

To: Policy Council of the System Dynamics Society
From: David Andersen, VP Finance
Subject: VP Finance Report for July, 2005
Date: July 12, 2005

I organize my report this year around three documents—(1) Key trends from 1984 to the present, (2) The proposed budget for 2006, and (3) CPA Reviewed Financial Statements for 2004.

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:

While growing, Total Income and Total Expenses are volatile. For several years in the time series, total expenses have exceeded total income, yielding in those years a reduction on overall Society asset. In most of the years reported, assets have grown. Our present level of unrestricted assets hovers around four hundred thousand dollars so we do have an ability to absorb this unpredictable (to me) volatility.

The contract with the University at Albany hovers around \$200,000. 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. We are seeing some growth in staff at the home office who are not employees of the University at Albany.

Proposed Budget System Dynamics Society 2006 (with Cost Centers)

I have highlighted several lines on this budget to draw your attention to some important things that are going on this year with the proposed budget for 2006.

Total INC conferences. The overall Society budget for 2006 assumes that 400 persons will attend the 2006 conference in Nijmegen at a fee of US \$ 425.

Membership Dues and Membership Services. For 2005, we booked \$90 in dues for each full time member and \$45 for each student member. Subsequently, we paid \$30 to Wiley every member under the line of Membership Services. This year, the \$30 payment to Wiley is handled through a liability account, making both of these lines items appear to be about \$30,000 different from last year. Actually, they are not.

Contract with UAlbany—Adjustments from Previous Year. For the past several years, the University at Albany has been carrying a net balance of around \$20,000 because a graduate assistant left to take a real job and was not replaced. The adjustment

on this line is designed to drop that balance. Our current carry-over in the Society's accounts at the University at Albany should allow this reduction without creating any problems.

Professional Fees. Between 2005 and 2006, we expect that professional fees will grow by about 77%. These additional professional fees to a large degree are being used to pay for additional staff working with the home office. These staff are not University at Albany employees.

Staff Salary Market Adjustment. This line is 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 2004. This budget line will allow us to make similar payments in 2006 for Society and staff performance in 2005, if they are deemed warranted.

Net Income by Cost Centers. This line of figures indicates that for 2006, I anticipate that the traditional pattern of cross-subsidies between cost centers will continue. Core operations, web, and publications will continue to be subsidized by conferences and sales of products. The 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 in my report their report to the Policy Council. These figures are quite close to the end of year figures that I reported last February. A number of technical adjustments have been made. Overall, our accountant is satisfied by the record keeping procedures and practices of the home office.

