

To: Policy Council of the System Dynamics Society
From: David Andersen, VP Finance
Subject: VP Finance Narrative Report for Fiscal Year 2013
Date: July 12, 2014

***Summary:** 2013 was a good year financially for the System Dynamics Society. We posted a net income of \$167,688 and our overall equity grew from \$1,093,591 at the opening of our fiscal year to \$1,261,278 at the close of the fiscal year. The Society's financial position for 2013 was helped by a good showing at the Cambridge conference. Our budget for 2015 projects a Net Ordinary Income loss of **\$83,130**. However, I have budgeted for an expected Investment Income of \$98,504 so that our overall Net Income will be a net gain of \$15,374. The Society's budget for 2015 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 lines in the budget come to \$28,500 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 2013 In 2013, we posted a Net Income of \$167,688 and our Total Assets grew by \$167,489. When viewed by cost centers, Core Operations posted a loss of **\$50,550** and Publications posted a loss of **\$8,897**. These losses were countered by Net Income gains of \$27,170 in Sales, \$150,506 in Investment Income, and \$35,569 in Conferences (sum of all years).

95% of our Current Investment Goals are Covered by Designated Assets For 2015, I have proposed a total Investment Goal for our Unrestricted Funds of \$1,322,219. I estimate that as of the end of this year, we will have on hand unrestricted funds of \$1,262,000 to cover these goals, or 95% of our current investment goals are being covered by designated assets (last year we had covered only 81% of our designations, so we are making progress).

Revised Staffing Pattern at the Home Office Robin Langer, a long term and valued employee at the Home Office, has moved to part time as a first move toward retirement. Rochel Rubin was hired after a delay this year. This change in staffing gives us a bit more staff capacity during the interim period and will provide for continuity during Robin's transition. This cost will be 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 2013 This page shows how well I am doing predicting our various classes of expenses and expenses through the budgeting process. When I look at this report I see several things. First, both product sales and the associated shipping and handling have fallen by about 40%. Second, we have seen strong gains from our investments over what I had predicted in the budget. Income from the journal continues to lag behind what we had expected when we signed the new contract with Wiley (I don't know exactly why) and our contracted expenses with the University at Albany were \$16,837 below what I had projected because of some of the staff transitions discussed above.

(3) Balance Sheet, Previous Year Comparison for 2013 We ended 2013 with Total Assets of **\$1,332,355**. Between 2012 and 2013 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 2013 Net Income for the year was \$167,688. The main difference between 2012 and 2013 is the stronger performance of our investments.

(5) Society Revenues and Expense, Fiscal Year, by Cost Centers When viewed by cost centers, Core Operations posted of loss of **\$50,550** and Publications posted a loss of **\$8,897**. These losses were countered by Net Income gains of \$27,170* in Sales, \$150,506 in Investment Income, and \$35,302 in Conferences (sum of all years). *This number is \$27,457 in Non Book Sales -\$287 start-up costs for Book Sales.

(6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2013 (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 accuracy of 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) 2015 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 of **\$83,130**. This is the amount that I project the Society would lose in 2015 if we did not have investment income to fall back on (in this estimate, I have budgeted the 2015 conference as making a \$25,000 profit for the Society). I am budgeting for \$98,504 in income from our investments during 2015. We have budgeted \$28,500 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. These expenses are indicated in the shaded pink and orange cells of the attached budget. In addition, my budget shows an additional \$68,360 of unbudgeted investments being allocated to close the gap in Net Ordinary Income. When all of these adjustments from our investments are taken into account, I am budgeting that the society will realize a "bottom line" Net Income in 2015 of \$15,374.

