
SME and SME Education Foundation

**Consolidated Financial Report
with Additional Information
December 31, 2022**

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Independent Auditor's Report

To the Board of Directors
SME and SME Education Foundation

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of SME and SME Education Foundation (SME), which comprise the consolidated statement of financial position as of December 31, 2022 and 2021 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of SME as of December 31, 2022 and 2021 and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are required to be independent of SME and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, on January 1, 2022, SME adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SME's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

To the Board of Directors
SME and SME Education Foundation

Auditor’s Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on effectiveness of SME’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SME’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2023 on our consideration of SME’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SME’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SME’s internal control over financial reporting and compliance.



June 27, 2023

Consolidated Statement of Financial Position

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 7,199,098	\$ 4,360,404
Marketable securities - Fair value (Note 3)	71,265,588	87,556,236
Accounts and contributions receivable - Net of allowance	7,240,343	10,894,386
Inventories - Net	60,017	57,730
Prepaid expenses and other assets	2,455,581	1,814,895
Right-of-use lease assets - Operating (Note 10)	3,839,151	-
Goodwill (Note 6)	370,873	393,022
Intangible assets (Note 6)	298,339	378,036
Property and equipment - Net (Note 5)	6,020,789	5,918,712
	<u>\$ 98,749,779</u>	<u>\$ 111,373,421</u>
Total assets		
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 11,483,197	\$ 6,849,857
Bank line of credit (Note 7)	9,950,000	-
Grants payable and other liabilities	665,559	392,986
Excess cash received over costs incurred on future events (Note 9)	6,336,507	5,868,319
Deferred dues and subscriptions revenue	5,735,692	5,796,338
Charitable gift annuity obligations	-	17,193
Pension and postretirement obligations (Note 8)	3,412,789	6,698,984
Lease liabilities - Operating (Note 10)	4,276,630	-
	<u>41,860,374</u>	<u>25,623,677</u>
Total liabilities		
Net Assets		
Without donor restrictions:		
Undesignated	36,142,136	54,885,463
Board designated (Note 11)	5,163,704	6,317,223
	<u>41,305,840</u>	<u>61,202,686</u>
Total without donor restrictions		
With donor restrictions (Note 12)	15,583,565	24,547,058
	<u>56,889,405</u>	<u>85,749,744</u>
Total net assets		
	<u>\$ 98,749,779</u>	<u>\$ 111,373,421</u>
Total liabilities and net assets		

SME and SME Education Foundation

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2022 and 2021

	2022	2021
Changes in Net Assets without Donor Restrictions		
Program revenue:		
Events	\$ 30,004,197	\$ 34,217,985
Media	3,497,972	4,370,743
Training and development	13,895,072	13,253,636
Memberships	890,494	786,587
Contributions	-	428,652
Federal grant (Note 2)	1,649,990	803,308
Net assets released from restrictions	6,598,745	1,749,649
Total program revenue and net assets released from restrictions	56,536,470	55,610,560
Expenses:		
Program services:		
Events	24,961,010	23,256,911
Media	3,833,858	4,004,918
Training and development	12,614,235	11,503,382
Memberships	1,661,213	1,440,942
Scholarships	2,074,774	1,209,167
PRIME® and youth programs	5,205,443	1,598,347
Total program services	50,350,533	43,013,667
Support services:		
Management and general	13,330,813	13,870,688
Fundraising	112,597	221,696
New product development	2,594,053	1,539,129
Total support services	16,037,463	15,631,513
Total expenses	66,387,996	58,645,180
Decrease in Net Assets without Donor Restrictions - Before other (expense) revenue	(9,851,526)	(3,034,620)
Other Revenue (Expense)		
Forgiveness of Paycheck Protection Program loan	-	5,646,812
Pension- and postretirement-related expenses	2,730,473	2,468,767
Investment (loss) income - Net	(12,397,821)	7,596,516
Remeasurement (loss) gain	(22,707)	30,892
Amortization of intangible assets (Note 6)	(79,697)	(79,639)
Miscellaneous expenses	(273,324)	(272,375)
Change in value of charitable gift annuity	(2,244)	(5,328)
Total other (expense) revenue	(10,045,320)	15,385,645
(Decrease) Increase in Net Assets without Donor Restrictions - Before transfers	(19,896,846)	12,351,025
Transfers - Without donor restrictions	-	1,345,541
(Decrease) Increase in Net Assets without Donor Restrictions	(19,896,846)	13,696,566
Changes in Net Assets with Donor Restrictions		
Contributions and other	386,489	6,821,505
Investment (loss) income	(2,751,237)	1,239,654
Net assets released from restrictions	(6,598,745)	(1,749,649)
Transfers - With donor restrictions	-	(1,345,541)
(Decrease) Increase in Net Assets with Donor Restrictions	(8,963,493)	4,965,969
(Decrease) Increase in Net Assets	(28,860,339)	18,662,535
Net Assets - Beginning of year	85,749,744	67,087,209
Net Assets - End of year	\$ 56,889,405	\$ 85,749,744

SME and SME Education Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2022

	Program Services						Support Services					Total
	Events	Membership	Training and Development	Media	Scholarships	PRIME® and Youth Programs	Total	New Product Development	Management and General	Fundraising	Total	
Salaries and wages	\$ 3,739,984	\$ 779,090	\$ 7,002,278	\$ 829,176	\$ 117,876	\$ 628,181	\$ 13,096,585	\$ 595,459	\$ 5,865,363	\$ 29,042	\$ 6,489,864	\$ 19,586,449
Employee benefits	457,480	113,752	827,927	107,026	16,708	78,272	1,601,165	67,513	738,601	2,621	808,735	2,409,900
Conferences, conventions, and meetings	17,024,792	173,443	293,492	261,564	-	73	17,753,364	894,612	680,506	-	1,575,118	19,328,482
Fees and commissions	429,216	121,090	592,511	934,674	204	246,411	2,324,106	321,702	983,816	-	1,305,518	3,629,624
Office	929,073	81,880	274,743	268,969	39	1,655	1,556,359	290,308	537,862	-	828,170	2,384,529
Advertising and promotion	-	-	-	-	6,689	3,353	10,042	-	2,152,095	-	2,152,095	2,162,137
Travel	421,781	150,680	680,980	45,280	26,857	18,333	1,343,911	157,715	187,619	2,375	347,709	1,691,620
Printing and publishing	-	-	-	903,250	-	-	903,250	146,545	-	-	146,545	1,049,795
Occupancy	1,164,527	-	279,686	-	-	-	1,444,213	21,149	591,501	-	612,650	2,056,863
Information technology	106,915	86,151	248,195	2,582	77,880	-	521,723	192	779,297	-	779,489	1,301,212
Payroll taxes	180,745	56,967	424,026	42,393	7,205	45,439	756,775	34,921	347,951	1,422	384,294	1,141,069
Depreciation	23,898	-	1,865,287	143,095	-	-	2,032,280	360	310,688	-	311,048	2,343,328
Grants and other assistance	-	45,861	-	-	1,770,513	4,162,390	5,978,764	-	17,853	-	17,853	5,996,617
Miscellaneous	482,599	52,299	125,110	295,849	50,803	21,336	1,027,996	63,577	137,661	77,137	278,375	1,306,371
Total functional expenses	\$ 24,961,010	\$ 1,661,213	\$ 12,614,235	\$ 3,833,858	\$ 2,074,774	\$ 5,205,443	\$ 50,350,533	\$ 2,594,053	\$ 13,330,813	\$ 112,597	\$ 16,037,463	\$ 66,387,996

