>

THE SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 2008, with penalties for early withdrawal. In November of 2008, the bank called the certificate of deposit and the funds were transferred to a money market fund.

On January 22, 2009, the Society obtained a restricted certificate of deposit in the amount of \$30,000, maturing January 28, 2011, bearing interest at 2.5%.

SYSTEM DYNAMICS SOCIETY
Attachment (7) 2011 Proposed Budget

7/15/2010

(and actual revenue and expenses 2009 and previous year budget comparison)

	2009 Actual Revenue & Expenses	2010 Budget Approved	2011 Budget Proposed	% Changed
Income				
Products	70,904.00	113,756	93,377	-18%
Total INC Conferences	233,148.00	161,524	163,952	2%
Interest & Dividends (was Inv Inc)	105,294.00	17,000	45,254	166%
Net Membership Dues	57,389.00	62,468	61,405	-2%
Journal Royalty Payments (Wiley)	51,963.00	34,454	83,989	144%
Journal Support from Wiley		9,860	20,000	103%
Publication Sales	750.00	320	587	84%
Shipping and Handling	13,878.00	22,751	17,704	-22%
Sponsor Dues and Donations	30,125.00	32,965	32,035	-3%
Total Income	563,451.00	455,098	518,303	14%
Cost of Goods Sold				
Proceedings		423	230	-46%
Management Game	12,578.00	23,555	21,757	-8%
PhD Seminar in System Dynamics	(5,973.00)	0	0	
Total COGS	3,564.00	23,979	21,986	-8%
	559,887.00	431,120	496,317	15%
Expense				
Awards	1,200.00	6,705	6,705	0%
Bank Adjustments (Expense)	2,404.00	1,548	1,780	15%
Contract w/ Ualbany				
Office Expenses through UAlbany		23,200	31,564	36%
IFR Indirect Costs		23,391	23,161	-1%
Salaries & Fringe		233,906	231,613	-1%
Adjustments from Previous Year		0	(5,843)	
Total Contract w/ UAlbany	253,739.00	280,497	280,495	0%
Credit card fees	12,688.00	14,473	14,768	2%
Depreciation Expense	0.00	263	132	-50%
Electronic Presence Support	976.00	1,583	1,583	0%
Foreign Taxes	58.00	100	100	0%
Insurance (WC/Dis/Liability)	0.00	0	5,000	
Journal Expense	20,000.00	20,000	20,000	0%
Membership Directory Exp (Memberclicks)	1,958.00	2,033	2,158	6%
Membership Services (Newsletter)	2,765.00	1,670	3,053	83%
PhD Luncheon at Conference	0.00	0	1,000	
Miscellaneous Exp.(MA fees, gifts)	253.00	250	289	16%
Office Equipment Purchases	0.00	40	40	0%
Less Capitalized Equip	0.00	(1)	0	-100%
Officer Expenses	5,955.00	6,410	6,558	2%
Phone, Fax, E-mail Services	10.00	0	30	
Printing & Duplicating	1,805.00	2,783	2,141	-23%
Product Development	0.00	444	148	-67%
Professional Fees	31,259.00	27,826	34,480	24%
Shipping /Postage Expense	10,290.00	19,751	13,614	-31%
Staff Expenses - training		500	500	0%
Staff Salary Market Adjustment	9,025.00	11,000	11,435	4%
Strategic Investment (one time)*		25,000	25,000	0%
Supplies	1,336.00	1,000	928	-7%
Total Expense	448,475.00	423,874	431,935	2%
Net Ordinary Income	111,412.00	7,245	64,382	789%
Net Income (unrestricted assets)	111,412.00	8,445	64,382	662%

SYSTEM DYNAMICS SOCIETY
Attachment (8) 2011 Proposed Budget
by Cost Centers

7/15/2010

	2011 Budget Proposed	Conferences	Core	Sales	Publications	Investments	Dana Meadows
Income							
Products	93,377			93,377			
Total INC Conferences	163,952	163,952					
Interest & Dividends (was Inv Inc)	45,254					44,054	1200
Net Membership Dues	61,405		61,405				
Journal Royalty Payments (Wiley)	83,989		83,989				
Journal Support from Wiley	20,000				20,000		
Publications Sales	587				587		
Shipping and Handling	17,704			17,704			
Sponsor Dues and Donations	32,035		32,035				
Total Income	518,303	163,952	177,429	111,081	20,587	44,054	1200
Cost of Goods Sold							
Proceedings	230			230			
Management Game	21,757			21,757			
Total COGS	21,986			21,986	0	0	0
Gross Profit	496,317	163,952	177,429	89,095	20,587	44,054	1,200
Expense							
Awards	6,705		5,505				1,200
Bank Adjustments/Foreign Tax Exp	1,780		890	890			
Contract w/ UAlbany							
Office Expenses through UAlbany	31,564	13,644	14,966	1,741	1,213		
IFR Indirect Costs	23,161	10,012	10,981	1,278	890		
Salaries & Fringe	231,613	100,120	109,815	12,777	8,901		
Adjustments from previous year	(5,843)	(2,526)	(2,770)	(322)	(225)		
Total Contract w/ UAlbany	280,495	121,250	132,991	15,473	10,780	0	0
Credit card fees	14,768		7,236	7,384	148		
Depreciation Expense	132	57	62	7	5		
Electronic Presence Support	1,583		1,583				
Foreign Taxes	100		100				
Insurance (WC/Dis/Liability)	5,000		5,000				
Journal Expense	20,000				20,000		
Membership Directory Exp (Memberclicks)	2,158				2,158		
Membership Services (Newsletter)	3,053		3,053				
PhD Luncheon at Conference	1,000		1,000				
Miscellaneous Exp.(MA fees, gifts)	289		289				
Office Equipment Purchases	40	17	19	2	2		
Officer Expenses	6,558		3,935		2,623		
Phone, Fax, E-mail Services	30		30				
Printing & Duplicating	2,141		856	856	428		
Product Development	148			148			
Professional Fees	34,480	12,068	12,068	8,620	1,724		
Shipping/Postage Expense	13,614		545	12,525	545		
Staff Expenses (training)	500	216	237	28	19		
Staff Salary Market Adjustment	11,435	4,943	5,422	631	439		
Strategic Investment (one time)*	25,000					25,000	
Supplies	928	401	440	51	36		
Total Expense	431,935	138,952	181,260	46,616	38,907	25,000	1,200.00
Net Income (unrestricted assets)	64,382	25,000	(3,831)	42,479	(18,320)	19,054	0