

To: Policy Council of the System Dynamics Society  
From: David Andersen, VP Finance  
Subject: VP Finance Report for July, 2006  
Date: July 3, 2006

As was the case last year, I organize my report this year around four documents—(1) Key trends from 1984 to the present, (2) The proposed budget for 2007, (3) The proposed budget for 2007 by cost center, and (4) CPA Reviewed Financial Statements for 2005.

## **Key Trends in Society Finances 1984 to Present**

When I look at this time series, I note several important trends around an overall growth in almost all variables:

**Unrestricted Assets Have Passed \$450,000.** In the past two years, the Society's unrestricted assets have shot up noticeably. I believe that this growth is due to two significant changes—(1) A tightening of policies around conferences, and (2) Our changed financial arrangements with Wiley.

**Continued Volatility in Income and Expenditures.** While the contract with the University at Albany is stabilizing, overall income and expenditures at least since 1996 have shown swings, representing a complex mix of home office activities to grow the Society. This year, I am not worried about these swings because our asset base is sufficient to absorb any shock from a bad year.

## **Proposed Budget System Dynamics Society 2007 (with Cost Centers)**

I have highlighted several lines on this budget in **red** to draw your attention to some important things that are going on this year with the proposed budget for 2007.

**Net Ordinary Income.** I project that in 2007, the Society's retained earnings will rise by 998% to \$21,483. With the exception of 2005, a year that contained a number of one time adjustments, this is the largest surplus that I have ever projected for the Society. This is good news 😊.

**Total INC Conferences.** The overall Society budget for 2007 assumes that 600 persons will attend the 50<sup>th</sup> anniversary conference at a fee of US \$ 425 for a regular member.

**Total EXP Conferences (Unduplicated in Society Budget).** This line shows the largest growth in the expenditure side of the budget, reflecting strong anticipated growth in the expenditures for the 2007 conference. I trace this growth to plans for a special conference both in terms of attendance and amenities to mark the 50<sup>th</sup> anniversary of the field.

**Investment Income.** The 2007 budget shows a projected income from our investments at \$26,000, up 420% from the budgeted amount for 2006. If anything, I believe that this is a conservative projection of investment growth.

**The contract with the University at Albany is level at \$203,000.** We presently have two full time employees at the University at Albany, some incidental expenses, and room in the budget to hire a graduate assistant. I expect this staffing pattern to continue. This contract amount does not include a growing amount of support under the “professional services” line. Actual expenditures at UAlbany this year will be closer to \$217,000, but we have held down the contract amount because Albany’s accounts are carrying a surplus that has built up over the past several years.

**Professional Fees.** Between 2006 and 2007, we expect that professional fees will grow by about 27%. These additional professional fees to a large degree are being used to pay for additional staff working with the home office. These staff members are not University at Albany employees.

**Staff Salary Market Adjustment.** This line was new in 2005. It implements a policy designed to bring staff salaries more in line with what they would be paid on an open market. This year we paid out about \$11,000 in such adjustments to our staff based on the Society’s performance in 2005. This budget line will allow us to make similar payments in 2007 for Society and staff performance in 2006, if they are deemed warranted.

**Net Income by Cost Centers.** This line of figures indicates that for 2007, a slightly modified pattern of cross-subsidies emerged. In 2007, I project that core operations will be a self-sustaining cost center due primarily to the revised dues arrangements with Wiley. As has been the case in the past, web and publications cost centers will continue to be subsidized by conferences and sales of products. The overall fiscal health of the Society continues to be linked to the financial performance of our annual research conference as well as to how many beer boards (and other products) we manage to sell.