SME and SME Education Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2021

	Program Services						Support Services					Total	Total
	Events	Membership	Training and Development	Media	Scholarships	PRIME® and Youth Programs	Total	New Product Development	Management and General	Fundraising	Total		
Salaries and wages	\$ 3,659,488	\$ 762,642	\$ 6,463,583	\$ 967,232	\$ 113,362	\$ 318,801	\$ 12,285,108	\$ 651,673	\$ 7,508,489	\$ 69,344	\$ 8,229,506	\$ 20,514,614	
Employee benefits	437,461	99,161	829,525	126,100	19,952	46,475	1,558,674	89,441	477,431	8,771	575,643	2,134,317	
Conferences, conventions, and meetings	15,433,019	44,662	54,999	30	1,950	734	15,535,394	108,745	104,254	-	212,999	15,748,393	
Fees and commissions	142,062	141,041	473,457	981,477	-	115,500	1,853,537	339,972	831,540	3,325	1,174,837	3,028,374	
Office	993,553	80,400	236,909	748,494	543	360	2,060,259	236,131	593,957	4,623	834,711	2,894,970	
Advertising and promotion	-	-	-	-	1,637	4,658	6,295	-	2,057,921	76,406	2,134,327	2,140,622	
Travel	574,800	92,772	265,159	40,012	1,695	4,219	978,657	23,871	44,719	112	68,702	1,047,359	
Printing and publishing	-	-	-	822,049	-	-	822,049	-	-	-	-	822,049	
Occupancy	1,124,688	-	254,514	-	-	-	1,379,202	328	592,872	-	593,200	1,972,402	
Information technology	16,856	50,673	254,050	3,304	64,031	-	388,914	390	774,302	-	774,692	1,163,606	
Payroll taxes	314,379	56,606	424,527	49,174	7,136	23,337	875,159	40,665	540,681	4,339	585,685	1,460,844	
Depreciation	29,975	-	1,687,255	136,219	-	-	1,853,449	1,440	322,816	-	324,256	2,177,705	
Grants and other assistance	-	64,950	-	-	998,861	1,083,420	2,147,231	-	-	-	-	2,147,231	
Miscellaneous	530,630	48,035	559,404	130,827	-	843	1,269,739	46,473	21,706	54,776	122,955	1,392,694	
Total functional expenses	\$ 23,256,911	\$ 1,440,942	\$ 11,503,382	\$ 4,004,918	\$ 1,209,167	\$ 1,598,347	\$ 43,013,667	\$ 1,539,129	\$ 13,870,688	\$ 221,696	\$ 15,631,513	\$ 58,645,180	

Consolidated Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (28,860,339)	\$ 18,662,535
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	2,423,025	2,257,400
Realized and unrealized loss (gain) on investments	16,271,197	(7,717,911)
Amortization of right-of-use operating lease asset	754,401	-
Net periodic benefit cost and other noncash pension adjustments	(2,786,195)	(2,523,448)
Contributions restricted for investment in endowment	(31,490)	(129,182)
Bad debt recovery	(282,188)	-
Forgiveness of Paycheck Protection Program loan	-	(5,646,812)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accounts and contributions receivable	3,936,231	(1,010,553)
Inventories	(2,287)	26,872
Prepaid expenses and other assets	(640,686)	603,901
Accounts payable and accrued liabilities, grants payable, and other	5,359,680	2,539,936
Pensions and postretirement benefits	(500,000)	(712,513)
Excess of cash received over costs incurred on future events	468,188	(2,250,563)
Deferred dues and subscriptions revenue	(60,646)	1,245,182
Operating lease liability	(770,689)	-
Net cash and cash equivalents (used in) provided by operating activities	(4,721,798)	5,344,844
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,445,405)	(2,573,182)
Purchases of marketable securities	(3,539,694)	(7,658,528)
Proceeds from sales and maturities of marketable securities	3,559,145	7,426,938
Net cash and cash equivalents used in investing activities	(2,425,954)	(2,804,772)
Cash Flows from Financing Activities		
Contributions restricted for investment in endowment	31,490	129,182
Decrease in annuity obligations	(17,193)	(1,072)
Proceeds from line of credit	9,950,000	500,000
Proceeds from Paycheck Protection Program loan	-	2,000,000
Payments on line of credit	-	(5,000,000)
Net cash and cash equivalents provided by (used in) financing activities	9,964,297	(2,371,890)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	22,149	1,125
Net Increase in Cash and Cash Equivalents	2,838,694	169,307
Cash and Cash Equivalents - Beginning of year	4,360,404	4,191,097
Cash and Cash Equivalents - End of year	\$ 7,199,098	\$ 4,360,404
Supplemental Cash Flow Information - Cash paid for interest	\$ 157,358	\$ 24,611

December 31, 2022 and 2021

Note 1 - Nature of Business

The accompanying consolidated financial statements include the international membership organization; the Society of Manufacturing Engineers (SME); and SME Education Foundation (the "Foundation"), a nonprofit trustee corporation of which SME elects the board of directors. SME serves the manufacturing industry by promoting advanced manufacturing technology, developing a skilled workforce through educational exposition and conference events, supporting membership communities, and delivering media content. Included in SME's results are the activities of Tooling University LLC (TU-SME), a single-member LLC acquired in September 2010 to enhance SME's portfolio by providing online education. The Foundation furthers manufacturing education through its youth programs, scholarships to selected students, and grants to colleges and universities.

Various chapter organizations are structured by SME for the benefit of the local membership. These organizations manage their own activities and maintain financial autonomy within the guidelines established by SME. Accordingly, these organizations have not been included in the accompanying financial statements.

Note 2 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of SME and the Foundation have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation

The consolidated financial statements include the accounts of SME and the Foundation. All intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation

Assets and liabilities of SME's Canadian operations are translated into U.S. dollars at the rate of exchange in effect at the close of the period. Income and expenses are translated at an average rate of exchange for the period. The resulting change in net assets is presented as remeasurement gain or loss.

Cash and Cash Equivalents

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

Concentrations of Credit and Market Risk

Cash is periodically exposed to concentration of credit risk when the balances are in excess of federally insured limits. The Federal Deposit Insurance Corporation insures accounts up to a maximum balance of \$250,000 based on ownership category. The Canadian Deposit Insurance Corporation (CDIC) insures deposits of up to \$100,000 Canadian dollars. The CDIC does not insure deposits in foreign currencies. At December 31, 2022 and 2021, cash balances exceeded total insured limits by approximately \$6,900,000 and \$4,000,000, respectively.

