ASME

SETTING THE STANDARD

ANNUAL REPORT 2005-2006

ASME's performance was very strong in 2005-2006. Important results have been achieved during this year's introduction of our new business model. The International Gas Turbine Institute (IGTI) and International Petroleum Technology Institute (IPTI), for example, had extraordinarily successful years. Other examples of this year's notable progress include our highly successful new Leadership Training Conference and our equally successful Summer Annual Meeting. These, and many other successful programs, resulted from the vision and energy of our leaders, members and staff – working together to introduce new thinking, opportunities and vitality for our Society.

Richard E. "Gene" Feigel

ASME also excelled as a global leader, as the organization enthusiastically expanded opportunities for global technical exchange through overseas conferences, international publications and cooperative relationships with many sister-engineering societies and institutions. ASME has significantly expanded its global outreach, and its reputation as a respected, strong and viable source of knowledge for the engineering and technical community continues to expand.

We are happy to report that there were positive developments in the overall area of membership in FY06. Student membership increased, following a trend of recent years. Global membership continues to increase. Overall membership and dues remain relatively flat, as they have since 1999. We fell below plan in one important membership area—early-career engineers—where we continue to experience attrition. In response, our Board of Governors approved a detailed implementation plan for cross-sector actions to enhance ASME's value to early-career engineers. Specific projects and responsibilities have been identified for each ASME sector in the coming year. The Society's leadership is committed to achieve the goal of a two percent annual increase in membership of early-career engineers in the coming years.

ASME financial performance was also remarkable, with our second consecutive annual positive variance in our operating budget. We have successfully reversed our 5-year (2000-2004) operating fund annual deficit. This year's positive variance is due primarily to Codes and Standards' new global revenues, and to the management of budgeted expenses in the Services Sector. Throughout FY06, we sought ways to reduce expenses, while creating new revenues. One example is the effort now underway to consolidate the New York headquarters staff and sublet one full floor to business tenants.

Important work remains to be done. Areas within ASME requiring continuing improvement include implementation of full-cost accounting and support for sections and student sections through the new merit-based financial program. Perhaps our biggest challenge in the year ahead is to rebalance our workload with our capacity. The imbalance between workload and capacity is most dramatically illustrated in the reduction in staff, without commensurate reduction in programs. Over the last four years, our staff capacity has been reduced by 28 percent. It is essential to realign workload with capacity in the year ahead. While we have decreased many program budgets, we have sunset only a handful of existing programs. Next year, sectors will have to prioritize and sunset lower priority programs.

Virgil R. Carter

It is clear that ASME cannot do business as it once did, when our finances and capacity were much greater. Thus, our volunteers and staff must become innovative and entrepreneurial, just as we were at ASME's founding. The good news is that we face this challenge with impressive strength and experience. Our Society is respected and admired throughout the world. What is most impressive and encouraging is the degree of confidence and trust that you have communicated to our leaders and staff, as we have implemented the many important changes this year. ASME, like the flywheel, gains momentum as we continue to apply energy. And like the flywheel, as momentum increases, the needed energy decreases.

Thank you for your continued confidence and trust, which have made this an outstanding year. It's an honor to be your president and executive director.

Sincerely,

Richard E. "Gene" Feigel
President, 2005-2006

Sincerely,

Virgil R. Carter
Executive Director

A YEAR OF PROGRESS

In the 2006 fiscal year, ASME focused on international growth and on developing initiatives and programs aimed at industry, government, and early-career engineers.

The 2006 ASME Turbo Expo in Barcelona, Spain showcased the latest technology in the gas turbine industry.

Reaching Out to Industry

During the year, ASME increased its outreach to industry, alerting companies and practicing engineers about the value and relevance of the Society's knowledge-based technical resources. ASME launched *ASME Solutions* under the Strategic Management Sector in September 2005, and in the ensuing months developed project teams around four industry clusters: pressure technology, energy, bio-pharmaceuticals, and water management. A special website was created for *ASME Solutions*, which focused on solutions to a range of workforce development needs in companies. Going forward, *ASME Solutions* will partner with various companies to create customized packages of engineering resources and training tools ranging from codes and standards to short courses.

ASME short courses exemplify the Society's important role in enhancing the productivity of members and customers in industry. In the past year, ASME offered short courses on gas turbines, centrifugal pumps, fuel cells, piping, boilers and pressure vessels, and other subjects of interest to engineers. These courses, taught by leading engineering authorities, provided instruction on design methodologies, risk analysis, safety and reliability, and the application of ASME codes and standards.

