

To: Policy Council of the System Dynamics Society
From: David Andersen, VP Finance
Subject: VP Finance Narrative Report for Fiscal Year 2012
Date: July 12, 2013

***Summary:** 2012 was a good year financially for the System Dynamics Society. We posted a net income of \$128,189 and our overall equity grew from \$901,031 at the opening of our fiscal year to \$1,093,591 at the close of the fiscal year. The Society's financial position for 2012 was helped by a very strong showing at the St. Gallen conference. Our budget for 2014 projects a loss in Net Ordinary Income of \$80,662. However, I have budgeted for an expected Investment Income of \$78,790 so that our overall Net Income will be a net loss of \$1,871. The Society's budget for 2014 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 \$28,449 out of our investment income.*

My report this year again 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 2012? In 2012, we posted a Net Income of \$128,189 and our Total Assets grew by \$203,998. When viewed by cost centers, Core Operations posted a loss of \$53,014 and Publications posted a loss of \$13,554. These losses were countered by Net Income gains of \$27,827 in Sales, \$89,943 in Investment Income, and \$55,389 in Conferences (sum of all years).

Forrester Award is Now Fully Funded due to St. Gallen Conference. The St. Gallen conference made a particularly strong financial showing last year due to the careful management of conference details by Markus Schwaninger. We have been able to designate \$20,000 of the conference surplus to fully fund the Forrester Award.

81% of our Current Investment Goals are Covered by Designated Assets. For 2014, I have proposed a total Investment Goal for our Unrestricted Funds of \$1,228,500. I estimate that as of the end of this year, we will have on hand unrestricted funds of \$1,001,349 to cover these goals, or 81% of our current investment goals are being covered by designated assets.

Revised Format for Budget and Cost Center Reports Seems to be Working Well. Last year and this year have featured reports from the VP Finance that are more directly tied to the format of our QuickBooks accounting system. While these reports are a bit less intuitive to read, they are much easier to generate and require less staff time for formatting and preparation. So if the PC is OK with this experiment, I plan to make it permanent.

Revised Staffing Pattern at the Home Office. Robin Langer, a long term and valued employee at the Home Office, is moving to part time as a first move toward retirement. We have opened a search for a part time employee to cover her work load. There have been 87 applicants and we

are down to a short list of 10 with interviews scheduled to start in August. This change in staffing will give us a bit more staff capacity during the interim period and will provide for continuity during Robin's transition. This cost is reflected in increases in the contract with UAlbany.

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.

(2) Revenue and Expense Budget Comparison for 2012. This page shows how well I am doing predicting our various classes of expenses and expenses through the budgeting process. Typically the performance of the conference and of our investments is very hard to call. Thus was the case for 2012 as well. I was unable to even make a call at the conference income last year, so I missed the strong performance that we had at St. Gallen and our investments did about twice as well as I had predicted. However, for 2012, I overestimated product sales as well as income from Wiley for journal royalties. In general, we are seeing a continuing softening in both of these areas.

(3) Balance Sheet, Previous Year Comparison for 2012. We ended 2012 with Total Assets of \$1,164,865. Between 2011 and 2012 total assets were not the same as our increase in Net Income because of various year to year encumbrances that move on and off our balance sheet each year.

(4) Revenues and Expenses, Previous Year Comparison for 2012. Net Income for the year was \$128,189. The main difference between 2012 and 2011 is the very strong performance of the St. Gallen conference. It performed even better than the Washington conference of the previous year.

(5) Society Revenues and Expense, Fiscal Year, by Cost Centers. When viewed by cost centers, Core Operations posted of loss of \$53,014 and Publications posted a loss of \$13,554. These losses were countered by Net Income gains of \$27,827 in Sales, \$89,943 in Investment Income, and \$55,389 in Conferences (sum of all years).

(6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2012 (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. While not an audit, this report does confirm the managerial QuickBooks system that we use to manage the Society's affairs. The "Notes" section of this report comments on a number of the financial management practices of the Home Office staff. Overall, we have a good bill of financial health.

