

To: Policy Council of the System Dynamics Society  
From: David Andersen, VP Finance  
Subject: VP Finance Narrative Report for Fiscal Year 2012  
Date: July 22, 2012

***Summary:** 2011 was a good year financially for the System Dynamics Society. We posted a net income of \$98,113 and our overall equity grew from \$815,616 at the opening of our fiscal year to \$901,031 at the close of the fiscal year. In terms of financial activities this year, we have switched to a new CPA after many years with the same firm and we are trying to streamline our annual reporting processes to the Policy Council. Our budget for 2013 projects a loss in Net Ordinary Income of **\$49,346**. However, I have budgeted for an expected Investment Income of \$49,729 so that our overall Net Income will be a gain of \$382. The Society's budget for 2013 has three line items being supported with investment income—(1) Awards (Dana Meadows and Forrester), (2) the PhD Luncheon, and (3) Chapter Development Fund. These three lines in the budget come to \$23,900 out of our investment income.*

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 2011?** In 2011, we posted a Net Income of \$98,113 and our Total Assets grew by \$96,754. When viewed by cost centers, Core Operations posted a loss of \$45,886 and Publications posted a loss of \$788. These losses were countered by Net Income gains of \$51,624 in Sales, \$29,245 in Investment Income, and \$52,832 in Conferences (sum of all years).

**New “Investments-at-a-Glance” Report.** This year I have included a new report with my annual report that summarizes some of the key activities regarding the Society's Investment activities. This report follows up on some activities on the Investment Committee that was active last year.

**Revised Schedule for Annual Report from the VP Finance.** For the past several years, I have been providing an end of year financial report at the Winter Policy Council meeting. Typically this report needs to be updated after the annual audit of our books is complete. From now on I plan on providing only one annual report after the annual audit is complete to save some work for the home office.

**Revised Format for Budget and Cost Center Reports.** You may notice that the format for the budget this year and how I report by cost centers has changed. I am trying to more carefully align the format of all our reports so that they all use the format of our current accounting and reporting system. This will lessen the amount of special work that the home office needs to do in completing annual financial reports.

**New CPA Search Summary:** In June, 2011, Andy Hall of Murphy Hall & Co. (our CPA since inception), suggested that we search for a new CPA experienced in non-profit work because they have had changes in staffing and do not work with many non-profits. We received a number of recommendations from various sources including Murphy-Hall and our bookkeeping company of many years, 25th Hour Accounting Services. Five CPA firms were contacted; one in Massachusetts declined our invitation to submit a proposal and recommended we engage a New York based firm. Four NY firms with non-profit experience, willing to take on another client, submitted proposals and were interviewed by Roberta Spencer and Robin Langer, keeping me informed of their progress. Roberta and Robin also contacted at least two references for each of the four firms. All references had only wonderful comments; all firm representatives were personable, professional, and highly qualified; all good choices to work with. All were within a similar price range that was also comparable to the prices paid to Murphy Hall in recent years. Due to the specialization of non-profit work, familiarity with the newly expanded IRS Form 990, established relationship with our long-time bookkeeping firm and preparedness at the first interview, we chose Tom Hosey CPA of Lubbe & Hosey, PC.

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

**(1) Key Trends in Society Finances 1984 to Present.** This plot of key variables over time shows long term financial growth and an overall sound financial situation. Overall income was up again this year due to the good performance of the annual conference and adequate performance of our investments. The SUNY contract is stable for now, but our long term contract projects growth in our core home office staffing costs as well as a possible increase in the indirect cost rate.

**(2) Revenue and Expense Budget Comparison for 2011.** This page shows how well I am doing predicting our various classes of expenditures and expenditures through the budgeting process. Typically the performance of the conference and of our investments is very hard to call. Thus was the case this year. Also, this year we did not do a good job predicting journal income because our contract with Wiley was changing.

**(3) Balance Sheet, Previous Year Comparison for 2011.** We ended 2011 with Total Assets of \$960,867. Total assets were up between 2010 and 2011 just about the same amount as our increase in Net Income.

**(4) Revenues and Expenditures, Previous Year Comparison for 2011.** Net Income for the year was \$98,113. What strikes me most about this report is that our conference in 2011 performed quite strongly and our investments did not do quite as well. Journal Income is still adjusting to the terms of the new contract with Wiley.

**(5) Society Revenues and Expenditures, Fiscal Year, by Cost Centers.** When viewed by cost centers, Core Operations posted of loss of \$45,886 and Publications posted a loss of \$788. These losses were countered by Net Income gains of \$51,624 in Sales, \$29,245 in Investment Income, and \$52,832 in Conferences (sum of all years).

