

To: Policy Council of the System Dynamics Society

From: Eliot Rich, VP Finance
David Andersen, Associate VP Finance

Subject: VP Finance Narrative Report—Part III
2019 Budget Proposal

Date: 18 July 2018

This is the third of three parts to the VP Finance Report for 2018. The first part describes what happened in 2017. The second part reports on the financial aspects of the transition to CHMS. The third presents the proposed budget and asset designations for 2019 and 2020.

Our budget proposal for 2019 funds our current operations, invests in special projects and funds the remainder of our transition costs. It also presents a large operating loss that was not foreseen in last year's report. The current proposal uses the revenue conservative as in previous years, which have tended to underestimate revenue and to a lesser extent over-estimate operating and conference expenses. We anticipate that before the end of the year we will present a revised 2019 proposal for that integrates Mark Nelson and Roberta Spencer's plans for new sponsorship, revenue generation, and membership increases.

Part A: Budget Proposal for 2019

Attachment 7 to this document (Attachments 1 to 6 present details of the Society's financial performance in 2017 and were discussed in Part I of this financial report) presents a one-year Society budget that supports our current operations, moves us completely to CHMS, invests in new projects for revenue generation, and fulfills our commitments to our Home Office staff. ¹

The Society will complete the transition to CHMS administration in 2018, and gain the operational benefits of professional management, though not the full economic benefits we had anticipated last year. We also believe it prudent to present a conservative operations budget that reflects the uncertainties SDS faces with membership and conference growth. We project that SDS will post a net loss for 2018 of **-\$160,504.78**, and another net loss of **-\$120,985.05** in 2019. To cover these gaps, we will implement the adjustments to our capital reserve for 2018 and 2019.

Why are we presenting a budget with another year of losses when a year ago we projected a \$50,000 operating surplus in 2019, and what confidence do we have in this year's analysis? As noted in Part II of this report, we know more about the transition costs and end-game costs for shutting down operations at UAlbany. The total budget for the transition is within the "pessimistic scenario" from last year, but some of the outlays now extend into 2019.

Furthermore, the 2019 budget below is based on additional new data:

- Our ongoing contract with CHMS is more costly than we had anticipated to reflect the actual salary being paid to the new ED.

¹ Hints for reading the budget in Attachment 7: The four **ORANGE** colored lines under "Expenses" represent expenses that will be paid for by transfers from PC-designated or restricted assets.

- Membership and journal income are assumed to be lower than in previous years, based on recent history.
- Budgeted conference income and expenses are both lower than in recent history, as we are using the working estimates of the 2019 conference committee. Net income from conferences is the most volatile line in our budget and as of this drafting, we may make or we may lose some money in Iceland in 2018. Moving forward, we need more certainty around overall conference income.
- Office expenses are higher than last year, as we are now paying for software licenses in support of operations that were previously donated labor (Thanks again, Bob, for your years of donated software support). Offsetting this increase is a reduction in professional expenses that are now under the aegis of CHMS.
- The 2019 budget changed the method used to report transfers from assets to our operating budget in support of PC-approved designations. The change improves the transparency of the budget relative to assets.
- The 2019 budget now reflects the changes in the timing and approach for fund-raising efforts after our 2018 report.

The underlying structural operating loss, and its direct causes (decreasing membership revenue, decreasing journal revenue, fluctuating conference profitability, a wash between office staff and expenses) should not be ignored by the Society leadership and management. While we have capital reserves to support us for several years (see the next section), the PC knows the effects of inherent delays in the revenue stream on our ability to restore a pathway towards growth of the field.

When we chose to move to a professional association management firm we anticipated numerous programmatic benefits which were beyond the reach of our UAlbany-based team. Now that we are fully engaged with CHMS, we are poised to realize these benefits. Mark Nelson and Roberta Spencer, in concert with the PC and the various committees, will update the proposed budget by year’s end with what we expect will be more optimistic plans for an organized fundraising strategy, new income sources, partnerships, and other opportunities.

We believe that the Society is still facing untapped opportunities around fund-raising—opportunities that we were not able to fully capitalize on in 2017. With a new ED now on board and with resources being allocated to special projects, we believe that we have the resources to capitalize on these opportunities. These are opportunities that will require strategic attention to fund-raising approaches as well as custodial structures on the part of the Policy Council.

The VP Finance in conjunction with the AVP Finance request that the PC pass a formal motion at its Summer 2018 meeting approving the 2019 budget proposal.

Part B: Designated Uses of Society Assets

For the past several years, the last page of every annual report of the VP Finance has been dedicated to enumerating the restrictions and designations on capital assets held by the Society. The purpose of these designations has been to provide for prudent cash reserves in the form of “rainy day” funds and to clearly delineate how designated funds may be used for limited

purposes in the next budget year (e.g., support the Ph.D. luncheon, or provide support for the Field Development Fund).

The summary of assets and their designations are presented in Attachment 8—Investments-at-Glance. Below are six important points relating to this attachment:

- (1) Our assets have benefited from market appreciation in the last year. The markets can work against us in the future, and it is therefore imprudent to rely on appreciation alone to cover operating losses. 2018 and to a lesser extent 2019 are unusual years, ones that we saved for over time.
- (2) Assets used to support the Dana Meadows Awards are temporarily restricted by donor specification. All other items are designated for support from Investment Income; approved by (and hence can be changed by) a vote of the Policy Council.
- (3) Assets listed in “Investments at a Glance” under the Legacy Fund include uncollected pledges that may be at risk. This is consistent with the reporting in our audited Financial Statement.
- (4) As we had planned, releasing of the previous designation for “Executive Director” salary occurs because we now know that we do not need to hold these fees to cover a possible termination of Roberta Spencer’s contract with UAlbany (because in 2018 she retires from UAlbany). This action frees up funds sufficient to cover other expenses such as the transition of the Home Office, and almost all of the continuity payments to our UAlbany staff. Roberta Spencer’s new role in Special Projects is treated as an operating expense without a designated asset behind it.
- (5) The funds collected from the Legacy Campaign are segregated from other funds in an independent account, and 2018 income does not appear in our Budget, as there is no programmatic use for the funds at this time. We still track the Legacy Fund as a Balance Sheet Assets and in our unofficial Investments-At-A-Glance.
- (6) The losses from operations (Net Ordinary Income/Expense) that are drawing down our reserves can be broken into two parts, reflecting non-recurring and recurring expenses. If our structural deficit holds, and we continue to transfer all income from our investments and if our investments continue to hold their value, we will reduce the capital reserve each year by about **-\$26,562.05**. While this is worrisome, and certainly based on uncertain assumptions, we do have sufficient reserves to cover this recurring depletion for several years before it affects our reserves budgeted for operating expenses.

- 2019 Budgeted NOI/NOE -\$203,581.30
 - i. 2019 Non Recurring (Spencer, Bahaddin) - 94,423.00
 - ii. 2019 Recurring Loss from operations -109,158.30
- 2019 Budgeted Xfers from Investments \$ 82,596.25
- Recurring Depletion Reserves -\$ 26,562.05

The VP Finance in conjunction with the Associate VP Finance requests that the Policy Council pass a formal motion at its Summer 2018 meeting approving the asset designations listed in Attachment 8 of this document.

Attachments:

VP Finance Narrative Report Part III – Budget Proposal

- (1 through 6)** Reports for the year 2017 contained and described in Part I of VP Finance Report
- (7)** 2018 and 2019 Proposed Budget System Dynamics Society
- (8)** Investments-at-a-Glance as of December 31, 2017

Attachment 7
 2018 VP Finance Report
 System Dynamics Society
 2018 Budget (with post-Summer adjustments) compared to 2019 Budget Proposal

	Budget approved with adjustments 2018	Proposed Budget 2019
Ordinary Income/Expense		
Income		
INC Conferences	308,909.51	293,810.00
Journal Income	85,173.00	80,063.00
Membership Dues	71,574.66	61,554.00
Other Income		0.00
Products	48,855.36	48,562.00
Shipping and Handling Income	7,188.72	23,004.00
Sponsor Dues and Donations	51,079.20	61,295.00
Summer School Income	11,160.00	0.00
Total Income	583,940.45	568,288.00
Cost of Goods Sold		
Cost of Goods	9,517.62	9,518.00
Total COGS	9,517.62	9,518.00
Gross Profit	574,422.83	558,770.00
Expense		
Awards-Dana Meadows (1 and 2)	2,000.00	5,000.00
Awards-Others	6,000.00	6,000.00
Bank & CC Fees	13,088.24	18,585.00
Field Dev (\$20K Max)	20,000.00	20,000.00
Contracted Expenses at UAAlbany	229,804.41	
Continuity of Employment	116,008.60	31,970.00
Contracted Expenses CHMS	162,394.86	340,800.00
R SpencerSpecial Projects	15,696.80	62,453.00
EXP Conferences	151,736.00	173,806.00
Insurance	6,232.60	3,116.00
Interest Exp		
Journal Expense	23,000.00	23,000.00
Marketing (Sponsor Trade)		-
Miscellaneous Expense	1,015.20	1,015.00
Office Expense	5,171.00	40,564.00
Officer Expenses (=Travel CPA)	7,794.15	8,496.00
PHD Stud Chapt Support @ Conf	1,000.00	1,000.00
Professional Fees	47,080.00	26,546.30
Summer School Expense	9,252.00	-
Total Expense	817,273.86	762,351.30
Net Ordinary Income (inc. expense supported by inv inc)	-242,851.03	-203,581.30
Other Income/Expense		
Other Income		
Xfer of Investment Inc from Undesignated Assets	53,346.25	50,596.25
Xfer of Income from DM award assets	2,000.00	5,000.00
Xfer of Income from Designated Assets	27,000.00	27,000.00
Total Other Income	82,346.25	82,596.25
Net Other Income	82,346.25	82,596.25
Net Income	-160,504.78	-120,985.05

Attachment 8
System Dynamics Society
Investments At-a-Glance

		Goal Amounts as of Jun 30, prev. year		Designated Net Assets as of Dec 31st each year	
		for 2018	for 2019	2017, Actual	2018, Est.
Reserves for Rainy Day Expenses					
	Capital Reserve	500,000	500,000	142,860	103,935
	Executive Director's Salary Reserve***		0	118,580	0
	Operating Surplus/ "Buffer Funds"	100,000	100,000	100,000	100,000
Sub-total Reserves-Rainy Day		\$600,000	\$600,000	\$361,440	\$203,935
Reserves Budgeted for Operating Expenses					
	Chapter/Field Development Fund	400,000	400,000	400,000	400,000
	Jay Wright Forrester Award	100,000	100,000	100,000	100,000
	Dana Meadows Award1 annual student award*	116,806	116,806	157,042	157,042
	Dana Meadows Award2 Ten-year special award*	27,000	24,000	30,000	27,000
	Legacy Campaign	71,947	71,947	71,947	71,947
	PhD Luncheon/Support	20,000	20,000	20,000	20,000
Sub-total Reserves-OpExp		\$735,753	\$732,753	\$778,989	\$775,989
Fair Value of Financial Instruments at year end**		\$1,335,753	\$1,332,753	\$1,140,429	\$979,924

*Classed as Temporarily Restricted Net Asset. Annual award account currently exceeds amount needed to fund award. Ten-year special award to be drawn down from payment.

**Previously Total Assets/Equity

***This designation no longer needed after move from UAlbany to CHMS