(7) 2014 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 a loss, -\$80,662. This is the amount that I project the Society would lose in 2014 if we did not have investment income to fall back on (in this estimate, I have budgeted the 2014 conference as making a \$25,000 profit for the Society). This year, we have budgeted \$28,449 of that investment income for three specific

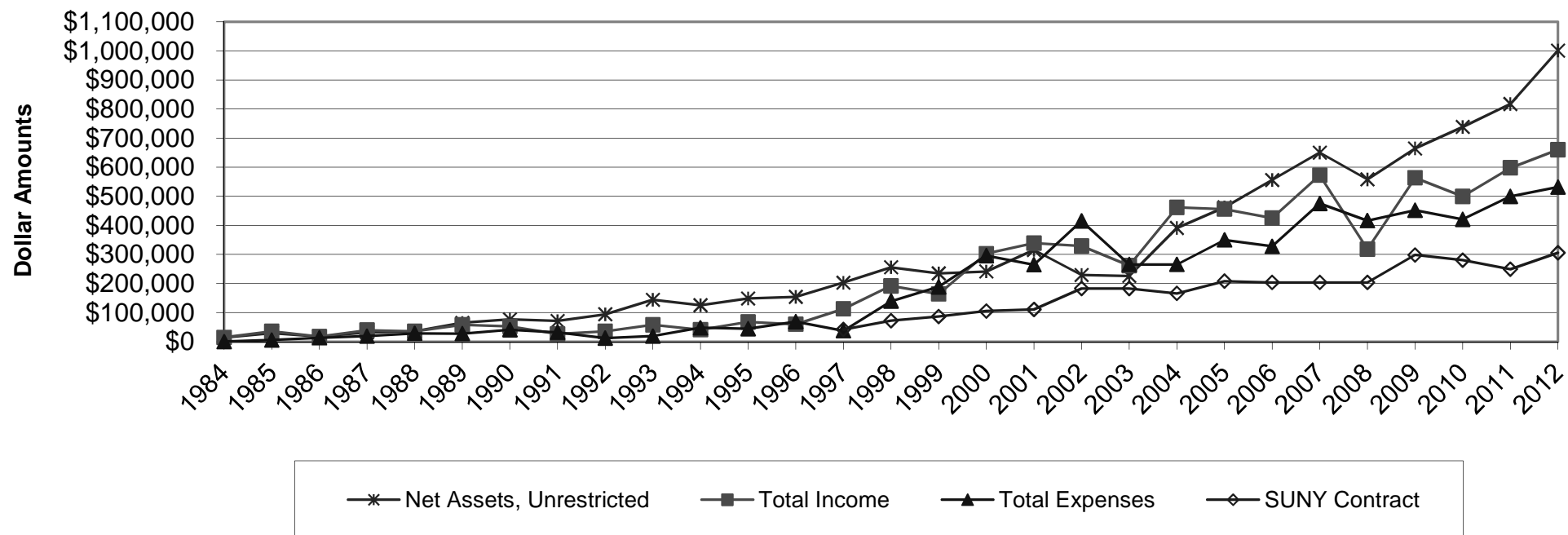
purposes—(1) Awards (Dana Meadows and Forrester Awards), (2) the PhD student luncheon, and (3) the Chapter Development Fund. In addition, my budget shows an additional \$48,845 of investment being allocated to close the gap in Net Ordinary Income. Part of this gap arises because we are experiencing a continuing decline in sales and our income from the Journal is lagging behind what we had expected from the new contract. On a more positive note, we have budgeted the 2014 conference surplus at only the required \$25,000 and I believe that our estimate of investment performance is conservative. In spite of my usual pessimistic budgeting, for five out of the past six years, we have posted gains in Net Ordinary Income.

(8) Investments-at-a-Glance. The investment goals for the Society are up slightly from last year. As laid out in attachment (8), we should seek to retain investments of \$1,228,500 to prudently meet currently envisioned contingencies. The fair market value of our financial instruments (less cash or cash equivalents) as of December 31, 2012 was equal to \$865,570. Our total investment income for 2012 (\$100,229) was sufficient to cover our various expenses that we now budgeted out of investment income.