Marketable Securities and Endowment Funds

Marketable securities are stated at fair values that are determined based on quoted market prices. Gains or losses on the disposition of securities are determined on the average cost basis. Certain marketable securities are classified as endowment funds because, absent donor restrictions, the Foundation has designated such amounts for long-term purposes, such as support for future new program initiatives, capital expenditures, or potential contingencies. SME's marketable securities are available to support its operations.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Unrealized gains and losses are reported in the consolidated financial statements as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation.

SME and the Foundation invest in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements.

Accounts and Contributions Receivable

Accounts receivable generally consist of amounts expected to be collected within one year from customers for services provided. SME determines an allowance for doubtful collections based upon a review of outstanding receivables, historical collection information, and existing economic conditions. The allowance for doubtful accounts totaled \$359,939 and \$757,130 at December 31, 2022 and 2021, respectively.

The Foundation uses the allowance method to determine uncollectible contributions receivable. The allowance for doubtful accounts is based on management's analysis of specific pledges made. As of December 31, 2022 and 2021, the Foundation determined no allowance was necessary.

At December 31, 2022, approximately \$242,000 of contributions is expected to be collected in 2023. Approximately \$33,000 of contributions is expected to be collected in both 2024 and 2025.

Inventories

Inventories consist of finished publications and are stated at the lower of cost or net realizable value, with cost determined on the average cost basis. The inventory reserve balance at December 31, 2022 and 2021 is \$156,865.

Property and Equipment

Property and equipment are recorded at cost. The straight-line method of depreciation is used for all classes of depreciable assets. Assets are depreciated over their estimated useful lives, which range from three to seven years.

SME capitalizes costs associated with the development of software after the initial conceptual formulation, design, and testing phase is completed and authorized management commits to a plan to develop and use the software. Capitalized costs are amortized over a useful life of five years. For the years ended December 31, 2022 and 2021, the unamortized software development costs were approximately \$15,993,000 and \$13,744,000, with accumulated amortization of \$11,033,000 and \$9,252,000, respectively. There were no write-downs recorded for the years ended December 31, 2022 and 2021.

Estimated amortization expense for the years ending December 31 is as follows:

2023	\$	1,692,090
2024		1,358,856
2025		1,026,263
2026		669,996
2027		210,014

Leases

SME has operating leases for building rental space. SME recognizes expense for operating leases on a straight-line basis over the lease term. SME made a policy election not to separate lease and nonlease components for operating leases. Therefore, all payments are included in the calculation of the right-of-use asset and lease liability.

Note 2 - Significant Accounting Policies (Continued)

SME elected to use the risk-free rate as the discount rate for calculating the right-of-use asset and lease liability in place of the incremental borrowing rate for building rental space.

Goodwill and Other Intangible Assets

Intangible assets represent the separately identified intangible assets from the purchases of Canadian tradeshows in 2006 and TU-SME in 2010. Intangible assets were recorded at the estimated fair value on the date of purchase and are amortized over their estimated useful lives. The intangible assets are identified along with their useful lives, as shown in Note 6. Goodwill is considered to have an indefinite life and, therefore, is not amortized. SME annually reviews the carrying value of goodwill for impairment. There were no impairments recorded for the years ended December 31, 2022 and 2021.

Impairment of Long-lived Assets

SME reviews long-lived assets for possible impairment annually and whenever events and circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated future undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assumptions and estimates used in the evaluation of impairment are consistent with SME's business plan, including current and future economic trends, the effects of new technologies, and foreign currency movements, all of which are subject to a high degree of judgment and complexity. All of these variables ultimately affect management's estimate of the expected future cash flows to be derived from the asset or group of assets under evaluation, as well as the estimate of their fair value. Changes in the assumptions and estimates, or the inability to achieve SME's business plan, may affect the carrying value of long-lived assets and could result in impairment charges in future periods.

Scholarships Payable

Scholarships payable at December 31, 2022 and 2021 are amounts committed to be disbursed within the next calendar year. Included within scholarships payable are agency payables. The Foundation administers certain outside scholarship programs in nonmanufacturing disciplines on a fee-for-service basis. Scholarship funds are received in advance and are held for payment in future years according to the date of the students' entry to college. Scholarship funds received but not yet disbursed are classified as liabilities on the consolidated statement of financial position and are not included in program revenue or expenses. At December 31, 2022 and 2021, the amount of agency payables outstanding totaled \$257,995 and \$237,995, respectively.

Classification of Net Assets

Net assets of SME and the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of SME and the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of SME and the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released to net assets without donor restrictions.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

Revenue and Cost Recognition

During the years ended December 31, 2022 and 2021, SME recognized revenue from contracts with customers of \$48,287,735 and \$52,628,951, respectively. SME did not recognize any impairment losses on trade receivables for the years ended December 31, 2022 or 2021.

Events

SME recognized revenue from selling booth space to its customers for events totaling \$30,004,197 and \$34,217,985 for the years ended December 31, 2022 and 2021, respectively.

During 2020, all of SME's scheduled events were canceled due to the COVID-19 pandemic. SME has insurance policies covering the cancellation of events and recognized revenue related to the anticipated insurance proceeds totaling \$540,000 and \$6,331,800 and for the years ended December 31, 2022 and 2021, respectively. SME has outstanding event receivables totaling \$0 and \$588,197 as of December 31, 2022 and 2021, respectively, recorded in accounts and contributions receivable - net of allowance on the consolidated statement of financial position.

Typically, when SME sells booth space for events, SME has one performance obligation for delivering services to the customer for benefit at a point in time; therefore, the revenue is recognized upon completion of the event. In certain instances SME acts as an agent (i.e., SME provides a service of arranging for another party to transfer goods or services to the customer). SME has agreements with certain co-sponsors of events, where amounts collected by SME on behalf of the co-sponsors are not recognized as revenue, and liabilities are recorded. For the years ended December 31, 2022 and 2021, SME had co-sponsor accrued liabilities of \$2,427,011 and \$0, respectively, included in accounts payable and accrued liabilities on the consolidated statement of financial position.

The transaction price of a contract is the amount of consideration to which SME expects to be entitled in exchange for transferring promised services to a customer. To determine the transaction price of a contract, SME considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, SME assumes that the services will be provided to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified. With only one performance obligation, there is no allocation of the transaction price required.

Under the typical payment terms, the customer requests booth space and is invoiced immediately. Payment is typically due by the time the event is held. None of SME's contracts have a significant financing component.

In some situations, SME bills customers and collects cash prior to the satisfaction of the performance obligation, which results in SME recognizing contract liabilities. Typically, SME does not recognize revenue before its right to some or all consideration becomes unconditional; therefore, SME did not record contract assets at December 31, 2022 or 2021. For the years ended December 31, 2022 and 2021, the ending balance of SME's contract liabilities from events was \$6,336,507 and \$5,868,319, respectively, which is included in excess cash received over costs incurred on future events on the consolidated statement of financial position. The balance at the beginning of the period starting on January 1, 2021 was \$8,118,882. For the years ended December 31, 2022 and 2021, the ending balances of SME's receivables from events were \$607,120 and \$52,864, respectively. The balance at the beginning of the period starting on January 1, 2021 was \$52,910.