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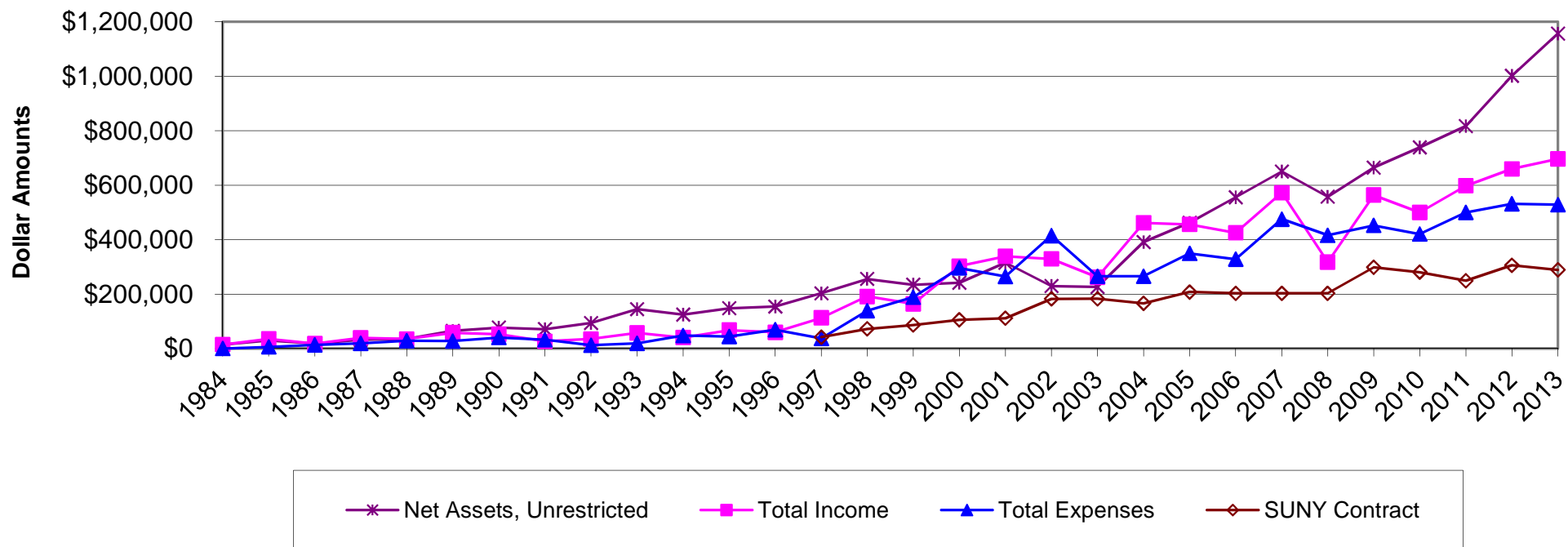
(8) Investments-at-a-Glance The investment goals for the Society are up again from last year. As laid out in attachment (8), we should seek to retain investments of \$1,322,219 to prudently meet currently envisioned contingencies. The Society can currently cover 95

% of these designations, or \$1,262,000 out of our current Asset/Equity. However, note that the fair market value of our financial instruments as of December 31, 2013 was equal to only \$1,028,299. Our total investment income for 2013 (\$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 2013
- (3) System Dynamics Society Balance Sheet, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) As of December 31, 2013
- (4) System Dynamics Society Revenue and Expenses, Previous Year Comparison (unaudited, but reflecting final CPA Financial Statement changes) January through December 2013.
- (5) System Dynamics Society Revenue and Expenses, Fiscal Year, by Cost Centers (unaudited, but reflecting final CPA Financial Statement changes) January through December 2013.
- (6) The System Dynamics Society, Inc. Financial Statements for the Year Ended December 31, 2013 (final statements from our CPA).
- (7) 2015 Proposed Budget System Dynamics Society.
- (8) Investments-at-a-Glance As of December 31, 2013

(1) Key Trends in Society Finances since 1984



06/02/14
 Accrual Basis

System Dynamics Society (2) Rev & Exp, Budget Comparison (unaudited) January through December 2013