Attachments:

- (1) Key Trends in Society Finances 1984 to Present.
- (2) System Dynamics Society Revenue and Expenses Budget Comparison, Fiscal Year (unaudited, but reflecting final CPA Financial Statement changes) January through December 2012
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) As of December 31, 2012
- (4) System Dynamics Society Revenue and Expenses, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) January through December 2012.
- (5) System Dynamics Society Revenue and Expenses, Fiscal Year, by Cost Centers (unaudited, but reflecting final CPA Financial Statement changes) January through December 2012.
- (6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2012 (final statements from our CPA).
- (7) 2014 Proposed Budget System Dynamics Society.
- (8) Investments-at-a-Glance As of December 31, 2012

(1) Key Trends in Society Finances since 1984



05/31/13
Accrual Basis

System Dynamics Society
(2) Rev & Exp, Budget Comparison (unaudited)
January through December 2012

	Jan - Dec 12	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
INC Conferences	327,607	177,619	149,988	184%
Journal Income	84,889	97,702	-12,813	87%
Membership Dues	59,968	62,898	-2,930	95%
Products	47,170	61,680	-14,510	76%
Shipping and Handling Income	9,829	11,587	-1,758	85%
Sponsor Dues and Donations	40,106	27,134	12,972	148%
Total Income	569,569	438,620	130,949	130%
Cost of Goods Sold				
Cost of Goods	11,016	15,025	-4,009	73%
Total COGS	11,016	15,025	-4,009	73%
Gross Profit	558,553	423,595	134,958	132%
Expense				
Awards-Dana Meadows	1,200	1,200	0	100%
Awards-Others	4,998	5,412	-414	92%
Bank & CC Fees	13,080	15,137	-2,057	86%
Chapter Dev (\$20K Max)	0	20,000	-20,000	0%
Contracted Expenses at UAlbany	277,709	313,502	-35,793	89%
EXP Conferences	149,801			
Freight	145			
Insurance	5,595	3,000	2,595	187%
Journal Expense	20,000	20,000	0	100%
Membership Directory Exp	2,340	2,238	102	105%
Membership Services	0	3,000	-3,000	0%
Miscellaneous Expense	1,996	418	1,578	478%
Office Expense	3,354	10,966	-7,612	31%
Officer Expenses (=Travel CPA)	9,614	7,290	2,324	132%
PHD Luncheon @ Conf	0	1,000	-1,000	0%
Product Dev.	0			
Professional Fees	40,761	43,279	-2,518	94%
Total Expense	530,593	446,442	84,151	119%
Net Ordinary Income	27,960	-22,847	50,807	-122%
Other Income/Expense				
Other Income				
Investment Income	96,556	49,729	46,827	194%
DM Investment Inc	3,673			
Total Other Income	100,229	49,729	50,500	202%
Net Other Income	100,229	49,729	50,500	202%
Net Income	128,189	26,882	101,307	477%

System Dynamics Society

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

As of December 31, 2012

05/31/13

Accrual Basis

	Dec 31, 12	Dec 31, 11	\$ Change	% Change
ASSETS				
Current Assets				
Checking/Savings				
Bank of America Checking 2474	115,862	54,461	61,401	113%
Elec. Transfer BOA Check 5757	10,018	0	10,018	100%
Bank Paypal	2,151	153	1,998	1,303%
Companion Savings - BoA	5,485	105,476	-99,990	-95%
Travel Cash	111	102	8	8%
Charles Schwab-Windhaven	49,690	0	49,690	100%
UBS Financial (was PaineWebber)	23,938	24,013	-74	-0%
Vanguard Society (88008478957)	699,699	612,250	87,449	14%
Total Checking/Savings	906,955	796,455	110,500	14%
Accounts Receivable				
Accounts Receivable	334	0	334	100%
Total Accounts Receivable	334	0	334	100%
Other Current Assets				
Accounts Receivable - Wiley	62,319	0	62,319	100%
Inventory	19,844	25,970	-6,127	-24%
Prepaid Expenses	81,782	54,558	27,224	50%
Cash-Undeposited Funds	1,390	150	1,240	827%
Total Other Current Assets	165,334	80,678	84,656	105%
Total Current Assets	1,072,624	877,133	195,490	22%
Fixed Assets				
Accumulated Depreciation	-1,263	-1,263	0	0%
Equipment	1,263	1,263	0	0%
Total Fixed Assets	0	0	0	0%
Other Assets				
Vanguard DMA (88006930361)	92,242	83,734	8,508	10%
Total Other Assets	92,242	83,734	8,508	10%
TOTAL ASSETS	1,164,865	960,867	203,998	21%
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Accounts Payable				
Accounts Payable	1,652	5,459	-3,807	-70%
Total Accounts Payable	1,652	5,459	-3,807	-70%
Other Current Liabilities				
Deferred Revenue	46,199	43,321	2,878	7%
Due to Conference Host	9,900	0	9,900	100%
Membership Sub Payable 2005+	12,466	10,679	1,787	17%
PPD Journal Editor	967	262	705	269%
Sales Tax Payable	91	115	-24	-21%
Total Other Current Liabilities	69,623	54,377	15,245	28%
Total Current Liabilities	71,275	59,836	11,439	19%
Total Liabilities	71,275	59,836	11,439	19%
Equity				
*Net Assets (QB)	0	719,257	-719,257	-100%
Net Assets - Temp Rest (DMA)	92,242	83,661	8,581	10%
Net Assets - Unrestricted	873,160	0	873,160	100%
Net Income	128,189	98,113	30,076	31%
Total Equity	1,093,591	901,031	192,560	21%
TOTAL LIABILITIES & EQUITY	1,164,865	960,867	203,998	21%