Media

SME recognizes revenue from providing advertising and lead generation services to its customers totaling \$3,497,972 and \$4,370,743 for the years ended December 31, 2022 and 2021, respectively.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

When SME sells advertising and lead generation services, SME has a performance obligation for those services, and revenue is recognized when the advertisement is run. In no case does SME act as an agent (i.e., SME does not provide a service of arranging for another party to transfer goods or services to the customer).

The transaction price of a contract is the amount of consideration to which SME expects to be entitled in exchange for transferring promised products to a customer. To determine the transaction price of a contract, SME considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, SME assumes that the services will be provided to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified. With only one performance obligation, there is no allocation of the transaction price required.

Under the typical payment terms, the customer requests services and is invoiced immediately. Payment is typically due within 30 days after an invoice is sent to the customer. None of SME's contracts have a significant financing component.

SME bills customers and collects cash prior to the satisfaction of the performance obligation, which results in SME recognizing contract liabilities. Typically, SME does not recognize revenue before its right to some or all consideration becomes unconditional; therefore, SME did not record contract assets at December 31, 2022 or 2021. For the years ended December 31, 2022 and 2021, the ending balance of SME's contract liabilities from media was \$118,536 and \$81,667, respectively, which is included in deferred dues and subscriptions revenue on the consolidated statement of financial position. The balance at the beginning of the period starting on January 1, 2021 was \$6,258. For the years ended December 31, 2022 and 2021, the ending balances of SME's receivables from media were \$3,219,460 and \$18,744, respectively. The balance at the beginning of the period starting on January 1, 2021 was \$1,469,501.

Training and Development

SME recognizes revenue from online training modules for its customer during the year in which the related services are provided to customers totaling \$13,895,072 and \$13,253,636 for the years ended December 31, 2022 and 2021, respectively.

For training and development services, SME has a performance obligation for delivering training services each day it provides access to the training modules; therefore, the revenue is recognized at the time the performance obligation is satisfied. Services that SME contracts to transfer to customers are performed by SME. In no case does SME act as an agent (i.e., SME does not provide a service of arranging for another party to transfer goods or services to the customer).

The transaction price of a contract is the amount of consideration to which SME expects to be entitled in exchange for transferring promised services to a customer. To determine the transaction price of a contract, SME considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, SME assumes that the services will be provided to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified. With only one performance obligation, there is no allocation of the transaction price required.

Under the typical payment terms, the customer requests training and development services and is invoiced immediately. Payment is typically due within 30 days after an invoice is sent to the customer. None of SME's contracts have a significant financing component.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 2 - Significant Accounting Policies (Continued)

SME bills customers and collects cash prior to the satisfaction of the performance obligation, which results in SME recognizing contract liabilities. Typically, SME does not recognize revenue before its right to some or all consideration becomes unconditional; therefore, SME did not record contract assets at December 31, 2022 or 2021. For the years ended December 31, 2022 and 2021, the ending balance of SME's contract liabilities from training and development was \$5,185,590 and \$5,251,961, respectively, which is included in deferred dues and subscriptions revenue on the consolidated statement of financial position. The balance at the beginning of the period starting on January 1, 2021 was \$4,073,432. For the years ended December 31, 2022 and 2021, the ending balances of SME's receivables from training and development was \$3,103,949 and \$4,387,156, respectively. The balance at the beginning of the period starting on January 1, 2021 was \$2,586,169.

Membership Dues

SME recognizes revenue from membership dues during the year in which the related services are provided to customers totaling \$890,494 and \$786,587 for the years ended December 31, 2022 and 2021, respectively. Primarily all of the membership terms are one year.

For membership dues, SME has a performance obligation for providing member-exclusive technical resources, industry insights, and other informational benefits each day the member is in good standing and current on their dues. The access to these benefits is provided to members over the life of the membership; therefore, the revenue is recognized over time. Services that SME contracts to transfer to customers are performed by SME. In no case does SME act as an agent (i.e., SME does not provide a service of arranging for another party to transfer goods or services to the customer).

The transaction price of a contract is the amount of consideration to which SME expects to be entitled in exchange for transferring promised services to a customer. To determine the transaction price of a contract, SME considers its customary business practices and the terms of the contract. For the purpose of determining transaction prices, SME assumes that the services will be provided to the customer as promised in accordance with existing contracts and that the contracts will not be canceled, renewed, or modified.

Under the typical payment terms, the customer requests to become a member via the membership department and is invoiced immediately. Payment is typically due within 30 days after an invoice is sent to the customer. None of SME's contracts have a significant financing component.

SME bills customers and collects cash prior to the satisfaction of the performance obligation, which results in SME recognizing contract liabilities. Typically, SME does not recognize revenue before its right to some or all consideration becomes unconditional; therefore, SME did not record contract assets at December 31, 2022 or 2021. For the years ended December 31, 2022 and 2021, the ending balance of SME's contract liabilities from membership dues was \$431,566 and \$462,710, respectively, which is included in deferred dues and subscriptions revenue on the consolidated statement of financial position. The balance at the period beginning on January 1, 2021 was \$471,466. For the years ended December 31, 2022 and 2021, the ending balances of SME's receivables from membership dues were \$1,442 and \$2,580, respectively. The balance at the beginning of the period starting on January 1, 2021 was \$1,471.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipients under the contract.

Note 2 - Significant Accounting Policies (Continued)

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the period in which the gift is received are both reported as net assets without donor restrictions. Other restricted gifts are reported as restricted support and net assets with donor restrictions.

Federal Grant

Federal grant revenue is considered a nonexchange transaction and is recognized as revenue as the conditions of the grant have been met. Grant funding received in advance of conditions being met is recorded as deferred revenue, if applicable. SME has \$1,649,990 and \$803,308 recorded as federal grant revenue for the years ended December 31, 2022 and 2021, respectively, which is subject to federal single audit requirements. As of December 31, 2022, SME has approximately \$2,264,000 of unspent federal dollars relating to this grant funding that is required to be spent by December 31, 2023.

During the year ended December 31, 2021, SME received a Paycheck Protection Program (PPP) loan in the amount of \$2,000,000. Accounting principles generally accepted in the United States of America require that governmental grants, including certain government loans, be recognized as income in the period in which the recipient has substantially overcome all measurable performance-related barriers necessary to be entitled to keep the grant funds. During 2021, SME received forgiveness for the full amount of the loan and recorded other operating revenue of \$2,000,000 consistent with generally accepted accounting principles.

