

To: Policy Council of the System Dynamics Society  
From: David Andersen, VP Finance  
Subject: VP Finance Narrative Report for Fiscal Year 2011  
Date: July 24, 2011

*Summary: 2010 was a good year financially for the System Dynamics Society. We posted a net income of \$79,146 and our overall equity grew from \$736,469 at the opening of our fiscal year to \$815,616 at the close of the fiscal year. Major activities this year have centered on reconfiguring how the Society thinks about managing its assets so that a sustainable pool of assets can promote a range of Society operations well into the future. Our budget for 2012 has three line items being supported with a budgeted expenditure of \$27,612 from our asset income with an additional amount of \$22,117 being retained for future asset growth.*

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 2010?** Overall, the net assets of the Society increased by \$79,146 in 2010, indicating a strong overall financial performance for the Society. Our Investments gained \$105,453 and in 2010 the conference in Seoul posted an overall positive gain of \$27,046 and product sales of \$51,431 continued to support our overall financial position.

**Report of the *ad hoc* Investment Sub-Committee of the Administrative Committee.** Two years ago, the Administrative Committee appointed a committee consisting of David Andersen, Jim Lyneis, Jim Thompson and Roberta Spencer to work on guidelines for the Society's investments. Jim Thompson emerged as the informal leader of this group and we went through several drafts of guidelines and procedures to guide how the Society handles its assets. That committee reported out this year and the Home Office is working under the guidance of the Administrative Committee to implement these guidelines. Some of the changes that you see in my report to the PC this year stem from the work of this *ad hoc* Investment sub-committee.

**Select Budget Items to be Supported by Investment Income.** This year, I am showing Investments as a separate cost center. In this and in future years, I plan to budget for selected items to be funded by asset income. This year, they are: (1) The Dana Meadows Award, (2) The Jay Forrester Award, (3) The Society Development Fund, and (4) Support for the Ph.D. student luncheon.

**Workload Study for the Home Office.** I remain concerned about the continually high workload that now rests in the Home Office. It used to be that workload was crazy just in the time period around the annual conference. This heavy daily volume of work now seems to be more or less continuous. I am not convinced that it would be prudent to add additional staff to the Home Office at this point in time, so I will be working with the Home Office staff during the upcoming year to try to identify less critical tasks that can be repurposed or perhaps deleted from on-going work load. Over the years, an increasingly competent Home Office has drawn to itself

tasks that formerly were not done, were done incompletely, or were performed completely by volunteer labor (mostly by elected officers and members of the Policy Council). We need to see if some of this work that has been sliding into the Home Office over the years can be reduced.

**Toward Sustainable Investment Goals.** Below I give a rough cut at what might be our investment needs if we were to support selected items on a continuing basis and still meet our other needs for prudent reserves. As you can see, we are still not where we need to be to have our investments be on a sustainable basis. .

Capital Reserve	\$400,000
Executive Director's Salary Reserve	\$103,675
Dana Meadows Award	\$76,386
Jay Wright Forrester Award	\$80,000
Field Development Fund	\$400,000
Operating Surplus/ "Buffer Funds"	\$50,000
	\$1,110,061

### **Draft Investment goals for the System Dynamics Society as of July 2011**

**How Should the Home Office Support a Future Possible Development Fund?** I remain concerned about discussions centering on the Society's future possible "Development Funds". This "Fund" has the potential of drawing Home Office staff into supporting another large annual project, further exacerbating our problems with workload at the Home Office. I have proposed that the Administrative Committee consider two propositions:

1. Funding to support the Development fund should be made available from investments of the Society, not current operations (this is how I have handled the budget for 2012). Advance budgets for the Society's Development Fund should therefore be made a year in advance and should be based on performance of the Society's assets. This means that we may not be able to fully fund the development fund in years when assets decline in value.
2. The role of the Home Office should be strictly limited to managing the asset base that supports the fund and then writing a check to those who are putting on the event. Managing bids for projects, managing the projects, and providing accountability reports from project managers should be the direct responsibility of the Society leadership sponsoring the projects. These leaders would include appropriate Society VPs and elected Chapter officers. I further propose that the Home Office be banned from providing technical and logistical support for such development projects until such time as we are sure that we have enough staff to take on the work.

**Miscellaneous Other Financial Activities.** A number of other important financial issues are currently in play. For example, the Society will this year change its CPA firm from the same firm that it has worked with from the very beginning. Also, the Society has entered into a multi-year contract with UAlbany (their idea, not ours) and these new contracting mechanisms needs to be carefully monitored.

## **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 Seoul conference and strong performance of our investments. The SUNY contract is stable for now, but our long term contract projects growth in our core Home Office staffing costs.