05/31/13
Accrual Basis

System Dynamics Society
(4) Rev & Exp, Prev Year Comparison (unaudited)
January through December 2012

	<u>Jan - Dec 12</u>	<u>Jan - Dec 11</u>
Ordinary Income/Expense		
Income		
INC Conferences	327,607	303,463
Journal Income	84,889	85,514
Membership Dues	59,968	63,636
Products	47,170	75,106
Shipping and Handling Income	9,829	11,394
Sponsor Dues and Donations	40,106	41,001
Total Income	<u>569,569</u>	<u>580,114</u>
Cost of Goods Sold		
Cost of Goods	11,016	14,246
Total COGS	<u>11,016</u>	<u>14,246</u>
Gross Profit	558,553	565,868
Expense		
Awards-Dana Meadows	1,200	1,200
Awards-Others	4,998	0
Bank & CC Fees	13,080	13,609
Chapter Dev (\$20K Max)	0	4,000
Contracted Expenses at UAlbany	277,709	279,400
EXP Conferences	149,801	121,091
Freight	145	0
Insurance	5,595	2,013
Journal Expense	20,000	19,763
Membership Directory Exp	2,340	2,170
Miscellaneous Expense	1,996	816
Office Expense	3,354	5,235
Officer Expenses (=Travel CPA)	9,614	10,197
Product Dev.	0	0
Professional Fees	40,761	38,953
Total Expense	<u>530,593</u>	<u>498,446</u>
Net Ordinary Income	27,960	67,422
Other Income/Expense		
Other Income		
Investment Income	96,556	27,865
DM Investment Inc	3,673	2,826
Total Other Income	<u>100,229</u>	<u>30,691</u>
Net Other Income	100,229	30,691
Net Income	<u><u>128,189</u></u>	<u><u>98,113</u></u>