ASME codes and standards have played a key role in industry and industrial development throughout the 126-year history of the Society, and last year was no exception. Thirteen new standards were published and another 44 were revised, reflecting changes in industrial technology and engineering practice. Of note, ASME revised the Bio-processing Equipment Standard as well as the A112.18.1 and A112.18.2 standards on plumbing components.

In October 2005, ASME Standards Technology, LLC, began working with energy companies and research organizations on standards development activities for the Generation IV nuclear reactor, which promises improvements in economics, safety and fuel performance over nuclear power systems currently in service worldwide. During the research and development on the Generation IV reactor, ASME Standards Technology, LLC, will participate in the technical exchange and steer information and data, including test results, to key experts and stakeholders on the nuclear codes and standards committees.

Several ASME conferences provided solid learning and networking opportunities for engineers in industry. The 2005 International Mechanical Engineering Congress, held in Orlando, Fla., featured nine industry tracks within the 7-day technical program. The tracks on energy, manufacturing, transportation, and other areas of special interest to the engineering community showcased practical applications and methodologies that allow industrial firms to build market share and increase productivity and innovation.

The 2006 ASME Turbo Expo – *Power for Land Sea and Air* brought together the international gas turbine community for four days of technical information exchange in Barcelona, Spain. The exposition at Turbo Expo included such industry leaders as GE Energy, Pratt & Whitney, and MAN Turbo Inc. The Atlanta, Ga.-based ASME International Gas Turbine Institute sponsored Turbo Expo and also the Gas Turbine Users' Symposium in December 2005.

The Society's Emerging Technologies Institute played a key role in several specialized meetings that appealed to engineers in industry, including the 2005 ASME Nano Conference: 4th Integrated Nanosystems. The meeting, held in September in Berkeley, Calif., included presentations exploring the research and entrepreneurial sides of nanotechnology.

A Role in Shaping Public Policy

In addition to engineers who work in industry, another constituency that ASME targeted among its strategic interests was government. The Society's Washington Center in Washington, D.C., carried out a successful government relations

program aimed at fostering a productive dialogue between engineers and representatives of government at all levels to ensure that public policy decisions reflect the realities of technology and interests of the engineering profession.

One interest of ASME is for the federal government to commit to a healthy level of funding for technology research and development. In May, ASME directed the 4th Annual Engineering R&D Symposium in Washington, D.C., which analyzed the impact of the American Competitiveness Initiative – a proposal by President George W. Bush to invest $137 billion over the next ten years in technology research and development programs – on the engineering community. One hundred and seventy-five engineers attended the two-day symposium, which included presentations by U.S. Senators Lamar Alexander (R-TN) and Jeff Bingaman (D-NM), who in 2005 spearheaded an action plan for restoring industrial leadership and technology innovation in the United States.

In 2005-2006, ASME used position papers as vehicles for communicating the importance of R&D funding to government leaders. ASME issued a total of 34 position papers on R&D funding as well as on education, energy, the environment, and codes and standards.

ASME actively pursued opportunities to collaborate with government on standards and conformity assessment programs. In FY06, staff and volunteers representing the Society's codes and standards activity met with the U.S. Department of Transportation, Department of the Interior, Nuclear Regulatory Commission, and U.S. Coast Guard on a range of public safety considerations and guidelines for pipelines, overhead cranes, pressure vessels, and other engineered products and systems.

ASME President Richard E. "Gene" Feigel (right) in May 2006 presented the ASME President's Award to U.S. Representative Sherwood Boehlert (R-New Hartford), who demonstrated strong support of technology-based research and development while serving on the House Science Committee for 26 years.

Protecting critical infrastructure from possible terrorist attacks is a goal of the Society's RAMCAP (Risk Analysis and Management for Critical Asset Protection) program, which the ASME Innovative Technologies Institute, LLC developed in conjunction with the U.S. Department of Homeland Security.

In January, the ASME Innovative Technologies Institute, LLC collaborated with the U.S. Department of Homeland Security on five industry-specific guidance documents for the risk analysis methodology known as RAMCAP (Risk Analysis and Management for Critical Asset Protection). The five industry sectors are nuclear power plants, nuclear spent fuel storage and transportation, chemical manufacturing, petroleum refining, and liquefied natural gas facilities. RAMCAP is a framework for analyzing and managing the risks associated with terrorist attacks against critical infrastructures and stands as a strong example of ASME's strategic objective to be a resource to government.