### **(2-5) Key Financial Reports for the Society for 2010. (Reposted from winter PC)**

Each summer, I post a series of reports that summarize the overall financial performance for the previous year. This is usually a reposting of reports that were presented and described in my January report. For the past several years, there have been some important changes from January as our accountant had to do some work to reconcile our books to the Review of our CPA (because of new accounting rules put in place by the US IRS). I am pleased to report that this year our reports are virtually the same as what I posted and described in January. I have little to add.

### **(6) THE SYSTEM DYNAMICS SOCIETY, INC. FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (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. This year our own books report net assets as \$864,113 (see attachment 3), just the same number reported by the CPA. Please review this report carefully

### **(7) 2011 Proposed Budget SYSTEM DYNAMICS SOCIETY.**

Attachment 7 is the proposed budget that I am asking the Policy Council to approve. The major difference between this budget and ones that the Policy Council has approved in the past is the way that income from our assets is treated. This year we divide income from our assets broadly into “Investment Income supporting operations” (\$27,612 and reported as an income line) versus “Investment Income (budgeted to be) Retained in Investment Accounts” (\$22,117). This amount is reported on the line near the bottom of the budget between Net Ordinary Income and Net Income.

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

The column labeled “Investments (including Dana Meadows) is where both the income and expenditures from our investments in the upcoming year (2012) are reported in more detail. Otherwise, the pattern of cross-subsidies between cost centers is much the same as it has been in the past—Core Operations and Publications being subsidized by Sales and Conferences (and now by Investment Income).