**(6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2011 (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. This year, this report has

been completed by our new CPA, Lubbe & Hosey, PC, and hence does not contain a two year comparison.

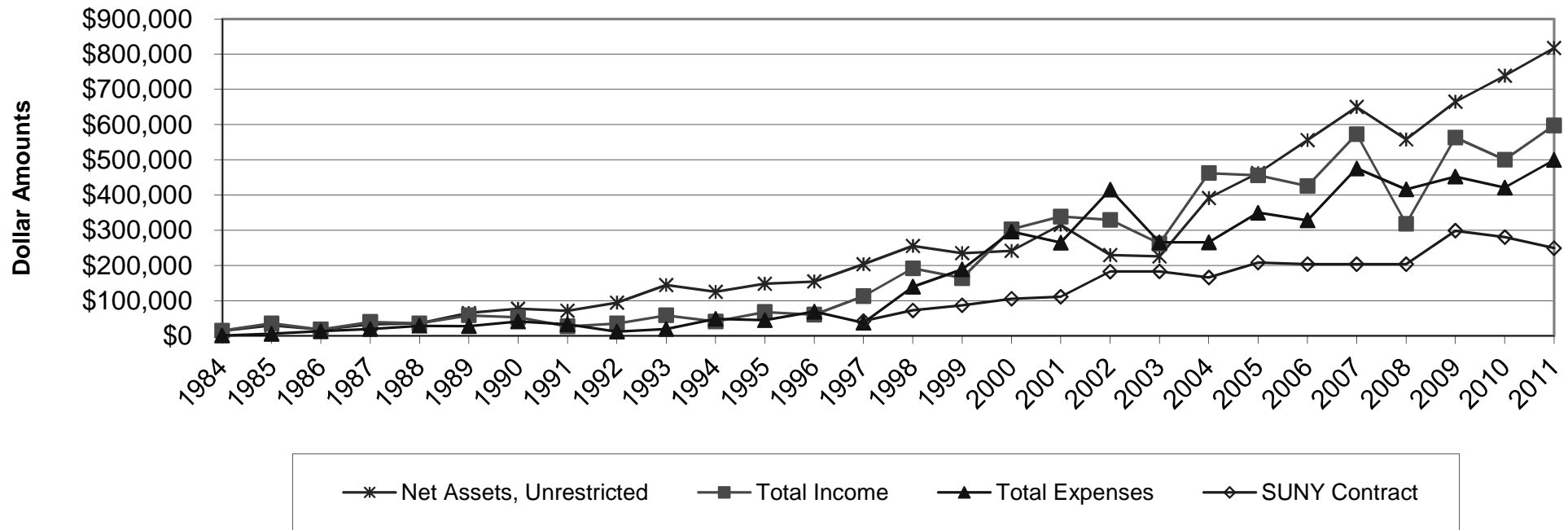
**(7) 2013 Proposed Budget System Dynamics Society.** Attachment 7 is the proposed budget that I am asking the Policy Council to approve. To fully understand this budget, I invite your attention to the “bottom line”. Our budgeted Net Ordinary Income is **-\$49,346**. This is the amount that I project the Society would lose in 2013 if we did not have investment income to fall back on. This year, we have budgeted \$23,900 of that investment income for three specific purposes—(1) Awards (Dana Meadows and Forrester Awards), (2) the PhD student luncheon, and (3) the Chapter Development Fund.

**(8) Investments-at-a-Glance.** The investment goals for the Society are the same as reported last year. As laid out in my report last year, we should seek to retain investments of \$1,110,061 to prudently meet currently envisioned contingencies. The fair market value of our financial instruments (less cash or cash equivalents) was as of December 31, 2011 equal to \$719,923. Our total investment income for 2011 was modest, but still sufficient to cover our various expenses that we now budget out of 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 2011
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) As of December 31, 2011
- (4) System Dynamics Society Revenues and Expenditures, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) January through December 2011.
- (5) System Dynamics Society Revenues and Expenditures, Fiscal Year, by Cost Centers (unaudited, but reflecting final CPA Financial Statement changes) January through December 2011.
- (6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2011 (final statements from our CPA).
- (7) 2013 Proposed Budget System Dynamics Society.
- (8) Investments-at-a-Glance