In other government outreach efforts, ASME sponsored six federal government fellows in FY06, assigning five congressional fellows and naming Susan H. Skemp, past president of ASME, as fellow in the White House Office of Science and Technology Policy. The federal fellows, position papers, and meetings and conferences like the 4th Annual Engineering R&D Symposium enabled ASME to meet the strategic objective to be a resource for government, as well as to provide effective representation and advocacy for the engineering profession.

Tomorrow's Leaders and Innovators

The Washington Center also supported ASME's outreach programs in the area of early-career engineers. In May, the

Society held a special forum titled *Public Policy and the Future of Engineering*, in which engineers in the beginning stages of their careers learned about the impact of national and international political issues on the workplace. Dan Lipinski (D-IL) was a featured speaker at the forum.

The ASME Board of Governors approved the Early Career Initiative to identify and address the specific needs and interests of young engineers. Going forward, ASME will upgrade the career center on www.asme.org and develop special venues for information exchange, like the early-career development track and Early Career Forum at the 2006 International Mechanical Engineering Congress in Chicago. An Early Career Forum also was held at the 2006 Water Quality, Drought, Human Health and Engineering Conference in Las Vegas, Nev., and planning has begun on another forum at the 2007 Frontiers in Biomedical Devices Conference.

Global Relationship Building

ASME expanded its global outreach in 2005-2006, entering agreements and partnerships with the Italian Association of Mechanical Technology, Hong Kong Institution of Engineers, and Chinese Mechanical Engineering Society. The Society's effort to market programs and services in China is producing good results. ASME has partnered with four groups in China – Beijing Jiao Tong University, Beijing Modern Management Technology Center, Shanghai Jiao Tong University and South China University of Technology – on the Global Management for Engineering and Technology training program. ASME has also arranged programs of cooperation with Tsinghua University and Shanghai Science and Technology Center on Engineering Management Certification International. Also in the area of education and training in China, ASME, together with the Chinese Mechanical Engineering Society, sponsored the 2006 International Mechanical Engineering Education Conference in Beijing.

The Codes and Standards Sector moved forward on its goal to promote the globalization of engineering standards. The Beijing Consortium for Standards and Conformity Assessment was incorporated in November 2005, and in January ASME representatives traveled to India to interface with engineering leaders in Delhi and Mumbai. ASME also launched a Delegates Program allowing representatives of global industries the opportunity to participate on the Society's standards committees. Participants in the program during the year included the Japanese pharmaceutical and petroleum industries, Korea's electric power industry, and India's gas industry.

In other globally focused activity for the Codes and Standards Sector, representatives from regulatory bodies in China, South Korea, and Romania were appointed to the International Interest Review Group within the Boiler and Pressure Vessel Committee. And the Board on Nuclear Codes and Standards held a meeting and workshop in Prague – the first time this ASME group convened outside the United States.

ASME now certifies manufacturers in 67 different countries, as firms in Nigeria, Azerbaijan, and Jordon were added to the roster in FY06. In a significant first, Shanghai Boiler Works, Ltd., became the first manufacturer in China to obtain nuclear accreditation under Section III of the ASME Boiler and Pressure Vessel Code.

The ASME Europe Office, based in Brussels, Belgium, started operations in 2005 and rolled out plans for future programs and events benefiting ASME members and customers in Europe, the Middle East, and Africa. Among its support for Europe-based conferences, planning commenced for the first ASME European Forum on Sustainable Engineering, which will be held March 2007, in Brussels. The Europe Office allows ASME to establish an important role in reaching out to the growing engineering community in key

In the effort to promote its products and services in China, ASME in March 2006 signed a memorandum of understanding with the Chinese Mechanical Engineering Society at the Great Hall of the People in Beijing. (Seated, from left to right, Virgil R. Carter, ASME executive director; Richard E. "Gene" Feigel, ASME president, and Lan Qing Li, president of CMES).

European markets, while increasing the Society's effectiveness as an education and information provider in the region.

Other international activities during the year included the First European Fuel Cell Technology and Applications Conference in Rome, Italy. The ASME History and Heritage Committee recognized the Biro ballpoint pen in Buenos Aires, Argentina, and Eiffel wind tunnel in Paris, France, as historic mechanical engineering achievements.

Indeed, many of ASME's program activities during the past year were globally focused. The coming year will bring increased international activity at ASME, as the Board of Governors has approved plans for new projects in Europe, China, and India. Going forward, ASME will continue to be a global leader in education and training, information exchange, and codes and standards.