	Jan - Dec 13	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
INC Conferences	303,765	228,000	75,765	133%
Journal Income	81,676	88,076	-6,400	93%
Membership Dues	64,487	64,423	64	100%
Other Income	725			
Products	49,828	72,117	-22,289	69%
Shipping and Handling Income	7,320	14,321	-7,001	51%
Sponsor Dues and Donations	33,150	29,875	3,275	111%
Total Income	540,950	496,812	44,138	109%
Cost of Goods Sold				
Cost of Goods	10,249	9,341	908	110%
Total COGS	10,249	9,341	908	110%
Gross Profit	530,701	487,471	43,230	109%
Expense				
Awards-Dana Meadows	750	1,200	-450	63%
Awards-Others	0	6,900	-6,900	0%
Bank & CC Fees	12,528	12,766	-238	98%
Chapter Dev (\$20K Max)	6,405	16,000	-9,595	40%
Contracted Expenses at UAlbany	298,280	315,116	-16,837	95%
EXP Conferences	133,283	103,000	30,283	129%
Insurance	4,645	3,000	1,645	155%
Journal Expense	20,000	20,000	0	100%
Membership Directory Exp	615	2,500	-1,885	25%
Membership Services	0	3,000	-3,000	0%
Miscellaneous Expense	683	1,004	-322	68%
Office Expense	4,416	3,230	1,186	137%
Officer Expenses (=Travel CPA)	9,871	7,190	2,681	137%
PHD Luncheon @ Conf	1,000	1,000	0	100%
Professional Fees	35,132	40,911	-5,778	86%
Total Expense	527,606	536,817	-9,211	98%
Net Ordinary Income	3,095	-49,346	52,441	-6%
Other Income/Expense				
Other Income				
Investment Income	161,659	47,346	114,313	341%
DM Investment Inc	2,933	2,383	550	123%
Total Other Income	164,593	49,729	114,864	331%
Net Other Income	164,593	49,729	114,864	331%
Net Income	167,688	383	167,305	43,825%

05/28/14

Accrual Basis

System Dynamics Society

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

As of December 31, 2013

	Dec 31, 13	Dec 31, 12	\$ Change	% Change
ASSETS				
Current Assets				
Checking/Savings				
Bank of America Checking 2474	54,753	115,862	-61,109	-53%
Elec. Transfer BOA Check 5757	10,638	10,018	620	6%
Bank Paypal	1,131	2,151	-1,020	-47%
Companion Savings - BoA	75,631	5,485	70,145	1,279%
Travel Cash	111	111	0	0%
Charles Schwab-Windhaven	240,647	49,690	190,957	384%
UBS Financial (was PaineWebber)	25,409	23,938	1,471	6%
Vanguard Society (88008478957)	657,777	699,699	-41,922	-6%
Total Checking/Savings	1,066,096	906,955	159,141	18%
Accounts Receivable				
Accounts Receivable	0	334	-334	-100%
Total Accounts Receivable	0	334	-334	-100%
Other Current Assets				
Accounts Receivable - Wiley	60,545	62,319	-1,774	-3%
Inventory	26,220	19,844	6,376	32%
Prepaid Expenses	74,889	81,782	-6,893	-8%
Cash-Undeposited Funds	140	1,390	-1,250	-90%
Total Other Current Assets	161,794	165,334	-3,540	-2%
Total Current Assets	1,227,890	1,072,624	155,266	15%
Fixed Assets				
Accumulated Depreciation	-651	-1,263	612	49%
Equipment	651	1,263	-612	-49%
Total Fixed Assets	0	0	0	0%
Other Assets				
Vanguard DMA (88006930361)	104,465	92,242	12,223	13%
Total Other Assets	104,465	92,242	12,223	13%
TOTAL ASSETS	1,332,355	1,164,865	167,489	14%
LIABILITIES & EQUITY				
Liabilities				
Current Liabilities				
Accounts Payable				
Accounts Payable	837	1,652	-815	-49%
Total Accounts Payable	837	1,652	-815	-49%
Other Current Liabilities				
Deferred Revenue	46,079	46,199	-120	-0%
Due to Conference Host	9,225	9,900	-675	-7%
Membership Sub Payable 2005+	12,825	12,466	359	3%
PPD Journal Editor	2,044	967	1,077	111%
Sales Tax Payable	66	91	-25	-27%
Total Other Current Liabilities	70,240	69,623	617	1%
Total Current Liabilities	71,077	71,275	-198	-0%
Total Liabilities	71,077	71,275	-198	-0%
Equity				
Net Assets - Temp Rest (DMA)	104,465	92,242	12,223	13%
Net Assets-Designated	989,126	873,160	115,966	13%
Net Income	167,688	128,189	39,499	31%
Total Equity	1,261,278	1,093,591	167,688	15%
TOTAL LIABILITIES & EQUITY	1,332,355	1,164,865	167,489	14%