05/31/13

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

January through December 2012

Accrual Basis

	2014...	2013 Cambridge	2012 Switz	Misc...	Core Ops (CO)	Web (CO)	Total CO	Sales	Publication	Investments	DMC	IFR ...	Unal...	audit	TOTAL
Ordinary Income/Expense															
Income															
INC Conferences	0	15,000	318,209	398	0	0	0	0	0	0	0	0	0	-6,000	327,607
Journal Income	0	0	0	0	62,092	0	62,092	0	22,796	0	0	0	0	0	84,889
Membership Dues	0	0	0	0	56,361	0	56,361	0	0	0	0	0	0	3,607	59,968
Products	0	0	0	0	-5	0	-5	47,175	0	0	0	0	0	0	47,170
Shipping and Handling Income	0	0	0	0	0	0	0	9,829	0	0	0	0	0	0	9,829
Sponsor Dues and Donations	0	0	0	0	40,106	0	40,106	0	0	0	0	0	0	0	40,106
Total Income	0	15,000	318,209	398	158,555	0	158,555	57,004	22,796	0	0	0	0	-2,393	569,569
Cost of Goods Sold															
Cost of Goods	0	0	0	0	0	0	0	11,016	0	0	0	0	0	0	11,016
Total COGS	0	0	0	0	0	0	0	11,016	0	0	0	0	0	0	11,016
Gross Profit	0	15,000	318,209	398	158,555	0	158,555	45,987	22,796	0	0	0	0	-2,393	558,553
Expense															
Awards-Dana Meadows	0	0	0	0	0	0	0	0	0	0	1,200	0	0	0	1,200
Awards-Others	0	0	0	0	4,998	0	4,998	0	0	0	0	0	0	0	4,998
Bank & CC Fees	0	13	4,736	0	7,385	0	7,385	570	0	382	0	0	0	-6	13,080
Contracted Expenses at UAlbany	8,487	21,697	86,720	3,183	121,704	22,769	144,473	14,962	11,175	0	0	1,187	0	-14,175	277,709
EXP Conferences	272	2,382	145,394	0	91	0	91	0	0	0	0	0	0	1,662	149,801
Freight	0	0	0	0	0	0	0	145	0	0	0	0	0	0	145
Insurance	0	0	0	0	5,595	0	5,595	0	0	0	0	0	0	0	5,595
Journal Expense	0	0	0	0	0	0	0	0	20,000	0	0	0	0	0	20,000
Membership Directory Exp	0	0	0	0	0	0	0	0	2,340	0	0	0	0	0	2,340
Miscellaneous Expense	0	0	0	0	1,884	0	1,884	0	0	0	0	0	0	113	1,996
Office Expense	0	0	0	0	2,506	451	2,957	320	0	0	0	0	0	76	3,354
Officer Expenses (=Travel CPA)	0	0	0	0	6,755	62	6,817	0	2,796	0	0	0	0	0	9,614
Product Dev.	0	0	0	0	3,964	0	3,964	0	0	0	0	0	0	-3,964	0
Professional Fees	0	379	4,899	60	32,463	952	33,415	2,163	39	0	0	156	0	-349	40,761
Total Expense	8,759	24,470	241,748	3,243	187,345	24,234	211,579	18,161	36,351	382	1,200	1,343	0	-16,642	530,593
Net Ordinary Income	-8,759	-9,470	76,461	-2,845	-28,790	-24,234	-53,024	27,827	-13,554	-382	-1,200	-1,343	0	14,250	27,960
Other Income/Expense															
Other Income															
Investment Income	0	0	0	0	10	0	10	0	0	90,325	6,108	0	0	113	96,556
DM Investment Inc	0	0	0	0	0	0	0	0	0	0	3,673	0	0	0	3,673
Total Other Income	0	0	0	0	10	0	10	0	0	90,325	9,781	0	0	113	100,229
Net Other Income	0	0	0	0	10	0	10	0	0	90,325	9,781	0	0	113	100,229
Net Income	-8,759	-9,470	76,461	-2,845	-28,780	-24,234	-53,014	27,827	-13,554	89,943	8,581	-1,343	0	14,363	128,189

(6) **SYSTEM DYNAMICS SOCIETY, INC.**

Financial Statements

December 31, 2012

LUBBE & HOSEY, PC
CERTIFIED PUBLIC ACCOUNTANTS

SYSTEM DYNAMICS SOCIETY, INC.

YEAR ENDED DECEMBER 31, 2012

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LUBBE & HOSEY, PC

CERTIFIED PUBLIC ACCOUNTANTS

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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 of **System Dynamics Society, Inc.** (a nonprofit organization) as of December 31, 2012, 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.

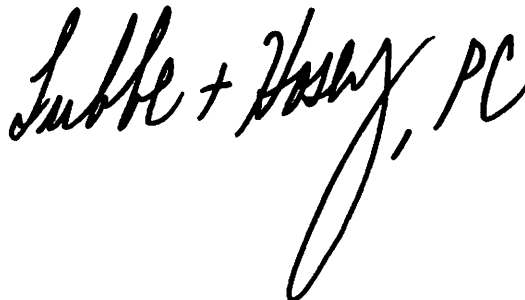
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation 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, an error resulting in an understatement of previously reported accounts receivable as of December 31, 2011, was discovered by management during the current year. An adjustment has been made to net assets as of January 1, 2012, to the correct the error.

Albany, New York
February 28, 2013

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

SYSTEM DYNAMICS SOCIETY, INC.

Statement of Financial Position

December 31, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 155,804
Investments	752,541
Accounts receivable	62,653
Inventory	19,843
Prepaid expenses	<u>81,782</u>
Total current assets	<u>1,072,623</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>92,242</u>
	<u>\$1,164,865</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	1,742
Membership subscriptions liability	12,466
Deferred revenue	47,166
Custodial account liability	<u>9,900</u>
Total current liabilities	71,274

Net assets:

Unrestricted	1,001,349
Temporarily restricted	<u>92,242</u>
Total net assets	<u>1,093,591</u>
	<u>\$1,164,865</u>

See accompanying notes and independent accountant's review report.

SYSTEM DYNAMICS SOCIETY, INC.

