



2006 Financial Report



EDUCATION
FOUNDATION

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Report of Independent Certified Public Accountants

Board of Directors
SME Education Foundation

We have audited the accompanying statements of financial position of SME Education Foundation (a wholly owned subsidiary of Society of Manufacturing Engineers) (the "Foundation") as of December 31, 2006 and 2005, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SME Education Foundation as of December 31, 2006 and 2005, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP



March 12, 2007
Southfield, Michigan

Statements of
Financial Position

December 31, 2006 and 2005

	2006			2005		
	General Fund	Endowment Funds	Total	General Fund	Endowment Funds	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 102,970	\$ —	\$ 102,970	\$ 217,133	\$ —	\$ 217,133
Pledges receivable	150,000	—	150,000	245,600	—	245,600
Total current assets	252,970	—	252,970	462,733	—	462,733
MARKETABLE SECURITIES, at fair market value	5,532,223	20,618,744	26,150,967	5,447,035	19,087,716	24,534,751
EQUIPMENT, net of accumulated depreciation of \$10,720 and \$10,071 in 2006 and 2005, respectively	54,717	—	54,717	1,466	—	1,466
TOTAL ASSETS	\$ 5,839,910	\$ 20,618,744	\$ 26,458,654	\$ 5,911,234	\$ 19,087,716	\$ 24,998,950
LIABILITIES AND NET ASSETS						
LIABILITIES						
Grants payable and other	\$ 1,524,297	\$ —	\$ 1,524,297	\$ 1,511,607	\$ —	\$ 1,511,607
Annuity obligations	336,931	—	336,931	262,406	—	262,406
Due to SME	63,797	—	63,797	37,842	—	37,842
Total liabilities	1,925,025	—	1,925,025	1,811,855	—	1,811,855
NET ASSETS						
Unrestricted						
Designated quasi — endowment	—	6,775,287	6,775,287	—	6,166,563	6,166,563
Accumulated surplus	3,010,732	—	3,010,732	3,194,132	—	3,194,132
Total unrestricted	3,010,732	6,775,287	9,786,019	3,194,132	6,166,563	9,360,695
Temporarily restricted — endowment fund earnings and contributions	904,153	6,627,560	7,531,713	905,247	6,050,965	6,956,212
Permanently restricted — endowment funds	—	7,215,897	7,215,897	—	6,870,188	6,870,188
Total net assets	3,914,885	20,618,744	24,533,629	4,099,379	19,087,716	23,187,095
TOTAL LIABILITIES AND NET ASSETS	\$ 5,839,910	\$ 20,618,744	\$ 26,458,654	\$ 5,911,234	\$ 19,087,716	\$ 24,998,950

The accompanying notes are an integral part of these financial statements.

Statements of Unrestricted
Revenues, Expenses
and Other Changes In
Unrestricted Net Assets

Years Ended
December 31, 2006 and 2005

	2006			2005		
	General Fund	Endowment Funds	Total	General Fund	Endowment Funds	Total
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUES						
Contributions from						
SME	\$ 382,500	\$ —	\$ 382,500	\$ 380,000	\$ —	\$ 380,000
Other	104,986	—	104,986	199,027	—	199,027
Investment income	334,572	735,901	1,070,473	319,627	636,024	955,651
Net assets released from restrictions	274,572	669,871	944,443	214,186	455,690	669,876
Total revenues	1,096,630	1,405,772	2,502,402	1,112,840	1,091,714	2,204,554
EXPENSES						
Grants and awards	1,129,964	—	1,129,964	1,218,793	—	1,218,793
Fund development	224,741	—	224,741	209,561	—	209,561
Administrative	722,373	—	722,373	583,850	—	583,850
Total expenses	2,077,078	—	2,077,078	2,012,204	—	2,012,204
Excess (deficit) of revenues over expenses	(980,448)	1,405,772	425,324	(899,364)	1,091,714	192,350
Transfer of assets	797,048	(797,048)	0	818,406	(818,406)	—
Increase (decrease) in unrestricted net assets	(183,400)	608,724	425,324	(80,958)	273,308	192,350
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
CONTRIBUTIONS						
SME	1,000	—	1,000	—	—	—
Corporate	150,000	—	150,000	335,000	—	335,000
Other	46,633	—	46,633	41,854	—	41,854
ENDOWMENT EARNINGS						
Investment income	75,846	1,246,465	1,322,311	54,327	1,023,963	1,078,290
Net assets released from restrictions	(274,572)	(669,871)	(944,443)	(214,186)	(455,690)	(669,876)
Increase (decrease) in temporarily restricted net assets	(1,093)	576,594	575,501	216,995	568,273	785,268
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS						
CONTRIBUTIONS TO ENDOWMENT FUNDS BY						
Chapters and regions	—	830	830	—	32,558	32,558
Individuals	—	344,879	344,879	—	381,907	381,907
Increase in permanently restricted net assets	—	345,709	345,709	—	414,465	414,465
INCREASE (DECREASE) IN NET ASSETS	(184,493)	1,531,027	1,346,534	136,037	1,256,046	1,392,083
NET ASSETS AT BEGINNING OF YEAR	4,099,378	19,087,717	23,187,095	3,963,342	17,831,670	21,795,012
NET ASSETS AT END OF YEAR	\$ 3,914,885	\$ 20,618,744	\$ 24,533,629	\$ 4,099,379	\$ 19,087,716	\$ 23,187,095