05/28/14
Accrual Basis

System Dynamics Society
(4) Rev & Exp, Prev Year Comparison (unaudited)
January through December 2013

	<u>Jan - Dec 13</u>	<u>Jan - Dec 12</u>
Ordinary Income/Expense		
Income		
INC Conferences	303,765	327,607
Journal Income	81,676	84,889
Membership Dues	64,487	59,968
Other Income	725	0
Products	49,828	47,170
Shipping and Handling Income	7,320	9,829
Sponsor Dues and Donations	33,150	40,106
Total Income	<u>540,950</u>	<u>569,569</u>
Cost of Goods Sold		
Cost of Goods	10,249	11,161
Total COGS	<u>10,249</u>	<u>11,161</u>
Gross Profit	530,701	558,408
Expense		
Awards-Dana Meadows	750	1,200
Awards-Others	0	4,998
Bank & CC Fees	12,528	13,080
Chapter Dev (\$20K Max)	6,405	0
Contracted Expenses at UAlbany	298,280	277,709
EXP Conferences	133,283	149,801
Insurance	4,645	5,595
Journal Expense	20,000	20,000
Membership Directory Exp	615	2,340
Miscellaneous Expense	683	1,996
Office Expense	4,416	3,354
Officer Expenses (=Travel CPA)	9,871	9,614
PHD Luncheon @ Conf	1,000	0
Product Dev.	0	0
Professional Fees	35,132	40,761
Total Expense	<u>527,606</u>	<u>530,448</u>
Net Ordinary Income	3,095	27,960
Other Income/Expense		
Other Income		
Investment Income	161,659	96,556
DM Investment Inc	2,933	3,673
Total Other Income	<u>164,593</u>	<u>100,229</u>
Net Other Income	<u>164,593</u>	<u>100,229</u>
Net Income	<u><u>167,688</u></u>	<u><u>128,189</u></u>