# (1) Key Trends in Society Finances since 1984



05/22/12  
Accrual Basis

**System Dynamics Society**  
**(2) Rev & Exp Budget Compare (unaudited)**  
January through December 2011

	Jan - Dec 11	Budget	\$ Over Budget	% of Budget
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
INC Conferences	303,463	163,952	139,511	185%
Journal Income	85,514	103,989	-18,475	82%
Membership Dues	63,636	61,405	2,231	104%
Products	75,106	93,964	-18,858	80%
Shipping and Handling Income	11,394	17,704	-6,310	64%
Sponsor Dues and Donations	41,001	32,035	8,966	128%
<b>Total Income</b>	580,114	473,049	107,065	123%
<b>Cost of Goods Sold</b>				
Cost of Goods	14,246	21,987	-7,741	65%
<b>Total COGS</b>	14,246	21,987	-7,741	65%
<b>Gross Profit</b>	565,868	451,062	114,806	125%
<b>Expense</b>				
Awards-Dana Meadows	1,200	1,200	0	100%
Awards-Others	0	5,505	-5,505	0%
Bank & CC Fees	13,609	16,548	-2,939	82%
Chapter Dev (\$20K Max)	4,000			
Contracted Expenses at UAlbany	279,400	280,495	-1,095	100%
Depreciation Expense	0	132	-132	0%
EXP Conferences	121,091			
Insurance	2,013	5,000	-2,987	40%
Journal Expense	19,763	20,000	-237	99%
Membership Directory Exp	2,170	2,158	12	101%
Membership Services	0	3,053	-3,053	0%
Miscellaneous Expense	816	389	427	210%
Office Expense	5,235	18,336	-13,101	29%
Officer Expenses (=Travel CPA)	10,197	7,058	3,139	144%
PHD Luncheon @ Conf	0	1,000	-1,000	0%
Product Dev.	0	148	-148	0%
Professional Fees	38,953	45,915	-6,962	85%
Strategic Development	0	25,000	-25,000	0%
<b>Total Expense</b>	498,446	431,937	66,509	115%
<b>Net Ordinary Income</b>	67,422	19,125	48,297	353%
<b>Other Income/Expense</b>				
<b>Other Income</b>				
Investment Income	27,865	45,254	-17,389	62%
DM Investment Inc	2,826			
<b>Total Other Income</b>	30,691	45,254	-14,563	68%
<b>Net Other Income</b>	30,691	45,254	-14,563	68%
<b>Net Income</b>	<b>98,113</b>	<b>64,379</b>	<b>33,734</b>	<b>152%</b>

05/22/12  
Accrual Basis

**System Dynamics Society**  
**(3) Balance Sheet, Prev Year Comparison (unaudited)**  
As of December 31, 2011

	Dec 31, 11	Dec 31, 10	\$ Change	% Change
<b>ASSETS</b>				
<b>Current Assets</b>				
<b>Checking/Savings</b>				
Bank of America Checking 2474	54,461	68,265	-13,804	-20%
Bank Paypal	153	713	-559	-79%
Companion Savings - BoA	105,476	8,521	96,954	1,138%
Travel Cash	102	102	0	0%
UBS Financial (was PaineWebber)	24,013	13,302	10,711	81%
Vanguard Society (88008478957)	612,250	589,864	22,386	4%
<b>Total Checking/Savings</b>	<b>796,455</b>	<b>680,767</b>	<b>115,688</b>	<b>17%</b>
<b>Other Current Assets</b>				
Inventory	25,970	20,807	5,163	25%
Prepaid Expenses	54,558	82,904	-28,346	-34%
Cash-Undeposited Funds	150	3,250	-3,100	-95%
<b>Total Other Current Assets</b>	<b>80,678</b>	<b>106,961</b>	<b>-26,283</b>	<b>-25%</b>
<b>Total Current Assets</b>	<b>877,133</b>	<b>787,728</b>	<b>89,406</b>	<b>11%</b>
<b>Fixed Assets</b>				
Accumulated Depreciation	-1,263	-1,263	0	0%
Equipment	1,263	1,263	0	0%
<b>Total Fixed Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>
<b>Other Assets</b>				
UBS DM CD	0	30,355	-30,355	-100%
Vanguard DMA (88006930361)	83,734	46,031	37,703	82%
<b>Total Other Assets</b>	<b>83,734</b>	<b>76,386</b>	<b>7,348</b>	<b>10%</b>
<b>TOTAL ASSETS</b>	<b>960,867</b>	<b>864,113</b>	<b>96,754</b>	<b>11%</b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
<b>Accounts Payable</b>				
Accounts Payable	5,459	2,863	2,597	91%
<b>Total Accounts Payable</b>	<b>5,459</b>	<b>2,863</b>	<b>2,597</b>	<b>91%</b>
<b>Other Current Liabilities</b>				
Deferred Revenue	43,321	32,164	11,157	35%
Membership Sub Payable 2005+	10,679	13,287	-2,608	-20%
PPD Journal Editor	262	0	262	100%
Sales Tax Payable	115	184	-69	-37%
<b>Total Other Current Liabilities</b>	<b>54,377</b>	<b>45,635</b>	<b>8,742</b>	<b>19%</b>
<b>Total Current Liabilities</b>	<b>59,836</b>	<b>48,497</b>	<b>11,339</b>	<b>23%</b>
<b>Total Liabilities</b>	<b>59,836</b>	<b>48,497</b>	<b>11,339</b>	<b>23%</b>
<b>Equity</b>				
Net Assets - Restricted (DMA)	83,661	71,657	12,004	17%
Net Assets - Unrestricted	719,257	664,813	54,444	8%
Net Income	98,113	79,146	18,967	24%
<b>Total Equity</b>	<b>901,031</b>	<b>815,616</b>	<b>85,415</b>	<b>11%</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>960,867</b>	<b>864,113</b>	<b>96,754</b>	<b>11%</b>