The accompanying notes are an integral part of these financial statements.

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$1,346,534	\$1,392,083
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	649	522
Realized gain on sale of investments	(65,436)	(111,506)
Unrealized gain on investments	(755,078)	(879,550)
Contributions restricted for investment in endowment	(345,710)	(414,465)
Changes in assets and liabilities		
Pledges receivable	95,600	(58,475)
Due to SME	25,955	(3,006)
Grants payable and other	12,690	129,548
Net cash provided by operating activities	315,204	55,151
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(2,931,702)	(3,969,457)
Proceeds from sales of marketable securities	2,136,000	3,488,415
Net purchases of equipment	(53,900)	(1,635)
Net cash provided by (used in) investing activities	(849,602)	(482,677)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for investment in endowment	345,710	414,465
Investment subject to annuity obligations	74,525	171,320
Net cash provided by financing activities	420,235	585,785
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(114,163)	158,259
Cash and cash equivalents at beginning of year	217,133	58,874
Cash and cash equivalents at end of year	\$ 102,970	\$ 217,133

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Years Ended
December 31, 2006 and 2005

Notes to
Financial Statements

December 31, 2006 and 2005

NOTE A – ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements include SME Education Foundation (the "Foundation"). The Foundation is a nonprofit trustee corporation that became a wholly owned subsidiary of the Society of Manufacturing Engineers ("SME") in 1987.

The Foundation was established to further manufacturing engineering education through youth outreach programs, scholarships to selected students and grants to colleges and universities. Youth outreach, scholarship and grant funds and in-kind gifts are solicited from the general public.

The Foundation is an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and as such is exempt from taxation under IRC Section 501(a). The Foundation is not a private foundation by meeting the requirements of IRC Section 509(a)(3).

Cash Equivalents - Cash equivalents are defined as cash and short-term liquid investments with maturities of 90 days or less at the date of purchase.

Marketable Securities - Investments for the general and the endowment funds are invested in marketable securities and are stated at fair value. The fair values for the marketable securities are determined based on quoted market prices. Gains or losses on the disposition of investments is determined on the average cost basis. The unrealized gains are reported in the statement of financial position and the statement of activities as increases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulation or law.

Depreciation - Equipment and website costs are depreciated on the straight-line basis over the asset's estimated useful life of five years.

Endowment Funds - The Foundation classifies donations as permanently restricted Endowment Funds in those instances in which the donor has stipulated that the principal is to be maintained in perpetuity for the benefit of the Foundation. The Foundation is entitled to the earnings of such funds for operating purposes or other such purpose which has been specified by the donor. Earnings from the permanently restricted Endowment fund are temporarily restricted. The Board of Directors has designated certain accumulated unrestricted earnings of Endowment Funds and amounts for which restrictions have been met as Board-designated Endowment Funds.

Operations - Contributions are recognized as revenue when an unconditional promise is received or when the conditions related to a conditional promise to give are substantially met. The Foundation typically acts as a facilitator for gifts in kind, acting to bring donors and recipients together. Such gifts are not passed through the Foundation and therefore are not reflected in these statements.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain amounts within the accompanying financial statements and the related notes have been reclassified to conform to the 2006 presentation.

NOTE B — MARKETABLE SECURITIES

The marketable securities in the general fund and the endowment funds are as follows at Dec. 31:

	2006	2005
Cash and cash equivalents	\$ 365,549	\$ 301,309
Equity funds	18,804,522	17,966,414
Fixed income funds	6,970,896	6,257,028
Common stocks	10,000	10,000
TOTAL	\$26,150,967	\$24,534,751

Investment return for the years ended December 31 is as follows:

Dividends and interest	\$ 566,537	\$ 367,980
Realized gains, including capital gain distributions	1,071,169	786,411
Unrealized gains	755,078	879,550
TOTAL	\$ 2,392,784	\$ 2,033,941

Notes to Financial Statements

December 31, 2006 and 2005



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