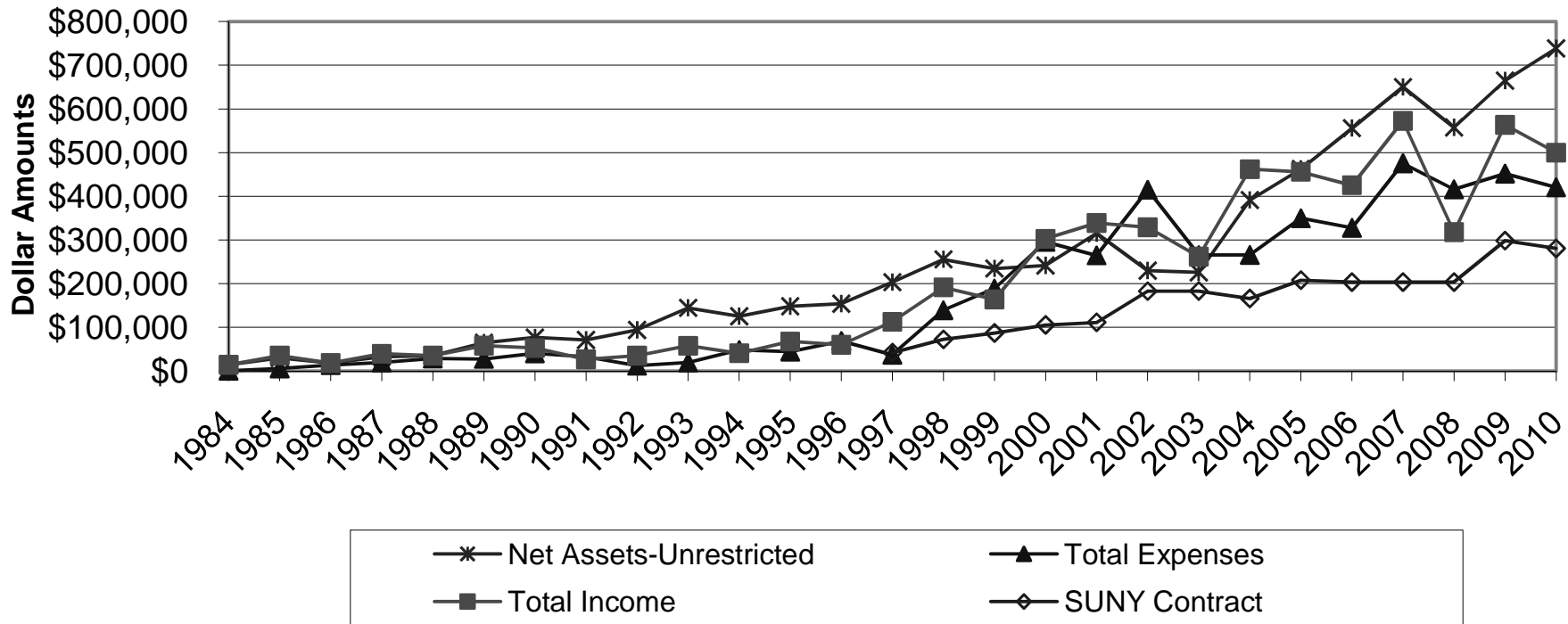
### **Attachments:**

(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 2010 (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, 2010 (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 2010.
- (5) System Dynamics Society Revenues and Expenditures, Fiscal Year, by Cost Centers  
(unaudited, but reflecting final CPA Financial Statement changes)  
January through December 2010.
- (6) THE SYSTEM DYNAMICS SOCIETY, INC. FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2010 AND 2009 (final statements from our CPA).
- (7) 2012 Proposed Budget SYSTEM DYNAMICS SOCIETY.
- (8) 2012 Proposed Budget by Cost Centers SYSTEM DYNAMICS SOCIETY.

# (1) Key Trends in Society Finances since 1984



06/27/11  
Accrual Basis

## System Dynamics Society (2) Rev & Exp Budget Compare (unaudited) January through December 2010

	Jan - Dec 10	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
INC Conferences	173,561	161,524	12,037	107%
Journal Income	56,292	44,314	11,978	127%
Membership Dues	58,741	62,468	-3,727	94%
Products	67,970	113,756	-45,786	60%
Publications Sales	1,620	320	1,300	506%
Shipping and Handling Income	17,691	22,751	-5,060	78%
Sponsor Dues and Donations	18,500	32,965	-14,465	56%
Vendor Collection Credit	1			
<b>Total Income</b>	<u>394,374</u>	<u>438,098</u>	<u>-43,724</u>	<u>90%</u>
<b>Cost of Goods Sold</b>				
Beginning Inventory	23,447			
Ending Inventory	-20,807			
Inventory Change	-2,640			
Beer Game (Management Game)	10,331			
Cost of Goods Sold	0	23,979	-23,979	0%
Elec Oracle	526			
Fireside Chat	-1,627			
Forrester PhD Seminar Series	1,985			
MIT Collection	-1,001			
Proceedings	0			
<b>Total COGS</b>	<u>10,214</u>	<u>23,979</u>	<u>-13,765</u>	<u>43%</u>
<b>Gross Profit</b>	384,160	414,119	-29,959	93%
<b>Expense</b>				
Awards	6,900	6,705	195	103%
Awards-Dana Meadows	1,200			
Bank Adjustments (Expense)	1,544	1,548	-4	100%
Contracted Expenses at UAlbany	261,719	280,497	-18,778	93%
Credit card fees	8,054	14,473	-6,419	56%
Depreciation Expense	0	263	-263	0%
Electronic Presence Support	867	1,583	-716	55%
EXP Conferences	62,350			
Foreign Taxes	81	100	-20	81%
Insurance	1,354			
Journal Expense	20,000	20,000	0	100%
Membership Directory Exp	2,074	2,033	41	102%
Membership Services	1,060	1,670	-610	63%
Miscellaneous Expense	1,806	250	1,556	722%
Office Equipment Purchases	0	40	-40	0%
Officer Expenses	5,417	6,910	-1,493	78%
Printing & Duplicating	1,005	2,783	-1,778	36%
Product Development	0	444	-444	0%
Professional Fees	32,338	38,826	-6,488	83%
Shipping and Postage Expense	1,684	19,751	-18,067	9%
Supplies	1,016	1,000	16	102%
Uncategorized Expenses	0	25,000	-25,000	0%
<b>Total Expense</b>	<u>410,467</u>	<u>423,876</u>	<u>-13,409</u>	<u>97%</u>
<b>Net Ordinary Income</b>	-26,307	-9,757	-16,550	270%
<b>Other Income/Expense</b>				
<b>Other Income</b>				
Investment Income	102,963			
DM Investment Inc	2,490	1,200	1,290	208%
<b>Total Other Income</b>	<u>105,453</u>	<u>1,200</u>	<u>104,253</u>	<u>8,788%</u>
<b>Net Other Income</b>	<u>105,453</u>	<u>1,200</u>	<u>104,253</u>	<u>8,788%</u>
<b>Net Income</b>	<u><u>79,146</u></u>	<u><u>-8,557</u></u>	<u><u>87,703</u></u>	<u><u>-925%</u></u>