TREASURER'S REPORT

Thomas D. Pestorius

I am pleased to present the audited financial reports for ASME. The implementation of the new organizational structure in 2006 continued to build on the success of 2005. These reports indicate that the overall financial health of ASME continues to be strong.

ASME's Statement of Financial Position shows total assets of $94.0 million at June 30, 2006. This is an increase of 6.5% over 2005, while the total liabilities decreased 12% over the same time. This decrease results from deferred revenue bookings related to the second year of the three-year Boiler Code sales. Overall, ASME's net reserves grew to $62.3 million, an increase of $10.0 million from $52.3 million in 2005.

The total operational surplus in 2006 was $3.3 million, further enhanced by net investment gains of $6.7 million for a $10.0 million net surplus. The General Fund had a surplus of $8.3 million, as both operating ($2.6M) and non-operating ($5.9M) activities showed a surplus. This is especially noteworthy in that the operating surplus occurred in the second year of a Boiler Code cycle.

ASME received an unqualified or clean opinion from KPMG, LLP in the Independent Auditors' Report. ASME is tax exempt under Section 501 (c) (3) of the Internal Revenue Code.

I submit these reports with the certainty that ASME continues to be a financially sound and strong organization.

Thomas D. Pestorius
Treasurer

ASME

STATEMENT OF FINANCIAL POSITION

June 30, 2006

	General	Designated and restricted	Total
Assets			
Cash and cash equivalents	$ 9,607,562	710,961	10,318,523
Accounts receivable, less allowance for doubtful accounts of $125,000	4,792,494	724,613	5,517,107
Inventories	955,733	3,881	959,614
Prepaid expenses, deferred charges, and deposits (note 7)	3,027,851	25,000	3,052,851
Investments (note 4)	53,443,909	11,829,196	65,273,105
Property, furniture, equipment, and leasehold improvements, net (note 5)	8,895,274	10,695	8,905,969
TOTAL ASSETS	$80,722,823	13,304,346	94,027,169
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$ 5,307,086	983,948	6,291,034
Accrued employee benefits (note 8)	6,746,814	—	6,746,814
Deferred publications revenue	8,287,017	—	8,287,017
Deferred dues revenue	2,139,603	—	2,139,603
Accreditation and other deferred revenue	8,165,841	54,297	8,220,138
TOTAL LIABILITIES	30,646,361	1,038,245	31,684,606
Commitments and contingencies (notes 10 and 11)			
Net assets:			
Unrestricted	50,076,462	11,628,736	61,705,198
Temporarily restricted (note 9)	—	500,798	500,798
Permanently restricted (note 9)	—	136,567	136,567
TOTAL NET ASSETS	50,076,462	12,266,101	62,342,563
TOTAL LIABILITIES AND NET ASSETS	$80,722,823	13,304,346	94,027,169

See accompanying notes to financial statements.

Independent Auditors' Report

The Board of Governors

ASME

We have audited the accompanying statement of financial position of ASME (the Society) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting.

STATEMENT OF CASH FLOWS
Year ended June 30, 2006

	2006
Cash flows from operating activities	
Increase in net assets	$10,028,580
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,261,647
Appreciation in fair value of investments	(4,910,139)
Loss on disposal of fixed assets	63,292
Changes in assets and liabilities:	
Increase in accounts receivable	(700,370)
Decrease in inventories	545,243
Decrease in prepaid expenses, deferred charges, and deposits	2,591,681
Increase in accounts payable and accrued expenses	388,406
Increase in accrued employee benefits	38,058
Decrease in deferred publications revenue	(5,490,175)
Increase in deferred dues revenue	11,962
Increase in accreditation and other deferred revenue	751,559
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,579,744
Cash flows from investing activities	
Purchases of investments	(33,077,256)
Proceeds from sales of investments	33,014,170
Acquisition of fixed assets, net	(1,621,555)
NET CASH USED IN INVESTING ACTIVITIES	(1,684,641)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,895,103
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,423,420
CASH AND CASH EQUIVALENTS AT END OF YEAR	$10,318,523

See accompanying notes to financial statements.

Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ASME as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP
November 17, 2006

ASME

STATEMENT OF ACTIVITIES Year ended June 30, 2006	General	Designated and restricted (note 9)	Total
Operating revenue (note 6)			
Membership dues, publications, accreditation, conference fees, and other revenue by sector:			
Services	$ 21,081,232	1,121	21,082,353
Knowledge and Community	199,666	764,175	963,841
Institutes	4,624,247	2,865,470	7,489,717
Codes and Standards	35,536,720	268,678	35,805,398
Centers	130,389	268,317	398,706
Strategic Management	164,780	2,549,455	2,714,235
Members' voluntary contributions	—	574,191	574,191
Miscellaneous	2,289,992	309,743	2,599,735
TOTAL OPERATING REVENUE	64,027,026	7,601,150	71,628,176
Operating expenses			
Program services by sector:			
Services	20,172,462	61,458	20,233,920
Knowledge and Community	2,201,861	47,447	2,249,308
Institutes	5,495,757	2,965,448	8,461,205
Codes and Standards	19,658,553	187,011	19,845,564
Centers	2,023,519	673,610	2,697,129
Strategic Management	2,374,555	2,595,452	4,970,007
TOTAL PROGRAM SERVICES	51,926,707	6,530,426	58,457,133
Supporting services:			
Board of Governors and Committees	917,181	392,359	1,309,540
General administration	8,584,042	—	8,584,042
TOTAL OPERATING EXPENSES	61,427,930	6,922,785	68,350,715
EXCESS OF OPERATING REVENUE OVER OPERATING EXPENSES	2,599,096	678,365	3,277,461
Nonoperating activities			
Interest and dividends, net of investment fees of $318,123	1,603,158	237,822	1,840,980
Appreciation in fair value of investments (note 4)	4,108,748	801,391	4,910,139
Increase in net assets before transfer	8,311,002	1,717,578	10,028,580
Transfer to designated fund for employee incentives	(447,400)	447,400	—
INCREASE IN NET ASSETS (NOTE 9)	7,863,602	2,164,978	10,028,580
NET ASSETS AT BEGINNING OF YEAR	42,212,860	10,101,123	52,313,983
NET ASSETS AT END OF YEAR	$50,076,462	12,266,101	62,342,563

See accompanying notes to financial statements.

1. Organization

Founded in 1880, ASME, also known as The American Society of Mechanical Engineers (the Society), is the premier organization for promoting the art, science, and practice of mechanical engineering throughout the world. The Society is incorporated as a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code).

The Society's mission is to promote and enhance the technical competency and professional well-being of its members and, through quality programs and activities in mechanical engineering, better enable its practitioners to contribute to the well-being of humankind.

The accompanying financial statements do not include the assets, liabilities, revenue and expenses of the Society's sections (unincorporated geographical subdivisions which are not controlled by the Society), with the exception of direct section appropriations from the Society, which are included in the expenses of Knowledge and Community Sector. In addition, they do not include The ASME Foundation, Inc. (the Foundation) or The American Society of Mechanical Engineers Auxiliary, Inc. (the Auxiliary), which are separately incorporated organizations affiliated with, but not controlled by, the Society.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The Society's net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

Unrestricted net assets. Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets. Net assets subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time.

Permanently restricted net assets. Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions (note 9).

Revenue and Expenses

The Society's revenue and expenses are classified in a functional format. Classifications are composed principally of the following:

Services Sector. Revenue includes member dues, publication sales, and certain meeting, conference and exhibit fees. Member dues are recognized over the applicable membership period. Publication sales are recognized upon shipment of the publications. Meeting, conference, and exhibit fees are recognized in the period in which the program is held. Expenses relate to membership activities, as well as membership standards, grades, recruitment, and retention, and to the Society's technical activities.

Knowledge and Community Sector. Revenue is composed principally of technical division meeting and conference fees, as well as revenue from research activities. All conference and meeting fees are recognized in the period the program is held. Research revenue is recognized as expenses are incurred. Expenses are associated with the Society's technical activities, including research.

Institutes Sector. Revenue includes all registration fees for continuing education courses provided by the Society, and meeting, conference and exhibit fees from Advanced Technology Programs (ATP), the International Gas Turbine Institute (IGTI) and the International Petroleum Technology Institute (IPTI). All fees are recognized in the period the program is held. Expenses relate to the Society's continuing education program, development and accreditation of engineering curricula, and to ATP, IGTI, and IPTI technical activities.