Income Taxes

SME and the Foundation are not-for-profit organizations exempt from tax under the provisions of Internal Revenue Code (IRC) Section 501(c)(3) and, as such, are exempt from taxation under IRC Section 501(a). They are not private foundations because they meet the requirements of IRC Sections 509(a)(2) and 509(a)(1). SME is subject to unrelated business income tax. TU-SME is a disregarded entity for United States of America income tax purposes.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Costs have been allocated between the various programs and support services on a direct basis, except for graphics, which has been allocated based on time and effort spent by the staff within the department. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes changes to the accounting and measurement of financial assets, including SME's accounts receivable, by requiring SME to recognize an allowance for all expected losses over the life of the financial asset at origination. This is different from the current practice where an allowance is not recognized until the losses are considered probable. The new guidance will be effective for SME's year ending December 31, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the earliest period presented. SME is still evaluating whether there will be a significant impact as a result of the adoption.

Note 2 - Significant Accounting Policies (Continued)

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which addresses the accounting consequences that could result from the global markets' anticipated transition away from the use of the London Interbank Offered Rate (LIBOR). The ASU provides optional expedients and exceptions to contracts, hedging relationships, and other transactions impacted by reference rate reform. The provisions of the ASU are effective upon issuance and generally can be applied through December 31, 2024. SME is in contact with the bank to address any change necessary.

Adoption of Accounting Pronouncement

As of January 1, 2022, SME adopted FASB ASU No. 2016-02, *Leases*. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. SME elected to adopt the ASU using the modified retrospective method and applied the following practical expedients:

- SME did not reassess if expired or existing contracts are or contain a lease.
- SME did not reassess the lease classification for expired or existing leases.
- SME did not reassess initial direct costs for any existing leases.

The adoption of this standard resulted in recognition of right-of-use assets of \$4,593,552, after an adjustment for de-recognition of \$453,767 of previously recognized deferred rent, and lease liabilities of \$5,047,319 on SME's consolidated statement of financial position as of January 1, 2022, with no impact on net assets.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including June 27, 2023, which is the date the consolidated financial statements were available to be issued.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that SME and the Foundation have the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. SME and the Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 3 - Fair Value Measurements (Continued)

SME's and the Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event. In 2022 and 2021, there were no such transfers.

The following tables present information about SME and the Foundation's assets and liabilities measured at fair value on a recurring basis at December 31, 2022 and 2021 and the valuation techniques used by SME and the Foundation to determine those fair values:

Assets Measured at Fair Value on a Recurring Basis at December 31, 2022				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2022
Assets				
Marketable securities:				
Mutual funds - Equity	\$ 51,652,044	\$ -	\$ -	\$ 51,652,044
Mutual funds - Fixed income	19,613,544	-	-	19,613,544
Total assets	\$ 71,265,588	\$ -	\$ -	\$ 71,265,588

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2021				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2021
Assets				
Marketable securities:				
Mutual funds - Equity	\$ 65,733,475	\$ -	\$ -	\$ 65,733,475
Mutual funds - Fixed income	21,822,761	-	-	21,822,761
Total assets	\$ 87,556,236	\$ -	\$ -	\$ 87,556,236
Liabilities - Charitable gift annuity obligations	\$ -	\$ (17,193)	\$ -	\$ (17,193)

Investment fund return for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Dividends and interest	\$ 1,267,644	\$ 1,231,988
Realized (losses) gains, including capital gain distributions	(2,054,392)	8,216,569
Unrealized losses	(14,216,805)	(502,490)
Investment management fee	(145,505)	(109,897)
Total	\$ (15,149,058)	\$ 8,836,170

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 4 - Liquidity

The following reflects SME's and the Foundation's financial assets as of the December 31, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 7,199,098	\$ 4,360,404
Accounts and interest receivable	6,931,971	3,684,394
Contributions receivable	308,372	7,209,992
Marketable securities	<u>71,265,588</u>	<u>87,556,236</u>
Financial assets - At year end	85,705,029	102,811,026
Less those unavailable for general expenditures within one year due to:		
Donor-imposed restrictions - Restricted by donor with time or purpose restrictions	15,341,565	24,086,142
Board designations	<u>5,163,704</u>	<u>6,317,223</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 65,199,760</u>	<u>\$ 72,407,661</u>

SME is substantially supported by program revenue while the Foundation is supported by contributions. As part of SME's and the Foundation's liquidity management, they have a policy to structure their financial assets to be available as their general expenditures, liabilities, and other obligations come due. In addition, SME and the Foundation invest cash in excess of daily requirements in marketable securities. The board has appointed a finance committee that meets quarterly to ensure appropriate funds are available. As described in Note 7, SME has access to a line of credit for unanticipated liquidity needs.

As described in Note 11, the Foundation has adopted a spending policy for endowment assets that attempts to provide a steady stream of funding to programs supported by endowment funds. The current approved annual payout is 5 percent.

Note 5 - Property and Equipment

Property and equipment include the following at December 31:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 642,908	\$ 643,146
Furniture and equipment	2,622,370	2,498,301
Computer equipment and software	2,881,298	2,571,392
Content development	15,992,838	13,743,734
Construction in progress	-	245,821
Total cost	<u>22,139,414</u>	<u>19,702,394</u>
Accumulated depreciation	<u>16,118,625</u>	<u>13,783,682</u>
Net property and equipment	<u>\$ 6,020,789</u>	<u>\$ 5,918,712</u>

Depreciation expense for 2022 and 2021 was \$2,343,328 and \$2,177,705, respectively.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 6 - Goodwill and Other Intangible Assets

Intangible assets of SME at December 31, 2022 and 2021 are summarized as follows:

	Useful Life	2022	2021
Canada tradeshows:			
Goodwill	Indefinite	\$ 370,873	\$ 393,022
Data list and customer relationships	6-11 years	2,230,706	2,363,933
Total Canada tradeshows		2,601,579	2,756,955
TU-SME purchase:			
Course content	10 years	1,840,000	1,840,000
Customer relationship	15 years	690,000	690,000
Other	4-10 years	1,100,000	1,100,000
Total TU-SME purchase		3,630,000	3,630,000
SME customer list	7 years	88,894	88,894
Accumulated amortization		(5,651,261)	(5,704,791)
Total net		<u>\$ 669,212</u>	<u>\$ 771,058</u>

At December 31, 2022 and 2021, SME had a cumulative impairment recorded on the Canada tradeshows goodwill of \$1,277,955 and \$1,377,933, respectively.

Amortization expense for intangible assets totaled \$79,697 and \$79,695 for the years ended December 31, 2022 and 2021, respectively.

Estimated amortization expense for the years ending December 31 is as follows:

Years Ending	Amount
2023	\$ 79,696
2024	70,797
2025	55,500
2026	21,000
Thereafter	71,346
Total	<u>\$ 298,339</u>

Note 7 - Line of Credit

In April 2020, SME established a line of credit with a bank with available borrowings of up to \$5,000,000 with no expiration date. During 2022, available borrowings with the bank were increased to \$20,000,000. SME has pledged investment securities as collateral of approximately \$49,000,000 against the line of credit. As of December 31, 2022 and 2021, SME had an outstanding balance of \$9,950,000 and \$0, respectively. The line of credit bears interest equal to LIBOR plus 1.125 percent. The effective rate was 5.443 and 1.197 percent at December 31, 2022 and 2021, respectively.