## System Dynamics Society

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

As of December 31, 2010

06/27/11

Accrual Basis

	Dec 31, 10	Dec 31, 09	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
<b>Checking/Savings</b>				
Bank of America Checking	68,265	17,477	50,787	291%
Bank Paypal	713	313	400	128%
Companion Savings - BoA	8,521	16,506	-7,984	-48%
Travel Cash	102	135	-32	-24%
UBS Financial (was PaineWebber)	13,302	22,654	-9,352	-41%
Vanguard Society (88008478957)	589,864	537,463	52,401	10%
<b>Total Checking/Savings</b>	<b>680,767</b>	<b>594,547</b>	<b>86,219</b>	<b>15%</b>
<b>Accounts Receivable</b>				
Accounts Receivable	0	31	-31	-100%
<b>Total Accounts Receivable</b>	<b>0</b>	<b>31</b>	<b>-31</b>	<b>-100%</b>
<b>Other Current Assets</b>				
Inventory	20,807	23,447	-2,640	-11%
Prepaid Expenses	82,904	68,024	14,880	22%
Cash-Undeposited Funds	3,250	350	2,900	829%
<b>Total Other Current Assets</b>	<b>106,961</b>	<b>91,820</b>	<b>15,141</b>	<b>17%</b>
<b>Total Current Assets</b>	<b>787,728</b>	<b>686,398</b>	<b>101,329</b>	<b>15%</b>
<b>Fixed Assets</b>				
Accumulated Depreciation	-1,263	-11,046	9,783	89%
Equipment	1,263	11,046	-9,783	-89%
<b>Total Fixed Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>
<b>Other Assets</b>				
UBS DM CD	30,355	30,709	-354	-1%
Vanguard DMA (88006930361)	46,031	40,948	5,082	12%
<b>Total Other Assets</b>	<b>76,386</b>	<b>71,658</b>	<b>4,728</b>	<b>7%</b>
<b>TOTAL ASSETS</b>	<b>864,113</b>	<b>758,056</b>	<b>106,057</b>	<b>14%</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
<b>Accounts Payable</b>				
Accounts Payable	2,863	612	2,251	368%
<b>Total Accounts Payable</b>	<b>2,863</b>	<b>612</b>	<b>2,251</b>	<b>368%</b>
<b>Other Current Liabilities</b>				
Advance on Journal Royalty	0	5,000	-5,000	-100%
Deferred Revenue	32,164	3,393	28,771	848%
Membership Sub Payable 2005+	13,287	12,517	770	6%
Sales Tax Payable	184	65	118	181%
SNL K-12 Track Schol& Exp	0	3,755	-3,755	-100%
LESS SNL K-12 Track to Disperse	0	-3,755	3,755	100%
<b>Total Other Current Liabilities</b>	<b>45,635</b>	<b>20,975</b>	<b>24,660</b>	<b>118%</b>
<b>Total Current Liabilities</b>	<b>48,497</b>	<b>21,587</b>	<b>26,911</b>	<b>125%</b>
<b>Total Liabilities</b>	<b>48,497</b>	<b>21,587</b>	<b>26,911</b>	<b>125%</b>
<b>Equity</b>				
Net Assets - Restricted (DMA)	71,657	71,657	-0	0%
Net Assets - Unrestricted	664,813	553,400	111,413	20%
Net Income	79,146	111,412	-32,266	-29%
<b>Total Equity</b>	<b>815,616</b>	<b>736,469</b>	<b>79,147</b>	<b>11%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>864,113</b>	<b>758,056</b>	<b>106,057</b>	<b>14%</b>