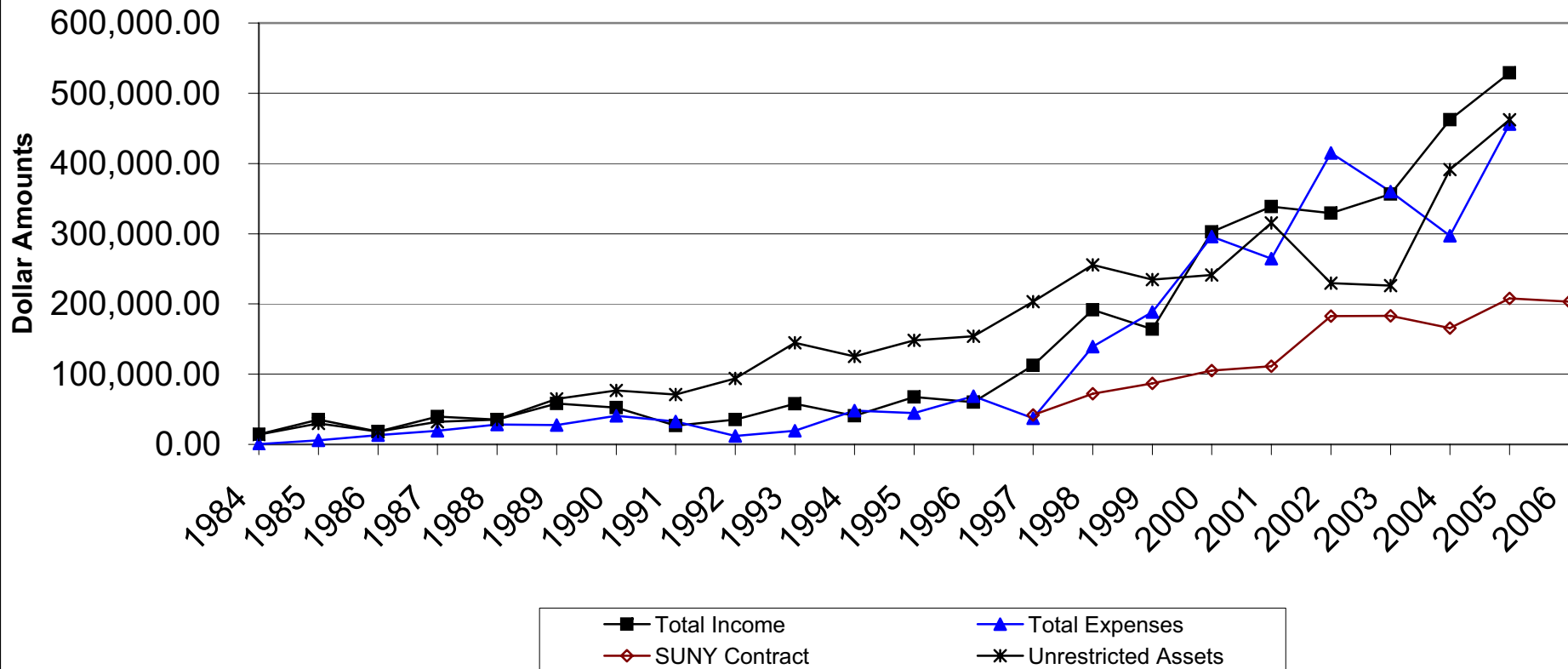
## **Reviewed Financial Statements for the Years Ended December 31 2003 and 2004.**

Each year our accountants, Hall, Vasil, & Dowd review our financial statements. I present below their report to the Policy Council. These figures differ somewhat from the figures that I presented last February because my unaudited figures failed to show the Dana Meadows Fund as restricted assets. With this correction plus a number of technical adjustments the Society’s books match these audited statements. Overall, our accountant is tickled pink by the record keeping procedures and practices of the home office.

### **Attachments**

1. Key Trends in Society Finances, 1984 to Present
2. Proposed Budget System Dynamics Society for 2007
3. Proposed Budget System Dynamics Society for 2007 By Cost Center
4. Auditor’s Review of System Dynamics Society Financial Statements for the Years Ended December 31, 2005 and 2004