05/22/12  
Accrual Basis

**System Dynamics Society**  
**(4) Rev & Exp Prev Year Compare (unaudited)**  
January through December 2011

	<u>Jan - Dec 11</u>	<u>Jan - Dec 10</u>	<u>% Change</u>
<b>Ordinary Income/Expense</b>			
<b>Income</b>			
INC Conferences	303,463	173,561	75%
Journal Income	85,514	56,292	52%
Membership Dues	63,636	58,741	8%
Products	75,106	69,590	8%
Shipping and Handling Income	11,394	17,691	-36%
Sponsor Dues and Donations	41,001	18,500	122%
<b>Total Income</b>	<u>580,114</u>	<u>394,374</u>	<u>47%</u>
<b>Cost of Goods Sold</b>			
Cost of Goods	14,246	10,214	40%
<b>Total COGS</b>	<u>14,246</u>	<u>10,214</u>	<u>40%</u>
<b>Gross Profit</b>	565,868	384,160	47%
<b>Expense</b>			
Awards-Dana Meadows	1,200	1,200	0%
Awards-Others	0	6,900	-100%
Bank & CC Fees	13,609	9,598	42%
Chapter Dev (\$20K Max)	4,000	0	100%
Contracted Expenses at UAlbany	279,400	261,719	7%
EXP Conferences	121,091	62,350	94%
Insurance	2,013	1,354	49%
Journal Expense	19,763	20,000	-1%
Membership Directory Exp	2,170	2,074	5%
Membership Services	0	1,060	-100%
Miscellaneous Expense	816	1,886	-57%
Office Expense	5,235	4,571	15%
Officer Expenses (=Travel CPA)	10,197	5,417	88%
Product Dev.	0	0	0%
Professional Fees	38,953	32,338	21%
<b>Total Expense</b>	<u>498,446</u>	<u>410,467</u>	<u>21%</u>
<b>Net Ordinary Income</b>	67,422	-26,307	356%
<b>Other Income/Expense</b>			
<b>Other Income</b>			
Investment Income	27,865	102,963	-73%
DM Investment Inc	2,826	2,490	14%
<b>Total Other Income</b>	<u>30,691</u>	<u>105,453</u>	<u>-71%</u>
<b>Net Other Income</b>	<u>30,691</u>	<u>105,453</u>	<u>-71%</u>
<b>Net Income</b>	<u><u>98,113</u></u>	<u><u>79,146</u></u>	<u><u>24%</u></u>