Statement of Activities

Year ended December 31, 2012

UNRESTRICTED NET ASSETS

Revenue:

Conferences	\$ 327,607
Publications	84,889
Membership dues and subscriptions	59,993
Educational products, net expenses of \$11,016	45,983
Donations	40,106
Investment income	90,448
Net assets released from restrictions	<u>1,200</u>
Total revenue	<u>650,226</u>

Expenses:

Awards	6,198
Bank and credit card fees	13,105
Contract - University of New York at Albany	277,709
Conferences	149,801
Insurance	5,595
Publications	20,000
Membership services	2,340
Travel	9,614
Office expenses	3,499
Professional fees and consultants	40,761
Miscellaneous	<u>1,996</u>
Total expenses	<u>530,618</u>
Change in unrestricted net assets	<u>119,608</u>

TEMPORARILY RESTRICTED NET ASSETS

Investment income	9,781
Net assets released from restrictions	<u>(1,200)</u>
Change in temporarily restricted net assets	<u>8,581</u>

Change in net assets	128,189
Net assets, beginning of year	901,031
Prior period adjustment (note 8)	<u>64,371</u>
Net assets, end of year	<u>\$1,093,591</u>

See accompanying notes and independent accountant's review report.

SYSTEM DYNAMICS SOCIETY, INC.

Statement of Cash Flows

Year ended December 31, 2012

Cash flows provided (used) by operating activities:	
Change in net assets	\$128,189
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Net gain on investments	(74,907)
Changes in operating assets and liabilities:	
Accounts receivable	1,718
Inventory	6,127
Prepaid expenses	(27,224)
Accounts payable and accrued expenses	(3,832)
Membership subscriptions liability	1,787
Deferred revenue	3,583
Custodial account liability	<u>9,900</u>
Net cash provided by operating activities	<u>45,341</u>
Cash flows provided (used) by investing activities:	
Proceeds from sale of investments	10,844
Purchases of investments	<u>(80,350)</u>
Net cash (used) by investing activities	<u>(69,506)</u>
Net (decrease) in cash and cash equivalents	(24,165)
Cash and cash equivalents, beginning of year	<u>179,969</u>
Cash and cash equivalents, end of year	<u>\$155,804</u>

See accompanying notes and independent accountant's review report.

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements

December 31, 2012

(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. Revenues are recognized when earned and expenditures are recognized when incurred.

(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 money market accounts with investment companies.

(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, may exceed the Federal depository insurance coverage limit of \$250,000. SDS has not experienced any loss in such accounts. No amounts exceeded federally insured limits at December 31, 2012.

(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 and no uncertain tax positions. 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 2009.

(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) Accounts Receivable

Management has concluded all accounts will be collected by April 30, 2013 and that no allowance is necessary at December 31, 2012.

(i) 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 its activities.

(j) 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. Actual results could differ from those estimates.

(k) Inventory

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

(l) 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 2012, SDS incurred \$277,709 to the University for support services. There were no amounts receivable from or payable to the University at December 31, 2012. Prepaid contract costs totaled \$27,409 at December 31, 2012.

(3) Investments

A summary of investments at December 31, 2012 is set forth below:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 4,122	4,767
Mutual funds	<u>742,798</u>	<u>840,016</u>
	<u>\$746,920</u>	<u>844,783</u>

Investment income, including interest and dividends on cash and cash equivalents, for the year ended December 31, 2012 is as follows:

Interest and dividends	\$ 25,322
Net gain on investments	<u>74,907</u>
	<u>\$100,229</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, 2012 are functionally classified as:

Program expenses	\$402,768
Support services	<u>127,850</u>
	<u>\$530,618</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, 2012:

Beginning balance	\$83,661
Investment income	9,781
Award provided	<u>(1,200)</u>
Ending balance	<u>\$92,242</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	\$ 20,787
Common stock	4,767
Mutual funds	<u>840,016</u>
	<u>\$865,570</u>

Cash, accounts receivable, and 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 28, 2013, the date on which the financial statements were available to be issued.

(8) Prior Period Adjustment

An error resulting in an understatement of previously reported accounts receivable was discovered during the current year. An adjustment of \$64,371 was made during 2012 to record accounts receivable as of the beginning of the year and increase previously reported unrestricted net assets. The effect of the restatement would have increased the previously reported change in unrestricted net assets by \$11,880.