05/28/14

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

January through December 2013

Accrual Basis

	2015	2014 Delft	2013 Cambridge	2012...	Misc...	Core Ops (CO)	Web (CO)	Total CO	Boo...	Sales Non Book	Publication	Investments	DMC	IFR ...	Unal...	audit	TOTAL
Ordinary Income/Expense																	
Income																	
INC Conferences	0	13,500	286,998	0	267	0	0	0	0	0	0	0	0	0	0	3,000	303,765
Journal Income	0	0	0	0	0	63,450	0	63,450	0	0	20,000	0	0	0	0	-1,774	81,676
Membership Dues	0	0	0	0	0	67,922	0	67,922	0	0	0	0	0	0	0	-3,435	64,487
Other Income	0	0	0	0	0	725	0	725	0	0	0	0	0	0	0	0	725
Products	0	0	0	0	0	0	0	0	118	49,710	0	0	0	0	0	0	49,828
Shipping and Handling Income	0	0	0	0	0	0	0	0	9	7,311	0	0	0	0	0	0	7,320
Sponsor Dues and Donations	0	0	0	0	0	33,150	0	33,150	0	0	0	0	0	0	0	0	33,150
Total Income	0	13,500	286,998	0	267	165,247	0	165,247	127	57,021	20,000	0	0	0	0	-2,209	540,950
Cost of Goods Sold																	
Cost of Goods	0	0	0	0	0	0	0	0	0	10,249	0	0	0	0	0	0	10,249
Total COGS	0	0	0	0	0	0	0	0	0	10,249	0	0	0	0	0	0	10,249
Gross Profit	0	13,500	286,998	0	267	165,247	0	165,247	127	46,772	20,000	0	0	0	0	-2,209	530,701
Expense																	
Awards-Dana Meadows	0	0	0	0	0	0	0	0	0	0	0	0	750	0	0	0	750
Bank & CC Fees	0	11	4,761	0	0	6,278	0	6,278	0	566	0	911	0	0	0	1	12,528
Chapter Dev (\$20K Max)	0	0	0	0	0	6,405	0	6,405	0	0	0	0	0	0	0	0	6,405
Contracted Expenses at UAlbany	7,927	22,429	87,345	2,523	0	142,894	13,374	156,268	0	16,865	8,282	0	0	3,013	0	-6,371	298,280
EXP Conferences	0	2,591	131,700	0	0	0	0	0	0	0	0	0	0	0	0	-1,008	133,283
Insurance	0	0	0	0	0	4,645	0	4,645	0	0	0	0	0	0	0	0	4,645
Journal Expense	0	0	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	0	0	615	0	0	0	0	0	615
Miscellaneous Expense	0	0	0	0	0	519	0	519	0	0	0	0	0	0	0	164	683
Office Expense	0	0	0	0	0	3,964	0	3,964	414	115	0	0	0	0	0	-76	4,416
Officer Expenses (=Travel CPA)	0	0	0	0	0	9,794	0	9,794	0	0	0	0	0	70	0	6	9,871
PHD Luncheon @ Conf	0	0	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	1,000
Professional Fees	0	459	4,341	110	0	27,964	0	27,964	0	1,769	0	0	0	0	0	490	35,132
Total Expense	7,927	25,490	229,146	2,633	0	202,462	13,374	215,836	414	19,315	28,897	911	750	3,083	0	-6,795	527,606
Net Ordinary Income	-7,927	-11,990	57,852	-2,633	267	-37,215	-13,374	-50,589	-287	27,457	-8,897	-911	-750	-3,083	0	4,585	3,095
Other Income/Expense																	
Other Income																	
Investment Income	0	0	0	0	0	39	0	39	0	0	0	151,416	10,040	0	0	164	161,659
DM Investment Inc	0	0	0	0	0	0	0	0	0	0	0	0	2,933	0	0	0	2,933
Total Other Income	0	0	0	0	0	39	0	39	0	0	0	151,416	12,973	0	0	164	164,593
Net Other Income	0	0	0	0	0	39	0	39	0	0	0	151,416	12,973	0	0	164	164,593
Net Income	-7,927	-11,990	57,852	-2,633	267	-37,176	-13,374	-50,550	-287	27,457	-8,897	150,506	12,223	-3,083	0	4,750	167,688

SYSTEM DYNAMICS SOCIETY, INC.

Financial Statements

December 31, 2013

LUBBE & HOSEY, PC
CERTIFIED PUBLIC ACCOUNTANTS

SYSTEM DYNAMICS SOCIETY, INC.

YEAR ENDED DECEMBER 31, 2013

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Steven J. Lubbe, CPA
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

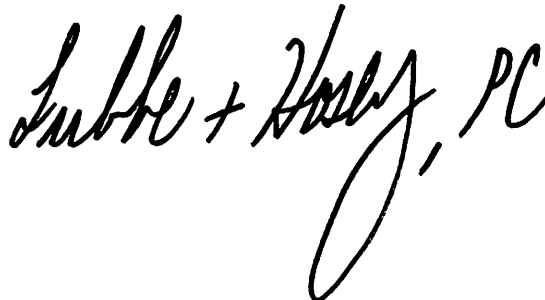
**Policy Council
System Dynamics Society, Inc.**

We have reviewed the accompanying statement of financial position of **System Dynamics Society, Inc.** (a nonprofit organization) as of December 31, 2013, 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.