Note 8 - Pension Benefit Plans and Postretirement Benefits Other than Pensions

Prior to August 1, 2007, SME had a qualified defined benefit pension plan covering substantially all of its U.S. employees (the "Plan"). SME approved an amendment to the Plan to freeze certain benefits to plan participants effective August 1, 2007. Under the terms of the amendment, service years were frozen as of July 31, 2007 for benefit accrual but continued for vesting. Pay increases will continue for benefit accrual. The Plan was closed for new hires. Benefits under the Plan are based on the years of service and the employee's highest consecutive five-year average compensation. SME's funding policy requires that the Plan always meet or exceed the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

**Note 8 - Pension Benefit Plans and Postretirement Benefits Other than Pensions
(Continued)**

SME provides limited medical and dental benefits to its employees and retirees. Upon retirement, employees become eligible for these benefits if they meet certain age and service requirements. SME has the right to modify or terminate these benefits. The credit is included in pension and postretirement obligations on the consolidated statement of financial position at December 31, 2022 and 2021 and will be amortized through future net periodic benefit costs.

During the year ended December 31, 2020, SME amended the postretirement plan to remove all active employees from the plan. At December 31, 2022, eight retired participants remained and the obligation is \$83,933.

The following table sets forth the pension and postretirement plans' funded status at December 31, 2022 and 2021 and amounts recognized in SME's financial statements:

	2022	2021
	Pension Benefits	
Projected benefit obligation	\$ (14,888,098)	\$ (19,808,649)
Fair value of plan assets	8,582,029	11,625,831
Contract value of plan assets	2,977,212	1,584,479
Funded status	\$ (3,328,857)	\$ (6,598,339)

Net periodic benefit cost included the following components at December 31, 2022 and 2021:

	2022	2021
	Pension Benefits	
Interest cost on projected benefit obligation	\$ 531,795	\$ 495,324
Return on plan assets	(929,568)	(811,677)
Loss recognized	423,966	694,473
Net periodic pension cost	\$ 26,193	\$ 378,120

The following table provides a reconciliation of the changes in the pension and postretirement plan benefit obligations for 2022 and 2021:

	2022	2021
	Pension Benefits	
Benefit obligation of beginning of period	\$ 19,808,649	\$ 21,039,186
Interest cost	531,795	495,324
Benefit payments	(515,756)	(391,482)
Actuarial gain	(4,936,590)	(1,334,379)
Benefit obligation at measurement date	\$ 14,888,098	\$ 19,808,649

Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	2022	2021
	Pension Benefits	
Discount rate to determine benefit obligation	4.99%	2.72%
Expected return on plan assets	7.70%	7.25%
Rate of compensation increase	4.0%	4.0%

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

**Note 8 - Pension Benefit Plans and Postretirement Benefits Other than Pensions
(Continued)**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years Ending	Pension Benefits
2023	\$ 559,840
2024	574,769
2025	613,611
2026	732,254
2027	765,902
2028-2031	4,808,194

The pension plan had benefits paid in 2022 and 2021, including optional lump-sum payments elected by certain departing employees, of \$515,756 and \$391,482, respectively. Contributions of \$665,503 and \$547,010 were made to the pension plan in 2022 and 2021, respectively. The plan sponsor expects to contribute \$500,000 in 2023 to the pension plan.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from SME, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits.

SME's overall investment strategy by asset category is as follows:

	Actual		Target	
	2022	2021	Low	High
Asset category:				
Equity securities	72.00 %	75.00 %	60.00 %	80.00 %
Fixed income	28.00	25.00	20.00	40.00

Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Fixed-income investments consist of a guaranteed investment account valued at contract value at year end.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SME believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level within the fair value hierarchy, the pension plan's fair value measurements at December 31:

	2022	2021
Investments measured at NAV - Pooled separate accounts	\$ 8,582,029	\$ 11,460,328

The investments measured at NAV represent investments in actively managed pooled separate accounts that invest primarily in equity securities, fixed-income investments, and international equity securities.

There were no unfunded commitments or redemption restrictions on the investments described above.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 8 - Pension Benefit Plans and Postretirement Benefits Other than Pensions (Continued)

SME offers a 403(b) tax deferred savings plan to its employees. SME provides matching contributions of 100 percent of the first 3 percent and 50 percent of the next 2 percent of an employee's contribution. In 2015, SME began making fixed contributions for all regular employees at December 31. This contribution will generally be 2 percent of the employee's creditable compensation, as defined in the plan agreement. Employer matching contributions for 2022 and 2021 totaled \$630,274 and \$957,301, respectively. The maximum employee deferral amount for 2022 and 2021 was \$27,000 and \$26,000, respectively.

In December 2006, in conjunction with the acquisition of the Canada tradeshows, SME established a defined contribution plan under Canadian governing legislation for its Canada-based employees. SME makes a 100 percent matching contribution to the employee's 2 to 5.5 percent contribution. The matching contribution was approximately \$27,152 and \$33,050 in 2022 and 2021, respectively.

Note 9 - Deferred Events

The excess of cash received over costs incurred on future events consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
Revenue billed and deposits held	\$ 25,865,578	\$ 24,753,805
Amounts receivable	<u>(19,529,071)</u>	<u>(18,885,486)</u>
Excess cash received	<u>\$ 6,336,507</u>	<u>\$ 5,868,319</u>

At December 31, 2022 and 2021, revenue billed on future events exceeded amounts receivable and costs incurred and is included as a liability on the consolidated statement of financial position.

At December 31, 2022, SME had customer commitments for the rental of exhibition space for future 2023 events of \$25,865,578.

Note 10 - Leases

SME is obligated under operating leases primarily for building rental space, expiring at various dates through 2029. The right-of-use asset and related lease liability have been calculated using discount rates ranging from 0.78 percent to 1.59 percent. The leases require SME to pay taxes, insurance, utilities, and maintenance costs. When readily determinable, SME utilizes the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, SME uses the risk-free rate as a practical expedient. Total rent expense under these leases was \$846,840 and \$1,075,705 for 2022 and 2021, respectively.

SME made a policy election not to separate lease and nonlease components for operating leases. Therefore, the full amount of the lease payment is included in the recorded right-of-use asset and lease liability.