# Key Trends in Society Finances 1984 to Present



	2005 actual	2006 Budget approved	2007 Budget proposed	% Change
<b>Income</b>				
DMA Endow. Fund Camp.	34,125	0	0	0%
Products	109,282	113,000	105,251	-7%
<b>Total INC Conferences</b>	<b>219,255</b>	<b>195,000</b>	<b>243,584</b>	<b>25%</b>
Investment Income	16,733	5,000	26,000	420%
Net Membership Dues	109,272	54,407	55,463	2%
Income from Wiley/Journal	12,479	37,643	39,537	5%
Shipping and Handling	18,624	16,950	17,109	1%
Publications Sales	2,839	5,000	500	-90%
Sponsor Dues and Donations	35,952	25,000	27,962	12%
Conversion from Accrual to Cash	392	0	-722	NA
<b>Total Income</b>	<b>558,953</b>	<b>452,000</b>	<b>514,684</b>	<b>14%</b>
<b>Cost of Goods Sold</b>				
Proceedings	775	2,000	1,992	0%
Bibliography Update Expense	333	500	500	0%
Literature Collection	0	1,000	0	-100%
Management Game	20,852	25,000	20,963	-16%
PhD Seminar in System Dynamics	162	1,500	0	-100%
Reprint Outdated SDR/Proceedings	7,942	200	1,500	650%
<b>Total COGS</b>	<b>30,062</b>	<b>30,200</b>	<b>24,955</b>	<b>-17%</b>
<b>Gross Profit</b>	<b>528,891</b>	<b>421,800</b>	<b>489,729</b>	<b>16%</b>
<b>Expense</b>				
Awards	5,494	7,000	7,000	0%
Bank Adjustments (Expense)	656	800	605	-24%
Contract w/ UAlbany				
Office Expenses through UAlbany		19,550	19,000	-3%
IFR Indirect Costs		18,284	18,040	-1%
Salaries & Fringe		182,837	180,402	-1%
Adjustments from Previous Year		-17,316	-14,086	-19%
<b>Total Contract w/ UAlbany</b>	<b>207,855</b>	<b>203,355</b>	<b>203,356</b>	<b>0%</b>
Credit card fees	11,444	9,638	10,844	13%
Depreciation Expense	697	1,500	1,209	-19%
Electronic Presence Support	0	500	520	4%
<b>Total EXP Unduplicated in Society Budget</b>	<b>72,291</b>	<b>99,117</b>	<b>125,744</b>	<b>27%</b>
Journal Expense	12,000	12,000	12,000	0%
Membership Directory Exp	1,526	2,000	2,000	0%
Membership Services (Newsletter)		0	1,000	NA
Membership Subsidies		2,250	2,517	12%
Miscellaneous Exp.(MA fees, gifts)	25,000	150	150	0%
Office Equipment Purchases		10,000	5,000	-50%
Officer Expenses	7,748	3,000	8,000	167%
Phone, Fax, E-mail Services		25	0	-100%
Printing & Duplicating	5,152	3,000	4,272	42%
Professional Fees	46,349	40,509	51,471	27%
Shipping /Postage Expense	14,068	13,000	15,705	21%
Staff Expenses (training)		0	5,000	NA
Staff Salary Market Adjustment	9,667	11,000	10,854	-1%
Supplies	1,860	1,000	1,000	0%
<b>Total Expense</b>	<b>421,806</b>	<b>419,844</b>	<b>468,245</b>	<b>12%</b>
<b>Net Ordinary Income</b>	<b>107,085</b>	<b>1,956</b>	<b>21,483</b>	<b>998%</b>
<b>Other Income/Expense</b>				
Restricted DMA Donations and Interest E	-34,125			
<b>Net Income</b>	<b>72,960</b>			

**Proposed Budget SYSTEM DYNAMICS SOCIETY 2007  
by Cost Centers**

7/3/2006

	2007 Proposed	Conferences	Core	Web	Publications	Sales
<b>Income</b>						
DMA Endow. Fund Camp.	0					
Products	105,251					105,251
INC Conferences						
<b>Total INC Conferences</b>	243,584	243,584	0	0	0	0
Investment Income	26,000		26,000			
Membership Dues	55,463		55,463			
Income from Wiley/Journal	39,537		30,537		9,000	
Shipping and Handling	17,109					17,109
Publications Sales	500				500	
Sponsor Dues and Donations	27,962		27,962			
Conversion from Accrual to Cash	-722		-722			
<b>Total Income</b>	514,684	243,584	139,240	0	9,500	122,360
<b>Cost of Goods Sold</b>						
Proceedings	1,992					1,992
Bibliography Update Expense	500					500
Fireside Chat	0					0
Literature Collection	0					0
Management Game	20,963					20,963
PhD Seminar in System Dynamics	0					0
Reprint Outdated SDR/Proceedings	1,500				1,500	
<b>Total COGS</b>	24,955	0	0	0	1,500	23,455
<b>Gross Profit</b>	489,729	243,584	139,240	0	8,000	98,905
<b>Expense</b>						
Awards	7,000		7,000			
Bank Adjustments (Expense)	605		302			302
Contract w/ UAlbany	0					
Office Expenses through UAlbany	19,000	7,340	7,838	2,470	385	967
IFR Indirect Costs	18,040	6,969	7,442	2,345	366	918
Salaries & Fringe	180,402	69,690	74,421	23,448	3,660	9,182
Ajustments from Previous Year	-14,086	-5,442	-5,811	-1,831	-286	-717
<b>Total Contract w/ UAlbany</b>	203,356	78,557	83,891	26,432	4,125	10,350
Credit card fees	10,844		5,314		108	5,422
Depreciation Expense	1,209	467	499	157	25	62
Electronic Presence Support	520			520		
<b>Total EXP Unduplicated in Society Budget</b>	125,744	125,744				
Journal Expense	12,000				12,000	
Membership Directory Exp	2,000				2,000	
Membership Services (Newsletter)	1,000		1,000			
Membership Subsidies	2,517		2,517			
Miscellaneous Exp.(MA fees, gifts)	150		150			
Office Equipment Purchases	5,000			5,000		
Officer Expenses	8,000		4,800		3,200	
Printing & Duplicating	4,272		1,709		854	1,709
Professional Fees	51,471	15,884	17,234	6,690	1,044	10,620
Shipping /Postage Expense	15,705		628		628	14,448
Staff Expenses	5,000	1,932	2,063	650	101	254
Staff Salary Market Adjustment	10,854	4,193	4,478	1,411	220	552
Supplies	1,000		1,000			
<b>Total Expense</b>	468,245	226,777	132,583	40,859	24,307	43,720
<b>Net Income</b>	21,483	16,807	6,657	-40,859	-16,307	55,185