05/30/12

Accrual Basis

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

January through December 2011

	2014	2013...	2012 ...	2011 ...	2010...	Misc...	Core Ops (CO)	Web (CO)	Total CO	Sales	Publ...	Investments	DMC	IFR ...	audit	TOTAL
<b>Ordinary Income/Expense</b>																
<b>Income</b>																
<b>INC Conferences</b>	0	0	9,000	293,428	-500	-824	2,209	0	2,209	0	0	0	0	0	150	303,463
<b>Journal Income</b>	0	0	0	0	0	0	52,491	0	52,491	0	33,023	0	0	0	0	85,514
<b>Membership Dues</b>	0	0	0	0	0	0	62,449	0	62,449	0	0	0	0	0	1,187	63,636
<b>Products</b>	0	0	0	0	0	0	8	0	8	75,099	0	0	0	0	0	75,106
<b>Shipping and Handling Income</b>	0	0	0	0	0	0	0	0	0	11,394	0	0	0	0	0	11,394
<b>Sponsor Dues and Donations</b>	0	0	0	0	0	0	41,001	0	41,001	0	0	0	0	0	0	41,001
<b>Total Income</b>	0	0	9,000	293,428	-500	-824	158,158	0	158,158	86,493	33,023	0	0	0	1,337	580,114
<b>Cost of Goods Sold</b>																
<b>Cost of Goods</b>	0	0	0	0	0	0	0	0	0	14,246	0	0	0	0	0	14,246
<b>Total COGS</b>	0	0	0	0	0	0	0	0	0	14,246	0	0	0	0	0	14,246
<b>Gross Profit</b>	0	0	9,000	293,428	-500	-824	158,158	0	158,158	72,246	33,023	0	0	0	1,337	565,868
<b>Expense</b>																
<b>Awards-Dana Meadows</b>	0	0	0	0	0	0	0	0	0	0	0	0	1,200	0	0	1,200
<b>Bank &amp; CC Fees</b>	0	0	6	4,383	0	0	8,458	2	8,460	669	15	75	0	0	1	13,609
<b>Chapter Dev (\$20K Max)</b>	0	0	0	0	0	0	4,000	0	4,000	0	0	0	0	0	0	4,000
<b>Contracted Expenses at UAlbany</b>	8,395	4,197	16,825	89,000	0	0	121,843	27,721	149,564	16,618	8,495	0	0	982	-14,677	279,400
<b>EXP Conferences</b>	0	147	2,521	117,497	0	0	0	0	0	0	0	0	0	0	927	121,091
<b>Insurance</b>	0	0	0	0	0	0	2,013	0	2,013	0	0	0	0	0	0	2,013
<b>Journal Expense</b>	0	0	0	0	0	0	0	0	0	0	19,763	0	0	0	0	19,763
<b>Membership Directory Exp</b>	0	0	0	0	0	0	0	0	0	0	2,170	0	0	0	0	2,170
<b>Miscellaneous Expense</b>	0	0	0	0	0	0	700	0	700	0	0	0	0	0	116	816
<b>Office Expense</b>	0	0	0	0	0	0	4,832	0	4,832	720	0	0	0	0	-317	5,235
<b>Officer Expenses (=Travel CPA)</b>	0	0	0	0	0	0	6,803	0	6,803	36	3,368	0	0	0	-10	10,197
<b>Product Dev.</b>	0	0	0	0	0	0	-3,964	0	-3,964	0	0	0	0	0	3,964	0
<b>Professional Fees</b>	0	221	584	5,067	253	0	31,631	60	31,691	2,580	0	0	0	35	-1,477	38,953
<b>Total Expense</b>	8,395	4,565	19,936	215,947	253	0	176,316	27,783	204,098	20,622	33,811	75	1,200	1,017	-11,474	498,446
<b>Net Ordinary Income</b>	-8,395	-4,565	-10,936	77,481	-753	-824	-18,157	-27,783	-45,940	51,624	-788	-75	-1,200	-1,017	12,810	67,422
<b>Other Income/Expense</b>																
<b>Other Income</b>																
<b>Investment Income</b>	0	0	0	0	0	0	54	0	54	0	0	22,793	4,901	0	116	27,865
<b>DM Investment Inc</b>	0	0	0	0	0	0	0	0	0	0	0	0	2,826	0	0	2,826
<b>Total Other Income</b>	0	0	0	0	0	0	54	0	54	0	0	22,793	7,727	0	116	30,691
<b>Net Other Income</b>	0	0	0	0	0	0	54	0	54	0	0	22,793	7,727	0	116	30,691
<b>Net Income</b>	<u>-8,395</u>	<u>-4,565</u>	<u>-10,936</u>	<u>77,481</u>	<u>-753</u>	<u>-824</u>	<u>-18,103</u>	<u>-27,783</u>	<u>-45,886</u>	<u>51,624</u>	<u>-788</u>	<u>22,718</u>	<u>6,527</u>	<u>-1,017</u>	<u>12,927</u>	<u>98,113</u>



**SYSTEM DYNAMICS SOCIETY, INC.**

Financial Statements

December 31, 2011

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

SYSTEM DYNAMICS SOCIETY, INC.

YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

Independent Accountant's Review Report

Financial Statements:

Statement of Financial Position

Statement of Activities

Statement of Cash Flows

Notes to Financial Statements

# LUBBE & HOSEY, PC

CERTIFIED PUBLIC ACCOUNTANTS

Suite 305  
187 Wolf Road  
Albany, New York 12205  
(518) 454-9355  
FAX (518) 454-9332

Steven J. Lubbe, CPA  
Thomas W. Hosey, CPA

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Policy Council  
System Dynamics Society, Inc.

We have reviewed the accompanying statement of financial position **System Dynamics Society, Inc.** (a nonprofit organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of **System Dynamics Society, Inc.'s** management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

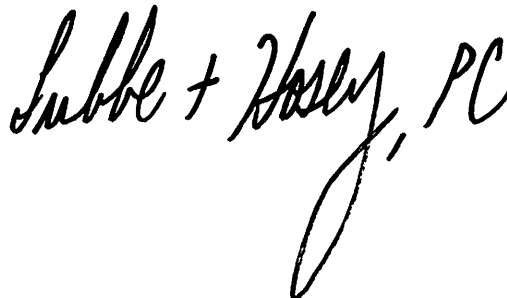
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the 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 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.

As discussed in note 8 to the financial statements, certain errors resulting in an understatement of previously reported deferred revenue as of December 31, 2010, were discovered by management during the current year. An adjustment has been made to net assets as of January 1, 2011, to the correct the errors.

Albany, New York  
February 29, 2012

A handwritten signature in black ink that reads "Lubbe + Hosey, PC". The signature is written in a cursive, flowing style with a large, decorative flourish at the end.

SYSTEM DYNAMICS SOCIETY, INC.

Statement of Financial Position

December 31, 2011

<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$179,969
Investments	616,709
Inventory	25,970
Prepaid expenses	<u>54,558</u>
Total current assets	<u>877,206</u>
Property and equipment:	
Office equipment	1,263
Less accumulated depreciation	<u>(1,263)</u>
Total property and equipment	<u>-</u>
Other asset:	
Investments - restricted	<u>83,661</u>
	<u>\$960,867</u>
 <u>LIABILITIES AND NET ASSETS</u>	
Current liabilities:	
Accounts payable and accrued expenses	5,574
Membership subscriptions liability	10,679
Deferred revenue	<u>43,583</u>
Total current liabilities	59,836
Net assets:	
Unrestricted	817,370
Temporarily restricted	<u>83,661</u>
Total net assets	<u>901,031</u>
	<u>\$960,867</u>

See accompanying notes and independent accountant's review report.


SYSTEM DYNAMICS SOCIETY, INC.

Statement of Activities

Year ended December 31, 2011

UNRESTRICTED NET ASSETS

Revenue:

Conferences	\$303,463
Publications	85,514
Membership dues and  bscriptions	63,636
Educational products, net expenses of \$14,238	72,255
Donations	41,001
Investment income	22,964
Net assets released from restrictions	<u>1,200</u>
Total revenue	<u>590,033</u>

Expenses:

Dana Meadows Award	1,200
Bank and credit card fees	13,609
Contract - University of New York at Albany	279,400
Conferences	121,090
Insurance	2,013
Publications	19,763
Membership services	2,170
Travel	10,197
Office expenses	5,235
Chapter development	4,000
Consultants and professional fees	38,953
Miscellaneous	<u>816</u>
Total expenses	<u>498,446</u>
Change in unrestricted net assets	<u>91,587</u>

TEMPORARILY RESTRICTED NET ASSETS

Investment income	7,726
Net assets released from restrictions	<u>(1,200)</u>
Change in temporarily restricted net assets	<u>6,526</u>

Change in net assets	98,113
Net assets, beginning of year	815,615
Prior period adjustments (note 8)	<u>(12,697)</u>
Net assets, end of year	<u>901,031</u>

See accompanying notes and independent accountant's review report.

SYSTEM DYNAMICS SOCIETY, INC.

Statement of Cash Flows

Year ended December 31, 2011

Cash flows provided (used) by operating activities:	
Change in net assets	\$ 98,113
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Net gain on investments	(11,172)
Changes in operating assets and liabilities:	
Inventory	(5,163)
Prepaid expenses	28,346
Accounts payable and accrued expenses	2,527
Membership subscriptions liability	(2,608)
Deferred revenue	<u>(1,278)</u>
Net cash provided by operating activities	<u>108,765</u>
Cash flows provided (used) by investing activities:	
Proceeds from certificate of deposit matured	30,000
Purchases of investments	<u>(48,742)</u>
Net cash (used) by investing activities	<u>(18,742)</u>
Net increase in cash and cash equivalents	90,023
Cash and cash equivalents, beginning of year	<u>89,946</u>
Cash and cash equivalents, end of year	<u>\$179,969</u>

See accompanying notes and independent accountant's review report.