SME assesses whether it is reasonably certain to exercise an option to extend or terminate a lease at the lease commencement date. In the assessment, SME consider all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 10 - Leases (Continued)

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2023	\$ 877,757
2024	818,095
2025	688,131
2026	694,579
2027	622,784
Thereafter	<u>870,600</u>
Total	4,571,946
Less amount representing interest	<u>295,316</u>
Present value of net minimum lease payments	<u>\$ 4,276,630</u>

Expenses recognized under these leases for the year ended December 31, 2022 consist of the following:

Operating lease cost	\$ 846,840
Other information:	
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows from operating leases	\$ 862,452
Weighted-average remaining lease term (years) - Operating leases	5.8
Weighted-average discount rate - Operating leases	1.5 %

Note 11 - Donor-restricted and Board-designated Endowments

The Foundation endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Foundation had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

The composition of net endowment assets by type of fund for 2022 is as follows:

	Endowment Net Asset Composition by Type of Fund as of December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 5,163,704	\$ -	\$ 5,163,704
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	5,821,773	5,821,773
Accumulated investment gains	-	6,333,134	6,333,134
Total	\$ 5,163,704	\$ 12,154,907	\$ 17,318,611

The changes in endowment assets for 2022 are as follows:

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - January 1, 2022	\$ 6,317,223	\$ 14,526,258	\$ 20,843,481
Investment return:			
Investment income	78,549	165,587	244,136
Net depreciation - Realized and unrealized	(1,000,858)	(2,109,893)	(3,110,751)
Total investment return	(922,309)	(1,944,306)	(2,866,615)
Contributions	136,840	31,490	168,330
Appropriations	(368,050)	(458,535)	(826,585)
Endowment net assets - December 31, 2022	\$ 5,163,704	\$ 12,154,907	\$ 17,318,611

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

The composition of net endowment assets by type of fund for 2021 is as follows:

	Endowment Net Asset Composition by Type of Fund as of December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 6,317,223	\$ -	\$ 6,317,223
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	-	5,785,568	5,785,568
Accumulated investment gains	-	8,740,690	8,740,690
Total	\$ 6,317,223	\$ 14,526,258	\$ 20,843,481

The changes in endowment assets for 2021 are as follows:

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - January 1, 2021	\$ 4,339,761	\$ 15,094,953	\$ 19,434,714
Investment return:			
Investment income	53,949	129,182	183,131
Net appreciation - Realized and unrealized	440,244	1,110,472	1,550,716
Total investment return	494,193	1,239,654	1,733,847
Contributions	-	232,617	232,617
Appropriations	-	(695,424)	(695,424)
Board designations	137,727	-	137,727
Transfers to create board-designated endowment funds	1,345,542	(1,345,542)	-
Endowment net assets - December 31, 2021	\$ 6,317,223	\$ 14,526,258	\$ 20,843,481

Underwater Endowment Funds

As of December 31, 2022 and 2021, there were no funds with deficiencies.

Return Objectives and Risk Parameters

The Foundation's endowment funds are invested in a portfolio of professionally managed stock and bond funds. Funds are selected by the finance committee from recommendations of an independent investment advisor firm based upon the fund's historic performance, fee structures, and investment style. The portfolio diversifies its investing styles by selecting equity and bond funds; domestic and international funds; a mixture of large-cap, mid-cap, and small-cap equity funds; and growth and value investment approaches.

Strategies Employed for Achieving Objectives

The fund has a target of 50-80 percent equities and 20-50 percent fixed-income investments and will rebalance towards that target when the funds vary from the target by more than the pre-established amount. The finance committee takes the economic and investment outlook into consideration when rebalancing and will consider modifying its targets to the long-term outlook. Investment funds are expected to exceed the rate of return for the appropriate market index for its styles after fees.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's board of directors has adopted a spending rule of 5 percent of the rolling three-year average of the endowment funds. The specific endowment chosen to fund a specific scholarship, grant, or program will depend on the availability of earnings over the donor-restricted endowment balance and the restrictions placed on the use of such income by the endowment grantor.

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31 are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Subject to expenditures for a specified purpose:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ 5,821,773	\$ 5,785,568
Accumulated investment earnings	6,333,134	8,740,690
Program - Scholarships	<u>3,120,286</u>	<u>2,810,808</u>
Total subject to expenditures for a specified purpose	15,275,193	17,337,066
Time restrictions	<u>308,372</u>	<u>7,209,992</u>
Total	<u>\$ 15,583,565</u>	<u>\$ 24,547,058</u>

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
SME and SME Education Foundation

We have audited the consolidated financial statements of SME and SME Education Foundation as of and for the year ended December 31, 2022 and have issued our report thereon dated June 27, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the 2022 consolidated financial statements as a whole. The information in the consolidating statement of financial position and the consolidating statement of activities and changes in net assets is presented for the purpose of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2022 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2022 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2022 consolidated financial statements as a whole.

Plante & Moran, PLLC

June 27, 2023

SME and SME Education Foundation

Consolidating Statement of Financial Position

December 31, 2022

	SME	SME Education Foundation	Eliminating Entries	Total
Assets				
Cash and cash equivalents	\$ 4,844,085	\$ 2,355,013	\$ -	\$ 7,199,098
Marketable securities - Fair value	49,806,859	21,458,729	-	71,265,588
Accounts and contributions receivable - Net of allowance	7,506,579	308,372	(574,608)	7,240,343
Inventories - Net	60,017	-	-	60,017
Prepaid expenses and other assets	2,442,397	13,184	-	2,455,581
Right-of-use lease assets - Operating	3,839,151	-	-	3,839,151
Goodwill	370,873	-	-	370,873
Intangible assets	298,339	-	-	298,339
Property and equipment - Net	6,020,789	-	-	6,020,789
Total assets	\$ 75,189,089	\$ 24,135,298	\$ (574,608)	\$ 98,749,779
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued liabilities	\$ 11,482,391	\$ 575,414	\$ (574,608)	\$ 11,483,197
Bank line of credit	9,950,000	-	-	9,950,000
Grants payable and other liabilities	13,170	652,389	-	665,559
Excess cash received over costs incurred on future events	6,336,507	-	-	6,336,507
Deferred dues and subscriptions revenue	5,735,692	-	-	5,735,692
Pension and postretirement obligations	3,412,789	-	-	3,412,789
Lease liabilities - Operating	4,276,630	-	-	4,276,630
Total liabilities	41,207,179	1,227,803	(574,608)	41,860,374
Net Assets				
Without donor restrictions:				
Undesignated	33,981,910	2,160,226	-	36,142,136
Board designated	-	5,163,704	-	5,163,704
Total without donor restrictions	33,981,910	7,323,930	-	41,305,840
With donor restrictions	-	15,583,565	-	15,583,565
Total net assets	33,981,910	22,907,495	-	56,889,405
Total liabilities and net assets	\$ 75,189,089	\$ 24,135,298	\$ (574,608)	\$ 98,749,779