THE SYSTEM DYNAMICS SOCIETY, INC.  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

THE SYSTEM DYNAMICS SOCIETY, INC.  
REPORT ON REVIEW OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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*Certified Public Accountants*



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

We have reviewed the accompanying statements of assets, liabilities, and net assets – modified cash basis of The System Dynamics Society, Inc., as of December 31, 2005 and 2004 and the related statements of revenues, expenses, and other changes in net assets – modified cash basis and statements of cash flows – modified cash basis for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of The System Dynamics Society, Inc.

A review consists principally of inquiries of Society personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based upon 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 the modified cash basis of accounting, as described in Note B.

Certified Public Accountants

June 20, 2006

THE SYSTEMS DYNAMICS SOCIETY, INC.  
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS -  
MODIFIED CASH BASIS  
DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 132,259	\$ 243,395
Money market mutual funds	16,064	131,931
Marketable securities	<u>380,414</u>	<u>35,481</u>
Total current assets	<u>528,737</u>	<u>410,807</u>
<b>PROPERTY</b>		
Furniture and equipment	11,046	11,046
Less: Accumulated depreciation	<u>(10,690)</u>	<u>(9,993)</u>
	<u>356</u>	<u>1,053</u>
<b>OTHER ASSETS</b>		
Cash - reserved	<u>28,947</u>	<u>29,439</u>
Total assets	<u>\$ 558,040</u>	<u>\$ 441,299</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<b>CURRENT LIABILITIES</b>		
Conference scholarship awards payable	\$ 1,060	1,285
Prepaid travel	-	3,054
Royalty payable	5,000	-
Memberships subscriptions payable	<u>23,190</u>	<u>14,640</u>
Total current liabilities	29,250	18,979
<b>NET ASSETS</b>		
Unrestricted - General fund	\$ 462,262	\$ 391,354
Permanently restricted	<u>66,528</u>	<u>30,966</u>
	<u>528,790</u>	<u>422,320</u>
Total net assets	<u>\$ 558,040</u>	<u>\$ 441,299</u>

See accompanying notes and accountants' report.

THE SYSTEMS DYNAMICS SOCIETY, INC.  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Changes in unrestricted net assets		
Revenues and gains		
Conference	\$ 146,964	\$ 213,974
Bibliographies and teaching games	88,222	99,871
Donations	35,952	32,190
Membership dues and subscriptions	109,272	49,402
Prepaid postage	18,624	20,157
Interest and dividends	11,257	3,443
Publications	6,440	8,391
Unrealized (loss)/gain on securities	5,476	2,685
Miscellaneous	269	264
Total unrestricted revenues and gains	<u>422,476</u>	<u>430,377</u>
Expenses and losses		
Administration	207,855	165,788
Bank fees	12,100	19,571
Depreciation	697	1,011
Donations	25,000	-
Grants	5,494	5,560
Membership mailings	1,526	1,718
Membership subsidies	-	2,430
Office expenses	1,860	762
Professional fees	56,016	33,758
Publications	17,152	16,510
Shipping and postage	14,068	14,794
Travel	7,748	3,121
Total expenses and losses	<u>349,516</u>	<u>265,023</u>
INCREASE IN UNRESTRICTED NET ASSETS	72,960	165,354
Changes in permanently restricted net assets		
Revenues and gains		
Donations	34,125	31,528
Unrealized (loss) on securities	(615)	(561)
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	<u>33,510</u>	<u>30,967</u>
NET ASSETS - beginning of year	<u>422,320</u>	<u>225,999</u>
NET ASSETS - end of year	<u>\$ 528,790</u>	<u>\$ 422,320</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS  
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Cash received	\$ 439,868	\$ 441,941
Cash paid to suppliers and employees	(338,548)	(265,253)
Interest and dividends	11,257	3,751
Net cash provided by operating activities	<u>112,577</u>	<u>180,439</u>
Cash flows from investing activities		
Capital expenditures	-	
Acquisition of available for sale securities	(223,713)	
Net cash (used) in investing activities	<u>(223,713)</u>	<u>0</u>
Net increase (decrease) in cash	(111,136)	180,439
Cash beginning of year	<u>243,395</u>	<u>62,955</u>
Cash at end of year	<u>\$ 132,259</u>	<u>\$ 243,394</u>