06/27/11  
Accrual Basis

**System Dynamics Society**  
**(4) Rev & Exp Prev Year Compare (unaudited)**  
January through December 2010

	Jan - Dec 10	Jan - Dec 09	% Change
<b>Ordinary Income/Expense</b>			
<b>Income</b>			
INC Conferences	173,561	233,148	-26%
Journal Income	56,292	51,963	8%
Membership Dues	58,741	57,389	2%
Other Income	0	0	0%
Products	67,970	70,887	-4%
Publications Sales	1,620	750	116%
Shipping and Handling Income	17,691	13,878	28%
Sponsor Dues and Donations	18,500	30,125	-39%
Vendor Collection Credit	1	17	-96%
<b>Total Income</b>	<b>394,374</b>	<b>458,157</b>	<b>-14%</b>
<b>Cost of Goods Sold</b>			
Beginning Inventory	23,447	0	100%
Ending Inventory	-20,807	0	-100%
Inventory Change	-2,640	0	-100%
Beer Game (Management Game)	10,331	12,578	-18%
Cost of Goods Sold	0	0	0%
Elec Oracle	526	-2,763	119%
Fireside Chat	-1,627	-198	-722%
Forrester PhD Seminar Series	1,985	-5,973	133%
MIT Collection	-1,001	-80	-1,155%
Proceedings	0	0	0%
<b>Total COGS</b>	<b>10,214</b>	<b>3,564</b>	<b>187%</b>
<b>Gross Profit</b>	<b>384,160</b>	<b>454,593</b>	<b>-16%</b>
<b>Expense</b>			
Awards	6,900	0	100%
Awards-Dana Meadows	1,200	1,200	0%
Bank Adjustments (Expense)	1,544	2,404	-36%
Contracted Expenses at UAlbany	261,719	253,739	3%
Credit card fees	8,054	12,688	-37%
Electronic Presence Support	867	976	-11%
EXP Conferences	62,350	92,754	-33%
Foreign Taxes	81	58	39%
Insurance	1,354	0	100%
Journal Expense	20,000	20,000	0%
Membership Directory Exp	2,074	1,958	6%
Membership Services	1,060	2,765	-62%
Miscellaneous Expense	1,806	253	613%
Officer Expenses	5,417	5,955	-9%
Phone, Fax, E-mail Services	0	10	-100%
Printing & Duplicating	1,005	1,805	-44%
Professional Fees	32,338	40,284	-20%
Shipping and Postage Expense	1,684	10,290	-84%
Supplies	1,016	1,336	-24%
<b>Total Expense</b>	<b>410,467</b>	<b>448,475</b>	<b>-9%</b>
<b>Net Ordinary Income</b>	<b>-26,307</b>	<b>6,118</b>	<b>-530%</b>
<b>Other Income/Expense</b>			
<b>Other Income</b>			
Investment Income	102,963	103,461	-1%
DM Investment Inc	2,490	1,833	36%
<b>Total Other Income</b>	<b>105,453</b>	<b>105,294</b>	<b>0%</b>
<b>Net Other Income</b>	<b>105,453</b>	<b>105,294</b>	<b>0%</b>
<b>Net Income</b>	<b>79,146</b>	<b>111,412</b>	<b>-29%</b>





THE SYSTEM DYNAMICS SOCIETY, INC.  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009

THE SYSTEM DYNAMICS SOCIETY, INC.  
REPORT ON REVIEW OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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# MURPHY HALL & COMPANY

*Certified Public Accountants*

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

Tel. (781) 272-7500

Fax (781) 272-7510

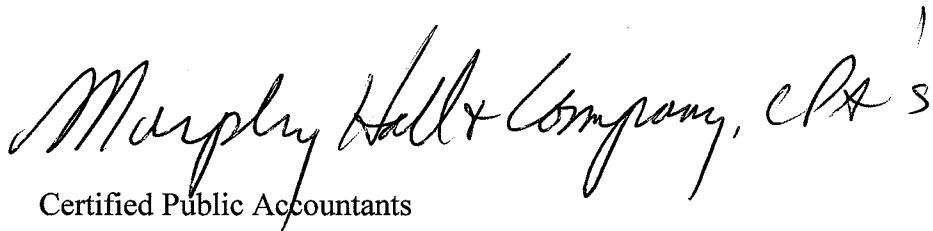
Policy Council  
The System Dynamics Society, Inc.  
Albany, New York

We have reviewed the accompanying statements financial position of The System Dynamics Society, Inc. (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

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

Based on 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 accounting principles generally accepted in the United States of America.