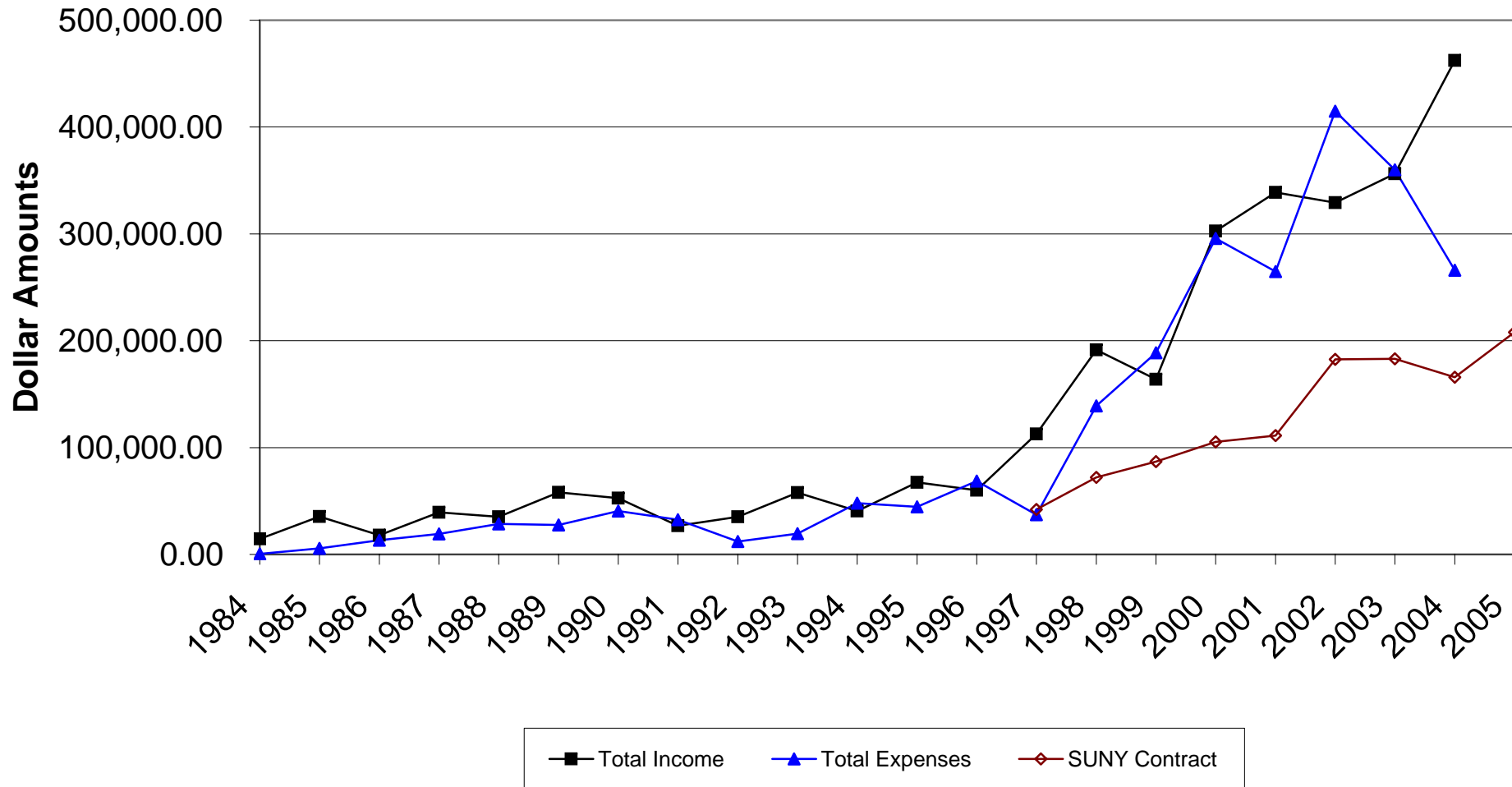
Proposed Budget SYSTEM DYNAMICS SOCIETY 2006

	2004	2005 Budget	2006 Proposed	% Change
Income				
DMA Endow. Fund Camp.	31,528	0	0	
Products	134,014	121,876	113,000	-7%
INC Conferences				
Total INC Conferences	216,501	151,310	195,000	29%
Investment Income	5,566	2,000	5,000	150%
Membership Dues	49,402	112,654	54,407	-52%
Other Income	264	34,275	37,643	10%
Shipping and Handling	20,157	18,281	16,950	-7%
Publications Sales	6,962	5,840	5,000	-14%
Sponsor Dues and Donations	32,190	23,966	25,000	4%
Conversion from Accrual to Cash	-2,395	0	0	
Total Income	494,190	470,202	452,000	-4%
Cost of Goods Sold				
Proceedings	0	1,626	2,000	23%
Bibliography Update Expense	308	445	500	12%
Fireside Chat	0	0	0	
Literature Collection	1,550	3,000	1,000	-67%
Management Game	29,696	20,479	25,000	22%
PhD Seminar in System Dynamics	0	2,334	1,500	-36%
Reprint Outdated SDR/Proceedings	318	200	200	0%
Total COGS	31,872	28,084	30,200	8%
Gross Profit	462,318	442,118	421,800	-5%
Expense				
Awards	5,560	7,000	7,000	0%
Bank Adjustments (Expense)	344	835	800	-4%
Contract w/ UAlbany				
Office Expenses through UAlbany	0	19,550	19,550	0%
IFR Indirect Costs	0	18,284	18,284	0%
Salaries & Fringe	0	182,837	182,837	0%
Other	0	0	0	
Ajustments from Previous Year	0	0	-17,316	
Total Contract w/ UAlbany	165788	207,855	203,355	-2%
Credit card fees	19,227	9,567	9,638	1%
Depreciation Expense	1,011	1,621	1,500	-7%
Electronic Presence Support	307	0	500	
EXP Conferences outside Alb.contract				
Total EXP Conferences outside Alb.contract	2,527	71,508	99,117	39%
EXP Conference Prepaid				
Journal Expense	12,000	11,500	12,000	4%
Membership Directory Exp	907	1,687	2,000	19%
Membership Services	811	30,584	0	-100%
Membership Subsidies	2,430	2,157	2,250	4%
Miscellaneous Exp.(MA fees, gifts)	120	139	150	8%
Office Equipment Purchases	0	4,641	10,000	115%
Less Capitalized Equip	0	-2,309	0	-100%
Officer Expenses	3,121	3,606	3,000	-17%
Phone, Fax, E-mail Services	0	26	25	-4%
Printing & Duplicating	2,960	3,292	3,000	-9%
Professional Fees	33,758	22,898	40,509	77%
Staff Salary Market Adjustment	0	0	11,000	
Shipping /Postage Expense	14,794	9,484	13,000	37%
Staff Expenses	0	250	0	-100%
Supplies	335	899	1,000	11%
Total Expense	266,000	387,241	419,844	8%
Net Income	196,318	54,877	1,956	-96%