Reconciliation of increase in net assets  
provided by operating activities

Increase in net assets	\$ 106,470
Adjustments to reconcile net income to net cash provided by operating activities	
Add: Depreciation	697
Add: increase in accounts payable	10,271
Less: Realized gain	(4,861)
Total adjustments	<u>6,107</u>
Cash provided by operating activities	<u>\$ 112,577</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004

A. Organization

The System Dynamics Society, Inc., incorporated on November 7, 1985, as an international non-profit corporation, was organized to encourage the development and use of system dynamics in solving problems in such areas as environmental change, economic development, social unrest, urban decay, psychology, and physiology.

B. Significant Accounting Policies

1. Basis of accounting – The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Non-cash transactions are recognized in the financial statements.

The modified cash basis differs from generally accepted accounting principles primarily due to the effects of accounts receivable and accounts payable not being reflected in the accompanying financial statements. In addition to recording cash receipts and disbursements, the Society records property acquisitions as fixed assets and records the corresponding depreciation over the useful life of the assets. The Society records the acquisition of investments (money market mutual funds, U. S. Treasury notes, and marketable securities) as assets and recognizes the unrealized gain or loss on the value of the investments due to market fluctuations. The Society accrues conference scholarships payable, prepaid travel and membership subscriptions payable, rather than recording these as income in the period received.

2. Income taxes – The Society qualifies under IRS Section 501(c) (3) as an organization exempt from federal taxation on income related to its stated purpose.
3. Property and equipment and depreciation – Property and equipment are recorded at cost. Depreciation is computed using accelerated methods over the estimated useful lives of the assets.
4. Use of estimates – The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2005 AND 2004

B. Significant Accounting Policies (Continued)

5. Basis of presentation – In 1995, the Organization adopted Statement of Financial Accounting Standards No. 116, “Accounting for Contributions Received and Contributions Made” and Statement of Financial Accounting Standards No. 117, “Financial Statements for Not-for-Profit Organizations.” Under these standards, net assets and revenues and expenses are classified on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are all classified and reported according to the level of restriction imposed by donors into either “unrestricted” or “permanently restricted” categories.
6. Restricted and unrestricted income – Contributions received are recorded as increases in unrestricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.
7. Administrative expenses – The Society has a contract with the University of New York at Albany for administrative support services. In 2005 and 2004 the Society paid \$207,855 and \$165,788, respectively, to the University for the necessary support service.
8. Cash and cash equivalents – The Society maintains operating cash balances at one bank. The account at this institution is insured by the Federal Deposit Insurance Corporation up to \$100,000. The Society also maintains a money market mutual fund account at an investment company, with balances insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation.

C. Certificate of Deposit

A certificate of deposit totaling \$28,947 is included in cash (Other Assets) in the accompanying financial statements. The certificate bears interest of 5.0% and has a maturity date of November 2014, callable in May 2006, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

THE SYSTEM DYNAMICS SOCIETY, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
DECEMBER 31, 2005 AND 2004

D. Marketable Debt and Equity Securities

Cost and fair value marketable debt and equity securities at December 31, 2005 are as follows:

Available for sale:	<u>Cost</u>	Unrealized Appreciation (Depreciation)	<u>Fair Value</u>
Money market funds-unrestricted	\$16,064	\$ 0	\$16,064
Stock/bond mutual fund-unrestricted	333,205	5,512	338,717
Stock equities-unrestricted	4,122	(35)	4,087
Certificate of deposit-restricted	<u>30,000</u>	<u>(1,053)</u>	<u>28,947</u>
	<u>\$383,391</u>	<u>\$4,424</u>	<u>\$387,815</u>

E. Restrictions on Net Assets

In 2005, the Society's Policy Council voted to raise funds to endow the System Dynamics Society's Dana Meadows Award, given for the best work presented by students at the annual Society conference. These funds are permanently restricted, with only the investment earnings used for the annual awards. During the years ended December 31, 2005 and 2004, the Society raised gross donations of \$34,125 and \$31,528, respectively.