  
Certified Public Accountants

March 28, 2011

THE SYSTEM DYNAMICS SOCIETY, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 80,850	\$ 34,781
Money market mutual funds	9,096	18,274
Marketable securities	594,070	541,843
Accounts receivable	-	31
Inventory (at cost)	20,807	23,447
Prepaid expenses	<u>82,904</u>	<u>68,024</u>
Total current assets	787,727	686,400
PROPERTY		
Furniture and equipment	1,263	11,046
Less: Accumulated depreciation	<u>(1,263)</u>	<u>(11,046)</u>
	-	-
OTHER ASSETS		
Restricted marketable securities	<u>76,386</u>	<u>71,657</u>
Total assets	<u>\$ 864,113</u>	<u>\$ 758,057</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 2,863	612
Deferred revenue	32,164	3,393
Memberships subscriptions payable	13,287	12,517
Sales tax payable	184	65
Royalty payable	-	5,000
Total current liabilities	<u>48,498</u>	<u>21,587</u>
NET ASSETS		
Unrestricted - General fund	\$ 738,480	\$ 664,813
Permanently restricted	<u>77,135</u>	<u>71,657</u>
Total net assets	<u>815,615</u>	<u>736,470</u>
Total liabilities and net assets	<u>\$ 864,113</u>	<u>\$ 758,057</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Revenues and gains		
Conferences	\$ 173,561	\$ 233,148
Donations	18,500	30,125
Educational products	67,970	70,887
Interest and dividends	16,692	15,854
Membership dues and subscriptions	58,741	57,389
Publications	57,912	52,713
Shipping and postage	17,692	13,878
Transfer from restricted net assets	-	795
Unrealized gain on securities	83,284	84,425
Miscellaneous	-	17
Total unrestricted revenues and gains	<u>494,352</u>	<u>559,231</u>
<b>EXPENSES</b>		
Administration	261,719	253,739
Bank fees	9,598	15,092
Conferences	62,350	92,754
Educational products	10,214	3,564
Foreign taxes	81	58
Grants and awards	8,100	1,200
Insurance	1,354	-
Membership mailings and services	3,134	4,723
Office expenses	4,694	4,378
Professional fees	32,338	40,283
Publications	20,000	20,000
Shipping and postage	1,686	10,291
Travel	<u>5,417</u>	<u>5,955</u>
Total expenses	<u>420,685</u>	<u>452,037</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	<u>73,667</u>	<u>107,194</u>
<b>Other changes in permanently restricted net assets</b>		
Interest and dividends	2,490	1,833
Transfer to unrestricted net assets	-	(795)
Unrealized gain on securities	<u>2,988</u>	<u>3,182</u>
<b>INCREASE IN PERMANENTLY RESTRICTED NET ASSETS</b>	<u>5,478</u>	<u>4,220</u>
<b>NET ASSETS - beginning of year</b>	<u>736,470</u>	<u>625,056</u>
<b>NET ASSETS - end of year</b>	<u>\$ 815,615</u>	<u>\$ 736,470</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2010, WITH COMPARATIVE TOTALS FOR 2009

	<u>Program Services</u>	<u>Supporting Services</u>	<u>2010</u>	<u>2009</u>
<b>EXPENSES</b>				
Administration	\$ 130,860	\$ 130,859	\$ 261,719	\$ 253,739
Bank fees	-	9,598	9,598	15,092
Conferences	62,350	-	62,350	92,754
Educational products	10,214	-	10,214	3,564
Foreign taxes	-	81	81	58
Grants	8,100	-	8,100	1,200
Insurance	-	1,354	1,354	-
Membership mailings	3,134	-	3,134	4,723
Office expenses	-	4,694	4,694	2,573
Professional fees	24,864	7,474	32,338	40,283
Publications	20,000	-	20,000	21,805
Shipping and postage	-	1,686	1,686	10,291
Travel	-	5,417	5,417	5,955
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 259,522</u>	<u>\$ 161,163</u>	<u>\$ 420,685</u>	<u>\$ 452,037</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received	\$ 394,407	\$ 459,297
Cash paid to suppliers and employees	(406,014)	(521,385)
Interest and dividends	<u>19,182</u>	<u>17,687</u>
Net cash provided by (used) in operating activities	7,575	(44,401)
Cash flows from investing activities		
Redemption (acquisition) of securities, net	<u>38,494</u>	<u>(16,356)</u>
Net cash provided by (used) in investing activities	<u>38,494</u>	<u>(16,356)</u>
Net increase (decrease) in cash	46,069	(60,757)
Cash - beginning of year	<u>34,781</u>	<u>95,538</u>
Cash - end of year	<u>\$ 80,850</u>	<u>\$ 34,781</u>

Reconciliation of increase in net assets  
provided by operating activities

Increase in net assets	\$ 79,145
Adjustments to reconcile net income to net cash provided by operating activities	
Add: Decrease in accounts receivable	31
Add: Decrease in inventory	2,640
Less: Increase in prepaid expenses	(14,880)
Add: Increase in accounts payable	2,251
Add: Increase in deferred revenue	28,771
Add: Increase in memberships payable	770
Add: Increase in sales tax payable	119
Less: Decrease in royalty payable	(5,000)
Less: Unrealized gain	(86,272)
Total adjustments	<u>(71,570)</u>
Cash (used) by operating activities	<u>\$ 7,575</u>

See accompanying notes and accountants' report.



THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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.

THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

B. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Organization evaluates all significant tax positions as required by generally accepted accounting principles in the United States. As of December 31, 2010, the Organization does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease with the next twelve months. The Organization's *Return of Organization Exempt from Income Tax*, the Form 990, is subject to examination by the appropriate taxing authority. As of December 31, 2010, the Organization's federal, Massachusetts and New York state returns generally remain open for the last three years.

During the years ended December 31, 2010 and 2009, the Organization incurred no interest or penalties related to taxes.

Subsequent Events - Management has evaluated subsequent events through March 28, 2011, the date the financial statements were available to be issued.