SME and SME Education Foundation

Consolidating Statement of Activities and Changes in Net Assets

Year Ended December 31, 2022

	SME	SME Education Foundation	Eliminating Entries	Total
Changes in Net Assets without Donor Restrictions				
Program revenue:				
Events	\$ 30,004,197	\$ -	\$ -	\$ 30,004,197
Media	3,497,972	-	-	3,497,972
Training and development	13,895,072	-	-	13,895,072
Memberships	890,494	-	-	890,494
Contributions	-	887,024	(887,024)	-
Federal grant	1,649,990	-	-	1,649,990
In-kind donations	-	225,000	(225,000)	-
Net assets released from restrictions	-	6,598,745	-	6,598,745
Total program revenue and net assets released from restrictions	49,937,725	7,710,769	(1,112,024)	56,536,470
Expenses:				
Program services:				
Events	26,108,324	-	(1,147,314)	24,961,010
Media	3,833,858	-	-	3,833,858
Training and development	12,614,235	-	-	12,614,235
Memberships	1,661,213	-	-	1,661,213
Scholarships	-	2,074,774	-	2,074,774
PRIME® and youth programs	-	5,205,443	-	5,205,443
Support services:				
Management and general	12,782,917	547,896	-	13,330,813
Fundraising	-	112,597	-	112,597
New product development	2,594,053	-	-	2,594,053
Total expenses	59,594,600	7,940,710	(1,147,314)	66,387,996
Decrease in Net Assets without Donor Restrictions - Before other expense	(9,656,875)	(229,941)	35,290	(9,851,526)
Other Revenue (Expense)				
Pension- and postretirement-related expenses	2,730,473	-	-	2,730,473
Investment loss	(10,644,862)	(1,752,959)	-	(12,397,821)
Remeasurement loss	(22,707)	-	-	(22,707)
Amortization of intangible assets	(79,697)	-	-	(79,697)
Miscellaneous expenses	(238,034)	-	(35,290)	(273,324)
Change in value of charitable gift annuity	-	(2,244)	-	(2,244)
Total other expense	(8,254,827)	(1,755,203)	(35,290)	(10,045,320)
Decrease in Net Assets without Donor Restrictions	(17,911,702)	(1,985,144)	-	(19,896,846)
Changes in Net Assets with Donor Restrictions				
Contributions and other	-	386,489	-	386,489
Investment loss	-	(2,751,237)	-	(2,751,237)
Net assets released from restrictions	-	(6,598,745)	-	(6,598,745)
Decrease in Net Assets with Donor Restrictions	-	(8,963,493)	-	(8,963,493)
Decrease in Net Assets	(17,911,702)	(10,948,637)	-	(28,860,339)
Net Assets - Beginning of year	51,893,612	33,856,132	-	85,749,744
Net Assets - End of year	\$ 33,981,910	\$ 22,907,495	\$ -	\$ 56,889,405

SME and SME Education Foundation

**Federal Awards Supplemental Information
December 31, 2022**

Independent Auditor's Reports

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
SME and SME Education Foundation

We have audited the consolidated financial statements of SME and SME Education Foundation as of and for the year ended December 31, 2022 and have issued our report thereon dated June 27, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to June 27, 2023.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

November 15, 2023

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
SME and SME Education Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of SME and SME Education Foundation (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2022 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows, for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated June 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2022-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
SME and SME Education Foundation

The Organization's Response to the Finding

Government Auditing Standards require the auditor to perform limited procedures on the Organization's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 27, 2023

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
SME and SME Education Foundation

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited SME and SME Education Foundation's (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2022. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal program.

To the Board of Directors
SME and SME Education Foundation

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

To the Board of Directors
SME and SME Education Foundation

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

November 15, 2023

SME and SME Education Foundation

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

<u>Federal Agency/Pass-through Agency/Program Title</u>	<u>Assistance Listing Number</u>	<u>Provided to Subrecipients</u>	<u>Federal Expenditures</u>
Research and Development Cluster - Office of Naval Research - Manufacturing Engineering Education Program - Basic and Applied Scientific Research	12.300	\$ 141,419 \$	1,608,037

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of SME and SME Education Foundation (the "Organization") under programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year Ended December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None reported
- Noncompliance material to financial statements noted? _____ Yes X None reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster	Opinion
12.300	Research and Development Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Schedule of Findings and Questioned Costs (Continued)

Year Ended December 31, 2022

Section II - Financial Statement Audit Findings

Reference Number	Finding
2022-001	<p>Finding Type - Significant deficiency</p> <p>Criteria - Controls should be designed and implemented to ensure dual authorization is required to withdraw or transfer funds from investment accounts and to ensure terminated employees are removed from signature authorization in a timely manner.</p> <p>Condition - During the year ended December 31, 2022, SME Education Foundation held investments at certain funds that require only one authorized signer to initiate and execute a withdrawal or transfer of funds and included terminated employees as authorized signers.</p> <p>Context - Three investment accounts require only one authorized signer to initiate and execute a withdrawal or transfer of funds, despite the funds being directed by the Organization to require dual authorization. These three investment accounts also included the former vice president of finance, assistant controller, and chief executive officer as signers.</p> <p>Cause - The Organization did not have the proper controls to prevent the potential misappropriation of assets within SME Education Foundation's investment accounts.</p> <p>Effect - Without dual authorization and appropriate signers with access to the investment accounts, the risk of misappropriation of assets increases.</p> <p>Recommendation - The Organization should ensure that dual authorization controls are in place for all investment accounts and that there is a process to perform a timely review of users who have access to investment accounts to ensure terminated employees are removed as signers in a timely manner.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management will implement procedures to ensure terminated employees are removed as signers on investment accounts and dual authorization is required for withdrawal of funds.</p>

Section III - Federal Program Audit Findings

None



SME and SME Education Foundation
December 31, 2022
Summary Schedule of Prior Audit Findings

Prior Year Finding Number:

2021-001

Fiscal Year in Which the Finding Initially Occurred:

2021

Federal Program, Assistance Listing Number and Name:

N/A

Original Finding Description:

During the year ended December 31, 2021, SME Education Foundation reclassified certain net asset balances with donor restrictions to net assets without donor restrictions for monies that had been received in prior years.

Status/Partial Corrective Action (as applicable):

Fully Corrected

Planned Corrective Action:

N/A



Prior Year Finding Number: 2021-002

Fiscal Year in Which the Finding Initially Occurred:
2021

Federal Program, Assistance Listing Number and Name:
N/A

Original Finding Description:
SME incorrectly prepared its budget and charged costs to the grant that were not in accordance with federal rules and regulations.

Status/Partial Corrective Action (as applicable):
Fully Corrected

Planned Corrective Action:
N/A

Prior Year Finding Number: 2021-003



Fiscal Year in Which the Finding Initially Occurred:

2021

Federal Program, Assistance Listing Number and Name:

12.300, Office of Naval Research, Research and Development Cluster

Original Finding Description:

The budgeting and billing methods used did not impose limitations, as required by the terms and provisions of the grant agreement.

Status/Partial Corrective Action (as applicable):

Fully corrected

Planned Corrective Action:

N/A



SME and SME Education Foundation

December 31, 2022

Corrective Action Plan

Finding Number: 2022-001

Statement of Condition - During the year ended December 31, 2022, SME Education Foundation held investments at certain funds that require only one authorized signer to initiate and execute a withdrawal or transfer of funds and included terminated employees as authorized signers.

Planned Corrective Action Plan - Management will implement procedures to ensure terminated employees are removed as signers on investment accounts and dual authorization is required for withdrawal of funds.

Contact person responsible for corrective action: Craig Connop, CFO

Completion Date: November 15, 2023