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements

December 31, 2011

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

(a) Organization

System Dynamics Society, Inc. (SDS) was incorporated in the State of Massachusetts in November 1985. SDS is a not-for-profit organization devoted to encouraging the development and use of system dynamics and systems thinking around the world. System dynamics is a computer-aided approach to policy analysis and design. SDS provides a forum in which researchers, educators, consultants, and practitioners in the corporate and public sectors interact to introduce newcomers to the field, keep abreast of current developments, and build on each other's work. SDS is primarily supported through conference revenue.

(b) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and reflect all significant receivables, payables, and other liabilities.

(c) Basis of Presentation

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

(d) Cash and Cash Equivalents

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

(e) Concentration of Credit Risk

Financial instruments that potentially subject SDS to concentrations of credit risk consist principally of cash accounts in a financial institution which, from time to time, exceed the Federal depository insurance coverage limit of \$250,000. No amounts exceeded federally insured limits at December 31, 2011.

(f) Income Taxes

SDS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, is classified as an organization that is not a private foundation, and qualifies for the charitable contribution deduction for individual donors. Management believes there are no sources of unrelated business taxable income. SDS is required to file Federal Form 990 "Return of Organization Exempt from Income Tax". The Agency is generally no longer subject to examination by the Internal Revenue Service for years before 2008.

(Continued)

## SYSTEM DYNAMICS SOCIETY, INC.

## Notes to Financial Statements (Continued)

(1) Nature of Activities and Summary of Significant Accounting Policies(g) Investments

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

(h) Revenue RecognitionConference Revenue

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

Contributions and Investment Income

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

Contributed Services

No amounts have been reflected in the financial statements for contributed services. SDS generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist SDS with program and support services.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Inventory

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

(k) Property and Equipment

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

(Continued)



## SYSTEM DYNAMICS SOCIETY, INC.

## Notes to Financial Statements (Continued)

(2) University of New York at Albany

SDS has a three year contract with the University of New York at Albany for administrative support services through December 2013. Support services includes personnel services and the use of property and equipment owned by the University. During 2011, SDS incurred \$279,400 to the University for support services. There were no amounts receivable from or payable to the University at December 31, 2011. Prepaid contract costs totaled \$8,239 at December 31, 2011.

(3) Investments

A summary of investments at December 31, 2011 is set forth below:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 4,122	4,459
Mutual funds	<u>598,435</u>	<u>695,911</u>
	<u>\$602,557</u>	<u>700,370</u>

Investment income, including interest and dividends on cash and cash equivalents, for the year ended December 31, 2011 is as follows:

Interest and dividends	\$17,566
Capital gain distributions	1,952
Net gain on investments	<u>11,172</u>
	<u>\$30,690</u>

(4) Functional Reporting of Expenses

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

Expenses for the year ending December 31, 2011 are functionally classified as:

Program expenses	\$360,996
Support services	<u>137,450</u>
	<u>\$498,446</u>

(5) Restriction on Net Assets

The restriction on net assets relates to funds established to honor the late Dana Meadows and encourage the next generation of students in the field of system dynamics. Temporarily restricted net assets are available to fund the Dana Meadows Award and are held in a separate investment account. The following is a summary of temporarily restricted net assets at December 31, 2011:

Beginning balance	\$77,135
Investment income	7,726
Award provided	<u>(1,200)</u>
Ending balance	<u>\$83,661</u>

(Continued)

## SYSTEM DYNAMICS SOCIETY, INC.

## Notes to Financial Statements (Continued)

(6) Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurement*, establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or inputs that are observable or can be corroborated by observable market data.

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

The table below indicates the level of fair value inputs in measuring investments on a recurring basis.

	<u>Level 1</u>
Cash equivalents	\$ 19,553
Common stock	4,459
Mutual funds	<u>695,911</u>
	<u>\$719,923</u>

Cash, accounts payable and accrued expenses, and other current liabilities - carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

(7) Subsequent Events

Management has evaluated subsequent events through February 29, 2012, the date on which the financial statements were available to be issued.