Administrative expenses – The Society has a contract with the University of New York at Albany for administrative support services. In 2010 and 2009 the Society paid \$261,719 and \$253,739, 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 Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash and cash equivalents.

THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

C. MARKETABLE DEBT AND EQUITY SECURITIES

Cost and fair value marketable debt and equity securities at December 31, 2010 are as follows:

Available for sale:	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
Money market funds-unrestricted	\$ 9,096	\$ 0	\$ 9,096
Stock/bond mutual fund-unrestricted	501,125	88,740	589,865
Stock equities-unrestricted	4,122	84	4,206
Certificate of deposit - restricted	30,000	355	30,355
Stock/bond funds – restricted	<u>44,053</u>	<u>1,977</u>	<u>46,030</u>
	<u>\$588,396</u>	<u>\$ 91,156</u>	<u>\$679,552</u>

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 2.5% and has a maturity date of January 28, 2011, with penalties for early withdrawal.

SYSTEM DYNAMICS SOCIETY  
Attachment (7) 2012 Proposed Budget

7/12/2011

(and actual revenue and expenses 2010 and previous year budget comparison)

	2010 Actual Revenue & Expenses	2011 Budget Approved	2012 Budget Proposed	% Changed
<b>Income</b>				
Products	67,970.29	93,377	61,116	-35%
Total INC Conferences	173,560.55	163,952	177,619	8%
Investment Income supporting operations	105,452.99	45,254	27,612	-39%
Journal Royalty Payments (Wiley)	45,997.00	83,989	77,702	-7%
Journal Support from Wiley	10,295.00	20,000	20,000	0%
Net Membership Dues	58,740.84	61,405	62,898	2%
Publication Sales	1,620.00	587	564	-4%
Shipping and Handling	17,690.74	17,704	11,587	-35%
Sponsor Dues and Donations	18,500.00	32,035	27,134	-15%
<b>Total Income</b>	<b>499,827.41</b>	<b>518,303</b>	<b>466,233</b>	<b>-10%</b>
<b>Cost of Goods Sold</b>				
Proceedings	0.00	230	0	-100%
Bibliography Update Expense	0.00	0	0	0%
Electronic Oracle Reprint	525.93	0	0	0%
Fireside Chat	(1,627.42)	0	0	0%
Literature Collection	(1,000.50)	0	0	0%
Management Game	10,330.89	21,757	15,025	-31%
PhD Seminar in System Dynamics	1,985.13	0	0	
<b>Total COGS</b>	<b>10,214.03</b>	<b>21,987</b>	<b>15,025</b>	<b>-32%</b>
Gross Profit	489,613.38	496,316	451,207	-9%
<b>Expense</b>				
Awards	8,100.38	6,705	6,612	-1%
Bank Adjustments (Expense)	1,544.06	1,780	2,645	49%
<b>Contract w/ Ualbany</b>				
Office Expenses through UAlbany		31,564	26,693	-15%
IFR Indirect Costs		23,161	17,556	-24%
Salaries & Fringe		231,613	269,252	16%
Adjustments from Previous Year		(5,843)	0	
<b>Total Contract w/ UAlbany</b>	<b>261,719.35</b>	<b>280,495</b>	<b>313,502</b>	<b>12%</b>
Credit card fees	8,053.57	14,768	12,492	-15%
Depreciation Expense	0.00	132	0	-100%
Electronic Presence Support	867.05	1,583	5,725	262%
<b>Total EXP Conferences outside Alb.contract</b>	<b>62,349.93</b>		<b>No Data</b>	<b>No Data</b>
Foreign Taxes	80.50	100	100	0%
Insurance (WC/Dis/Liability)	1,354.01	5,000	3,000	-40%
Journal Expense	20,000.00	20,000	20,000	0%
Membership Directory Exp (Memberclicks)	2,073.73	2,158	2,238	4%
Membership Services (Newsletter)	1,060.00	3,053	3,000	-2%
Miscellaneous Exp.(MA fees, gifts)	1,805.60	289	318	10%
Office Equipment Purchases	0.00	40	40	-1%
Officer Expenses	5,417.36	7,058	6,790	-4%
PhD Luncheon at Conference	0.00	1,000	1,000	0%
Phone, Fax, E-mail Services	0.00	30	0	-100%
Printing & Duplicating	1,005.00	2,141	1,695	-21%
Product Development	0.00	148	0	-100%
Professional Fees	20,239.58	34,480	31,060	-10%
Shipping /Postage Expense	1,683.71	13,614	1,852	-86%
Society Development Fund	0.00	25,000	20,000	-20%
Staff Expenses - training	0.00	0	500	
Staff Salary Market Adjustment	12,098.10	11,435	12,219	7%
Supplies	1,015.55	928	1,654	78%
<b>Total Expense</b>	<b>410,467.48</b>	<b>431,937</b>	<b>446,442</b>	<b>3%</b>
<b>Net Ordinary Income</b>	<b>79,145.90</b>	<b>64,379</b>	<b>4,765</b>	<b>-93%</b>
Investment Income Retained in Investment Accounts			22,117	
<b>Net Income (unrestricted assets)</b>	<b>79,145.90</b>	<b>64,379</b>	<b>26,882</b>	<b>-58%</b>