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

Albany, New York
April 2, 2014

SYSTEM DYNAMICS SOCIETY, INC.

Statement of Financial Position

December 31, 2013

(With comparative totals for 2012)

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 167,525	155,804
Investments	898,711	752,541
Accounts receivable	60,545	62,653
Inventory	26,220	19,843
Prepaid expenses	<u>74,889</u>	<u>81,782</u>
Total current assets	<u>1,227,890</u>	<u>1,072,623</u>
Property and equipment:		
Office equipment	651	1,263
Less accumulated depreciation	<u>(651)</u>	<u>(1,263)</u>
Total property and equipment	<u>-</u>	<u>-</u>
Other asset:		
Investments - restricted	<u>104,465</u>	<u>92,242</u>
	<u>\$1,332,355</u>	<u>1,164,865</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	903	1,742
Membership subscriptions liability	12,825	12,466
Deferred revenue	48,124	47,166
Custodial account liability	<u>9,225</u>	<u>9,900</u>
Total current liabilities	<u>71,077</u>	<u>71,274</u>
Net assets:		
Unrestricted:		
Undesignated	167,687	128,189
Board designated	<u>989,126</u>	<u>873,160</u>
Total unrestricted	1,156,813	1,001,349
Temporarily restricted	<u>104,465</u>	<u>92,242</u>
Total net assets	<u>1,261,278</u>	<u>1,093,591</u>
	<u>\$1,332,355</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, 2013

(With comparative totals for 2012)

<u>UNRESTRICTED NET ASSETS</u>	<u>2013</u>	<u>2012</u>
Revenue:		
Conferences	\$ 303,764	327,607
Publications	81,676	84,889
Membership dues and subscriptions	64,487	59,993
Educational products, net expenses of \$10,249	46,899	45,983
Donations	33,150	40,106
Investment income	151,620	90,448
Other income	725	-
Net assets released from restrictions	750	1,200
Total revenue	<u>683,071</u>	<u>650,226</u>
Expenses:		
Awards	750	6,198
Bank and credit card fees	12,528	13,105
Chapter development	6,405	-
Contract - University of New York at Albany	298,280	277,709
Conferences	133,283	149,801
Insurance	4,645	5,595
Publications	20,000	20,000
Membership services	615	2,340
Travel and training	10,871	9,614
Office expenses	4,416	3,499
Professional fees and consultants	35,132	40,761
Miscellaneous	682	1,996
Total expenses	<u>527,607</u>	<u>530,618</u>
Change in unrestricted net assets	<u>155,464</u>	<u>119,608</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Investment income	12,973	9,781
Net assets released from restrictions	(750)	(1,200)
Change in temporarily restricted net assets	<u>12,223</u>	<u>8,581</u>
Change in net assets	167,687	128,189
Net assets, beginning of year	<u>1,093,591</u>	<u>965,402</u>
Net assets, end of year	<u>\$1,261,278</u>	<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, 2013

(With comparative totals for 2012)

	<u>2013</u>	<u>2012</u>
Cash flows provided (used) by operating activities:		
Change in net assets	\$ 167,687	128,189
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Net gain on investments	(142,223)	(74,907)
Changes in operating assets and liabilities:		
Accounts receivable	2,108	1,718
Inventory	(6,377)	6,127
Prepaid expenses	6,893	(27,224)
Accounts payable and accrued expenses	(839)	(3,832)
Membership subscriptions liability	359	1,787
Deferred revenue	958	3,583
Custodial account liability	<u>(675)</u>	<u>9,900</u>
Net cash provided by operating activities	<u>27,891</u>	<u>45,341</u>
Cash flows provided (used) by investing activities:		
Proceeds from sale of investments	446,124	10,844
Purchases of investments	<u>(462,294)</u>	<u>(80,350)</u>
Net cash (used) by investing activities	<u>(16,170)</u>	<u>(69,506)</u>
Net increase (decrease) in cash and cash equivalents	11,721	(24,165)
Cash and cash equivalents, beginning of year	<u>155,804</u>	<u>179,969</u>
Cash and cash equivalents, end of year	<u>\$ 167,525</u>	<u>155,804</u>

See accompanying notes and independent accountant's review report.