**Proposed Budget SYSTEM DYNAMICS SOCIETY 2006
by Cost Centers**

	2006 Proposed	Conferences	Core	Web	Publications	Sales
Income						
DMA Endow. Fund Camp.	0					
Products	113,000					113,000
INC Conferences						
Total INC Conferences	195,000	195,000	0	0	0	0
Investment Income	5,000		5,000			
Membership Dues	54,407		54,407			
Other Income	37,643		37,643			
Shipping and Handling	16,950					16,950
Publications Sales	5,000				5,000	
Sponsor Dues and Donations	25,000		25,000			
Conversion from Accrual to Cash	0					
Total Income	452,000	195,000	122,050	0	5,000	129,950
Cost of Goods Sold						
Proceedings	2,000					2,000
Bibliography Update Expense	500					500
Fireside Chat	0					0
Literature Collection	1,000					1,000
Management Game	25,000					25,000
PhD Seminar in System Dynamics	1,500					1,500
Reprint Outdated SDR/Proceedings	200				200	
Total COGS	30,200	0	0	0	200	30,000
Gross Profit	421,800	195,000	122,050	0	4,800	99,950
Expense						
Awards	7,000		7,000			
Bank Adjustments (Expense)	800		400			400
Contract w/ UAlbany						
Office Expenses through UAlbany	19,550	6,235	9,037	1,383	926	1,969
IFR Indirect Costs	18,284	5,831	8,452	1,293	866	1,841
Salaries & Fringe	182,837	58,313	84,520	12,933	8,660	18,412
Other	0	0	0	0	0	0
Ajustments from Previous Year	-17,316	-5,523	-8,005	-1,225	-820	-1,744
Total Contract w/ UAlbany	203,355	64,857	94,004	14,384	9,632	20,478
Credit card fees	9,638	4,144	3,373		96	2,024
Depreciation Expense	1,500		1,500			
Electronic Presence Support	500			500		
EXP Conferences outside Alb.contract						
Total EXP Conferences outside Alb.contract	99,117	99,117				
EXP Conference Prepaid						
Journal Expense	12,000				12,000	
Membership Directory Exp	2,000				2,000	
Membership Services	0					
Membership Subsidies	2,250		2,250			
Miscellaneous Exp.(MA fees, gifts)	150		150			
Office Equipment Purchases	10,000		10,000			
Less Capitalized Equip	0					
Officer Expenses	3,000		270	1,350	1,380	
Phone, Fax, E-mail Services	25		25			
Printing & Duplicating	3,000		1,200		600	1,200
Professional Fees	40,509	11,748	18,229	405	810	9,317
Staff Salary Market Adjustment	11,000		11,000			
Shipping /Postage Expense	13,000		520		520	11,960
Staff Expenses	0		0			
Supplies	1,000		500			500
Total Expense	419,844	179,866	150,422	16,639	27,039	45,879
Net Income	1,956	15,134	-28,371	-16,639	-22,239	54,071

Key Trends in Society Finances 1984 to Present



THE SYSTEM DYNAMICS SOCIETY, INC.
REPORT ON REVIEW OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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Hall, Vasil & Dowd

Certified Public Accountants

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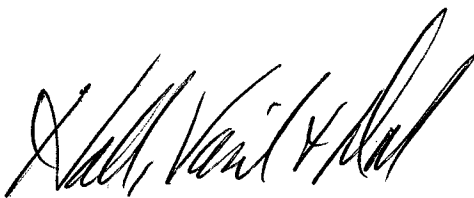
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Policy Council
The System Dynamics Society, Inc.
Albany, New York

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, 2004 and 2003 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 23, 2005