(8) Prior Period Adjustments

Certain errors resulting in an understatement of previously reported deferred revenue were discovered during the current year. An adjustment of \$12,697 was made during 2011 to record deferred revenue as of the beginning of the year and reduce previously reported unrestricted net assets. The effect of the restatement would have reduced the previously reported change in unrestricted net assets by \$12,697.

## System Dynamics Society (7) 2013 Proposed Budget

	Jan - Dec 11	Approved 2012	Proposed 2013	Percent Changed
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
INC Conferences	303,462.98	177,619.00	228,000.00	28%
Journal Income	85,514.00	97,702.00	88,076.00	-10%
Membership Dues	63,636.04	62,898.00	64,423.00	2%
Other Income	0.00		0.00	
Products	75,106.49	61,680.00	72,116.91	17%
Shipping and Handling Income	11,393.75	11,587.00	14,320.83	24%
Sponsor Dues and Donations	41,001.00	27,134.00	29,875.33	10%
<b>Total Income</b>	<b>580,114.26</b>	<b>438,620.00</b>	<b>496,812.08</b>	<b>13%</b>
<b>Cost of Goods Sold</b>				
Cost of Goods	14,246.26	15,025.00	9,341.43	-38%
<b>Total COGS</b>	<b>14,246.26</b>	<b>15,025.00</b>	<b>9,341.43</b>	<b>-38%</b>
<b>Gross Profit</b>	<b>565,868.00</b>	<b>423,595.00</b>	<b>487,470.65</b>	<b>15%</b>
<b>Expense</b>				
Awards-Dana Meadows	1,200.00	1,200.00	1,200.00	0%
Awards-Others	0.00	5,412.00	6,900.38	28%
Bank & CC Fees	13,608.69	15,137.00	12,766.01	-16%
Chapter Dev (\$20K Max)	4,000.00	20,000.00	16,000.00	-20%
Contracted Expenses at UAlbany	279,399.74	313,502.00	315,116.16	1%
EXP Conferences	121,090.54	No data	103,000.00	NA
Insurance	2,013.12	3,000.00	3,000.00	0%
Journal Expense	19,763.00	20,000.00	20,000.00	0%
Membership Directory Exp	2,170.36	2,238.00	2,500.00	12%
Membership Services	0.00	3,000.00	3,000.00	0%
Membership Subsidies			0.00	
Miscellaneous Expense	815.96	418.00	1,004.47	140%
Office Expense	5,234.86	10,966.00	3,229.81	-71%
Officer Expenses	10,196.61	7,290.00	7,189.66	-1%
PHD Luncheon @ Conf		1,000.00	1,000.00	0%
Product Dev.	0.00		0.00	
Professional Fees	38,952.84	43,279.00	40,910.52	-5%
Strategic Development			0.00	
<b>Total Expense</b>	<b>498,445.72</b>	<b>446,442.00</b>	<b>536,817.01</b>	<b>20%</b>
<b>Net Ordinary Income</b>	<b>67,422.28</b>	<b>-22,847.00</b>	<b>-49,346.36</b>	<b>116%</b>

<b>Other Income/Expense</b>				
Investment Income	27,864.70			
Budgeted Investment Income		27,612.00	23,900.38	-13%
Unbudgeted Investment Income		19,733.93	23,445.55	19%
DM Investment Inc	2,825.84	2,383.07	2,383.07	0%
<b>Total Investment Income</b>	<b>30,690.54</b>	<b>49,729.00</b>	<b>49,729.00</b>	<b>0%</b>
<b>Total Other Income</b>	<b>30,690.54</b>	<b>49,729.00</b>	<b>49,729.00</b>	<b>0%</b>
<b>Net Income</b>	<b>98,112.82</b>	<b>26,882.00</b>	<b>382.64</b>	<b>-99%</b>

System Dynamics Society  
**(8) Investments-at-a Glance**  
**As of December 31, 2011**

**1. Investment goals for the System Dynamics Society**

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

**2. Items in 2013 Budget to be supported from Investment Income**

Awards (Dana Meadows and Forrester)	\$6,900
PhD Luncheon	\$1,000
Chapter Development Fund	\$16,000
<b>TOTAL</b>	<b>\$23,900</b>

**3. Fair Value of Financial Instruments (as of December 31, 2011)**

See CPA report, page 4--note (6)	\$719,923
----------------------------------	-----------

**4. Investment Income for the year ended December 31, 2011**

See CPA report, page 3--note (3)	\$30,690
----------------------------------	----------