**System Dynamics Society
(7) 2014 Proposed Budget**

	Actual Jan - Dec 12	APPROVED 2013	PROPOSED 2014	Percent Change
Ordinary Income/Expense				
Income				
INC Conferences	327,606.75	228,000.00	244,204.67	7.11%
Journal Income	84,888.62	88,076.00	84,888.62	-3.62%
Membership Dues	59,968.43	64,423.00	65,982.00	2.42%
Products	47,170.31	72,116.91	57,560.13	-20.18%
Shipping and Handling Income	9,829.00	14,320.83	12,971.16	-9.42%
Sponsor Dues and Donations	40,106.00	29,875.33	41,502.92	38.92%
Total Income	569,569.11	496,812.07	507,109.50	2.07%
Cost of Goods Sold				
Cost of Goods	11,016.42	9,341.43	11,825.57	26.59%
Total COGS	11,016.42	9,341.43	11,825.57	26.59%
Gross Profit	558,552.69	487,470.64	495,283.93	1.60%
Expense				
Awards-Dana Meadows	1,200.00	1,200.00	1,500.00	25.00%
Awards-Others	4,998.00	6,900.38	5,949.19	-13.78%
Bank & CC Fees	13,079.82	12,766.01	12,095.38	-5.25%
Chapter Dev (\$20K Max)	0.00	16,000.00	20,000.00	25.00%
Contracted Expenses at UAIBany	277,708.56	315,116.16	334,894.11	6.28%
EXP Conferences	149,801.14	103,000.00	117,755.72	14.33%
Insurance	5,595.10	3,000.00	6,154.61	105.15%
Journal Expense	20,000.00	20,000.00	20,000.00	0.00%
Membership Directory Exp	2,340.00	2,500.00	0.00	-100.00%
Membership Services	0.00	3,000.00	0.00	-100.00%
Miscellaneous Expense	1,996.49	1,004.47	1,566.18	55.92%
Office Expense	3,354.02	3,229.81	5,536.73	71.43%
Officer Expenses (=Travel CPA)	9,614.07	7,189.66	8,409.35	16.96%
PHD Luncheon @ Conf		1,000.00	1,000.00	0.00%
Professional Fees	40,760.71	40,910.52	41,085.45	0.43%
Total Expense	530,592.91	536,817.01	575,946.72	7.29%
Net Ordinary Income	27,959.78	-49,346.37	-80,662.79	63.46%
Other Income/Expense (Investments)				
Other Income (Investments)				
Budgeted Investment Income		23,900.38	26,949.19	12.76%
Unbudgeted Investment Income	96,555.78	23,445.55	48,845.20	108.33%
DM Investment Inc	3,673.13	2,383.07	2,996.43	25.74%
Total Other Income (Investments)	100,228.91	49,729.00	78,790.81	58.44%
Net Other Income (Investments)	100,228.91	49,729.00	78,790.81	58.44%
Net Income	128,188.69	382.63	-1,871.98	-589.24%

System Dynamics Society
(8) Investments-at-a Glance
As of December 31, 2012

1. Investment Goals and Designated Net Assets for the System Dynamics Society

Item	Goal Amounts		Designated Net Assets-Dec 31st		
	2013	2014	2011 Actual	2012 Actual	2013 Estimate
Capital Reserve	\$400,000	\$500,000	N/A	\$347,674	\$272,849
Chapter/Field Development Fund	400,000	400,000	N/A	400,000	400,000
Executive Director's Salary Reserve	103,675	108,500	N/A	103,675	108,500
Jay Wright Forrester Award	80,000	100,000	N/A	80,000	100,000
Operating Surplus/"Buffer Funds"	50,000	100,000	N/A	50,000	100,000
PhD Luncheon		20,000	N/A	20,000	20,000
Sub-total Unrestricted	\$1,033,675	\$1,228,500	\$817,372	\$1,001,349	\$1,001,349
Dana Meadows Award*	76,386	92,242	83,661	92,242	92,242
Total Assests/Equity	\$1,110,061	\$1,320,742	\$901,033	\$1,093,591	\$1,093,591

*Temporarily Restricted Asset

2. Items in 2014 Budget designated for support from Investment Income

Awards (Dana Meadows and Forrester)	\$ 7,449
PhD Luncheon	\$ 1,000
Chapter/Field Development Fund	\$20,000

TOTAL \$28,449

3. Fair Value of Financial Instruments (as of December 31, 2012)

See CPA report, page 4--note (6) \$865,570

4. Investment Income for the year ended December 31, 2012

See CPA report, page 3--note (3) \$100,229