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements

December 31, 2013

(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, 2013.

(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 2010.

(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, 2014 and that no allowance is necessary at December 31, 2013.

(i) Revenue Recognition**Conference 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 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.

(k) Inventory

Inventory is stated at the lower of cost or market using 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' policy is to capitalize property and equipment 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)

(1) Nature of Activities and Summary of Significant Accounting Policies (Continued)(m) Reclassification

Certain reclassifications have been made to the 2012 financial statement presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

(n) Comparative Financial Information

The financial statements include certain prior-year summarized comparative information. Such information should be read in conjunction with SDS' financial statements for the year ended December 31, 2012, from which the summarized information was derived.

(2) University of New York at Albany

SDS has a contract with the University of New York at Albany for administrative support services. This contract is in process of being extended for the two year period ending December 2015. Support services includes personnel services and the use of property and equipment owned by the University. During 2013, SDS incurred \$298,280 to the University for support services. There were no amounts receivable from or payable to the University at December 31, 2013. Prepaid contract costs totaled \$18,229 at December 31, 2013.

(3) Investments

A summary of investments at December 31, 2013 is set forth below:

	<u>Cost</u>	<u>Fair Value</u>
Common stock	\$ 4,122	6,228
Mutual funds	<u>713,882</u>	<u>996,948</u>
	<u>\$718,004</u>	<u>1,003,176</u>

Investment income for the year ended December 31, 2013 is as follows:

Interest and dividends	\$ 22,370
Net gain on investments	<u>142,223</u>
	<u>\$164,593</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, 2013 are functionally classified as:

Program expenses - system dynamics	\$395,442
Support services - management and general	<u>132,165</u>
	<u>\$527,607</u>

(Continued)

SYSTEM DYNAMICS SOCIETY, INC.

Notes to Financial Statements (Continued)

(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:

Beginning balance	\$ 92,242
Investment income	12,973
Award provided	<u>(750)</u>
Ending balance	<u><u>\$104,465</u></u>

(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	\$ 25,123
Common stock	6,228
Mutual funds	<u>996,948</u>
	<u><u>\$1,028,299</u></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 April 2, 2014, the date on which the financial statements were available to be issued, and determined that there are no subsequent events that require disclosure.