SYSTEM DYNAMICS SOCIETY  
Attachment (8) 2012 Proposed Budget  
by Cost Centers

7/12/2011

	2012 Budget Proposed	Conferences	Core	Sales	Publications	Investments (inc DM)
<b>Income</b>						
Products	61,116			61,116		
<b>Total INC Conferences</b>	177,619	<b>177,619</b>				
Investment Income supporting operations	27,612					27,612
Journal Royalty Payments (Wiley)	77,702		77,702			
Journal Support from Wiley	20,000				20,000	
Net Membership Dues	62,898		62,898			
Publications Sales	564				564	
Shipping and Handling	11,587			11,587		
Sponsor Dues and Donations	27,134		27,134			
<b>Total Income</b>	<b>466,233</b>	<b>177,619</b>	<b>167,734</b>	<b>72,704</b>	<b>20,564</b>	<b>27,612</b>
<b>Cost of Goods Sold</b>						
Proceedings	0					
Bibliography Update Expense	0					
Electronic Oracle Reprint	0					
Firside Chat	0					
Literature Collection	0					
Management Game	15,025			15,025		
PhD Seminar in System Dynamics	0			0		
Reprint Outdated SDR/Proceedings	0					
<b>Total COGS</b>	<b>15,025</b>	<b>0</b>	<b>0</b>	<b>15,025</b>	<b>0</b>	<b>0</b>
<b>Gross Profit</b>	<b>451,207</b>	<b>177,619</b>	<b>167,734</b>	<b>57,678</b>	<b>20,564</b>	<b>27,612</b>
<b>Expense</b>						
Awards	6,612					6,612
Bank Adjustments/Foreign Tax Exp	2,645		1,323	1,323		
<b>Contract w/ UAlbany</b>						
Office Expenses through UAlbany	26,693	11,539	12,656	1,473	1,026	
IFR Indirect Costs	17,556	7,589	8,324	968	675	
Salaries & Fringe	269,252	116,390	127,661	14,853	10,348	
Adjustments from previous year	0	0	0	0	0	
<b>Total Contract w/ UAlbany</b>	<b>313,502</b>	<b>135,518</b>	<b>148,641</b>	<b>17,294</b>	<b>12,049</b>	<b>0</b>
Credit card fees	12,492		6,121	6,246	125	
Depreciation Expense	0	0	0	0	0	
Electronic Presence Support	5,725		5,725			
Foreign Taxes	100		100			
Insurance (WC/Dis/Liability)	3,000		3,000			
Journal Expense	20,000				20,000	
Membership Directory Exp (Memberclicks)	2,238				2,238	
Membership Services (Newsletter)	3,000		3,000			
Miscellaneous Exp.(MA fees, gifts)	318		318			
Office Equipment Purchases	40	17	19	2	2	
Officer Expenses	6,790		4,074		2,716	
PhD Luncheon at Conference	1,000					1,000
Phone, Fax, E-mail Services	0		0			
Printing & Duplicating	1,695		678	678	339	
Product Development	0			0		
Professional Fees	31,060	10,871	10,871	7,765	1,553	
Shipping/Postage Expense	1,852		74	1,704	74	
Society Development Fund	20,000					20,000
Staff Expenses (training)	500	216	237	28	19	
Staff Salary Market Adjustment	12,219	5,282	5,793	674	470	
Supplies	1,654	715	784	91	64	
<b>Total Expense</b>	<b>446,442</b>	<b>152,619</b>	<b>190,758</b>	<b>35,805</b>	<b>39,647</b>	<b>27,612</b>
<b>Net Ordinary Income</b>	<b>4,765</b>	<b>25,000</b>	<b>(23,025)</b>	<b>21,873</b>	<b>(19,083)</b>	<b>0</b>
Investment Income Retained in Investment Accounts	22,117					22,117
<b>Net Income (unrestricted assets)</b>	<b>26,882</b>	<b>25,000</b>	<b>(23,025)</b>	<b>21,873</b>	<b>(19,083)</b>	<b>22,117</b>