THE SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 243,394	\$ 62,955
Money market mutual funds	131,931	131,600
Marketable securities	<u>35,481</u>	<u>31,905</u>
Total current assets	410,806	226,461
PROPERTY		
Furniture and equipment	11,046	11,046
Less: Accumulated depreciation	<u>9,993</u>	<u>8,982</u>
	1,053	2,064
OTHER ASSETS		
Cash - restricted	<u>29,439</u>	<u>-</u>
Total assets	<u>\$ 441,297</u>	<u>\$ 228,524</u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Conference scholarship awards payable	\$ 1,285	\$ 2,525
Prepaid travel	3,054	-
Membership subscriptions payable	<u>14,640</u>	<u>-</u>
Total current liabilities	18,979	2,525
NET ASSETS		
Unrestricted	391,351	225,999
Permanently restricted	<u>30,966</u>	<u>-</u>
	<u>422,317</u>	<u>225,999</u>
Total liabilities and net assets	<u>\$ 441,297</u>	<u>\$ 228,524</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
STATEMENTS OF REVENUES, EXPENSES AND
OTHER CHANGES IN NET ASSETS - MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets		
Revenues and gains		
Conference	\$ 213,974	\$ 86,869
Bibliographies and teaching games	99,871	78,832
Donations	32,190	38,445
Interest and dividends	3,443	1,727
Membership dues and subscriptions	49,402	27,340
Postage income	20,157	15,358
Publications	8,390	8,200
Unrealized gain on securities	2,685	4,985
Miscellaneous	264	-
Total unrestricted revenues and gains	<u>430,375</u>	<u>261,756</u>
Expenses		
Administration	165,788	183,014
Bank fees	19,571	10,782
Depreciation	1,011	1,627
Grants	5,560	5,130
Membership mailings and subsidies	4,148	9,604
Office expenses and supplies	762	1,147
Postage	14,794	12,292
Professional fees	33,758	21,895
Proceedings	-	1,977
Publications	16,510	13,031
Seminars	-	1,757
Travel	3,121	3,133
Total expenses	<u>265,024</u>	<u>265,389</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	165,352	(3,633)
Changes in permanently restricted net assets		
Revenues and gains		
Donations	31,528	-
Unrealized (loss) on securities	<u>(561)</u>	<u>-</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	30,966	-
NET ASSETS - beginning of year	<u>225,999</u>	<u>229,632</u>
NET ASSETS - end of year	<u>\$ 422,317</u>	<u>\$ 225,999</u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Cash received	\$ 441,941	\$ 249,464
Cash paid to suppliers and employees	(265,253)	(248,944)
Interest and dividends	3,751	-
Net cash provided by operating activities	<u>180,439</u>	<u>520</u>
Cash flows from investing activities		
Capital expenditures		(650)
Acquisition of available for sale securities		<u>(1,201)</u>
Net cash (used) in investing activities	<u>0</u>	<u>(1,851)</u>
Net increase (decrease) in cash	180,439	(1,331)
Cash beginning of year	<u>62,955</u>	<u>64,286</u>
Cash at end of year	<u><u>\$ 243,394</u></u>	<u><u>\$ 62,955</u></u>

Reconciliation of net income to net cash
provided by operating activities

Net income	\$ 165,352
Adjustments to reconcile net income to net cash provided by operating activities	
Add: Depreciation	1,011
Add: Prepaid travel	3,054
Add: Membership subscriptions payable	14,640
Less: Unrealized gain	(2,685)
Less: Decrease in Conference scholarships payable	<u>(933)</u>
Total adjustments	<u>15,087</u>
Cash provided by operating activities	<u><u>\$ 180,439</u></u>

See accompanying notes and accountants' report.

THE SYSTEM DYNAMICS SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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, 2004 AND 2003

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 2004 and 2003 the Society paid \$165,788 and \$183,014, 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 \$29,439 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 November 2005, 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, 2004 AND 2003

D. Marketable Debt and Equity Securities

Cost and fair value marketable debt and equity securities at December 31, 2004 are as follows:

Available for sale:	<u>Cost</u>	Unrealized Appreciation (Depreciation)	<u>Fair Value</u>
Money market funds-unrestricted	\$131,931	\$ 0	\$131,931
Stock/bond mutual fund-unrestricted	29,208	1,960	31,168
Stock equities-unrestricted	3,587	725	4,312
Certificate of deposit-restricted	<u>30,000</u>	<u>(561)</u>	<u>29,439</u>
	<u>\$194,726</u>	<u>\$2,124</u>	<u>\$196,850</u>

E. Restrictions on Net Assets

In 2004, 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 year ended December 31, 2004, the Society raised gross donations of \$31,528.