**System Dynamics society
(7) 2015 Proposed Budget**

	ACTUAL Amt	APPROVED Budget	PROPOSED Budget	%
	Jan - Dec 13	2014	2015	Chge
Ordinary Income/Expense				
Income				
INC Conferences	303,764.55	244,204.67	250,003.81	2.37%
Journal Income	81,676.00	84,888.62	81,676.00	-3.78%
Membership Dues	64,486.66	65,982.00	67,575.00	2.41%
Other Income	725.00			
Products	49,828.22	57,560.13	43,026.26	-25.25%
Shipping and Handling Income	7,319.77	12,971.16	9,514.17	-26.65%
Sponsor Dues and Donations	33,150.00	41,502.92	38,085.67	-8.23%
Total Income	540,950.20	507,109.50	489,880.90	-3.40%
Cost of Goods Sold				
Cost of Goods	10,249.15	11,825.57	11,885.61	0.51%
Total COGS	10,249.15	11,825.57	11,885.61	0.51%
Gross Profit	530,701.05	495,283.93	477,995.29	-3.49%
Expense				
Awards-Dana Meadows	750.00	1,500.00	1,500.00	0.00%
Awards-Others	0.00	5,949.19	6,000.00	0.85%
Bank & CC Fees	12,527.85	12,095.38	13,072.12	8.08%
Chapter Dev (\$20K Max)	6,405.00	20,000.00	20,000.00	0.00%
Contracted Expenses at UAlbany	298,279.60	334,894.11	317,356.22	-5.24%
EXP Conferences	133,282.67	117,755.72	119,588.02	1.56%
Insurance	4,644.95	6,154.61	5,105.49	-17.05%
Journal Expense	20,000.00	20,000.00	20,000.00	0.00%
Membership Directory Exp	615.00	0.00	0.00	
Membership Services				
Miscellaneous Expense	682.61	1,566.18	1,165.02	-25.61%
Office Expense	4,415.63	5,536.73	4,334.84	-21.71%
Officer Expenses (=Travel CPA)	9,870.62	8,409.35	9,893.77	17.65%
PHD Luncheon @ Conf	1,000.00	1,000.00	1,000.00	0.00%
Professional Fees	35,132.19	41,085.45	42,110.10	2.49%
Total Expense	527,606.12	575,946.72	561,125.57	-2.57%
Net Ordinary Income	3,094.93	-80,662.79	-83,130.28	-3.06%
Other Income/Expense				
Other Income				
Investment Income	161,659.39			
Budgeted wt designated funds (3 items)		26,949.18	27,000.00	0.19%
Unbudgeted		48,845.20	68,359.96	39.95%
Budgeted with DM Investment Funds	2,933.25	2,996.43	3,144.07	4.93%
Total Other Income	164,592.64	78,790.81	98,504.03	25.02%
Net Other Income	164,592.64	78,790.81	98,504.03	25.02%
Net Income	167,687.57	-1,871.98	15,373.75	921.26%

System Dynamics Society
(8) Investments-at-a Glance

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

		Goal Amounts as of Jun 30, prev year		Designated Net Assets as of Dec 31st each year		
		for 2014	for 2015	2012, Actual	2013, Actual	2014, Est.
Reserves for Rainy Day Expenses						
	Capital Reserve	500,000	500,000	347,674	428,313	427,523
	Executive Director's Salary Reserve	108,500	109,977	103,675	108,500	109,977
	Operating Surplus/ "Buffer Funds"	100,000	100,000	50,000	100,000	100,000
Sub-total Reserves-Rainy Day		\$708,500	\$709,977	\$501,349	\$636,813	\$637,500
Reserves Budgeted for Operating Expenses						
	Chapter/Field Development Fund	400,000	400,000	400,000	400,000	400,000
	Jay Wright Forrester Award	100,000	100,000	80,000	100,000	100,000
	Dana Meadows Award*	92,242	92,242	92,242	104,465	104,500
	PhD Luncheon	20,000	20,000	20,000	20,000	20,000
Sub-total Reserves-OpExp		\$612,242	\$612,242	\$592,242	\$624,465	\$624,500
Total Assests/Equity		\$1,320,742	\$1,322,219	\$1,093,591	\$1,261,278	\$1,262,000

source: V:\SDS\RLS Folders\ExecDirector & VPFin Reports\2014\VPFin PC-Jul 14\8-Investments-at-a-glance-worksheet.xlsx

*Currently classed as Temporarily Restricted Net Asset; to be re-classed as Designated Net Asset as of Dec 31, 2014.

2. 2015 Budget expense items designated for support from Investment Income

Jay W. Forrester Award	\$ 6,000
Dana Meadows Award	\$ 1,500
PhD Luncheon	\$ 1,000
Chapter/Field Development Fund	\$20,000

TOTAL \$28,500

3. Fair Value of Financial Instruments (as of December 31, 2013)

Please note that the Fair Value of Financial Instruments is less than Total Assests/Equity shown in the chart above.

See CPA report, page 4--note (6) \$1,028,299

4. Investment Income for the year ended December 31, 2013

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