Codes and Standards Sector. Revenue includes publication sales of codes and standards and accreditation program fees. Revenue from the sale of codes and standards is recognized over the life of the code sold. The principal product affecting revenue and expenses for this financial statement component is the Society's Boiler and Pressure Vessel Code (the Boiler Code). The Boiler Code is published every three years. This publication cycle causes variances in the related revenue and deferred publications revenue accounts from year to year. The 2004 Boiler Code was released in July 2004. The next Boiler Code is scheduled to be released in July 2007.

Centers Sector. Revenue includes conference and seminar fees, grants, and donations. Fees are recognized in the period the program is held. Grant revenue is recognized as expenses are incurred. Contributions are recognized according to donor restrictions. Expenses are associated with programs for improving engineering education, promoting diversity in the profession, public awareness, and development of future Society leaders.

Strategic Management Sector. Revenue is composed principally of sales of miscellaneous publications and government grant revenue. Publication sales are recognized upon shipment of the publications and government grant revenue is recognized as expenses are incurred. Expenses relate to the Society's programs to identify emerging issues of interest to members, provide technical advice to government, disseminate information to the public, support the active involvement of women and minorities in the Society and engineering, and for government sponsored programs.

Cash Equivalents

Cash equivalents include commercial paper maturing within 90 days unless renewed, and money market funds.

Investments

Although available for operating purposes when necessary, the investment portfolio is generally considered by management to be invested on a long-term basis.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Realized and unrealized gains and losses are recognized as changes in net assets in the periods in which they occur, and interest and dividends are recognized as revenue in the period earned.

Property, Furniture, Equipment, and Leasehold Improvements

Property, furniture, equipment, and leasehold improvements are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 30 years.

Inventories

Inventories are stated at lower of cost or market. Unit cost, which consists principally of publication printing costs, is determined based on average cost.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Nonoperating Activities

The statement of activities distinguishes between operating and nonoperating activities. Nonoperating activities include investment return (interest and dividends, as well as appreciation or depreciation in fair value of investments) and nonrecurring revenue and expenses. All other activities are classified as operating.

3. Transactions with Related Parties

The Society performs certain administrative functions for the Foundation and charges for office space and other services. In 2006, such charges totaled $87,200. The Society also administers the honors and awards programs in order to fully support Foundation programs. In 2006, the Foundation made contributions of $303,400 to the Society in support of honors and awards, and other programs, and which are included in miscellaneous revenue in the statement of activities.

The Society performs certain administrative functions for the Consortium on Standards and Conformity Assessment, Inc. (CSCA). ASME contributes $75,000, along with other partners, each year to support the CSCA, and also handles all financial operations for the organization. The CSCA reimburses ASME only for CSCA expenses paid by ASME. At fiscal year end, ASME had a $253,219 receivable due from the CSCA.

4. Investments

Investments of the Society, as well as amounts held on behalf of the Foundation and the Auxiliary, are pooled on a fair value basis.

Cost and related fair value information at June 30, 2006, are as follows:

	Cost	Fair value
Bonds and notes	$12,330,836	12,064,394
Common and preferred stock	24,369,456	28,084,400
Mutual funds – equity	29,823,858	32,826,963
Mutual funds – bond	12,339,076	11,591,275
Money market funds and certificates of deposit	1,204,485	1,204,485
	80,067,711	85,771,517
Less undivided interest held on behalf of The ASME Foundation, Inc.	17,457,266	19,139,521
Less undivided interest held on behalf of The American Society of Mechanical Engineers Auxiliary, Inc.	1,238,161	1,358,891
	$61,372,284	65,273,105

Appreciation in fair value of investments for the year ended June 30, 2006, consists of the following:

Net realized gain on investment transactions	$2,931,713
Net change in unrealized gain	1,978,426
	$4,910,139

5. Property, Furniture, Equipment, and Leasehold Improvements

Property, furniture, equipment, and leasehold improvements at June 30, 2006, consists of the following:

	2006
Land	$ 583,077
Building and building improvements	2,495,345
Computer equipment	11,446,839
Leasehold improvements	4,237,059
Furniture and fixtures	5,427,060
Other	109,557
	24,298,937
Less accumulated depreciation and amortization	15,392,968
	$8,905,969

6. Operating Revenue

Operating revenue is presented principally by Sector in the accompanying statement of activities. Set forth below is revenue for the year ended June 30, 2006, summarized by type:

	2006
Membership dues	$ 8,111,320
Publications revenue	32,256,152
Accreditation revenue	14,024,206
Conferences, exhibits, and course fees	9,826,885
Other operating revenue	4,235,687
Members' voluntary contributions	574,191
Miscellaneous	2,599,735
	$ 71,628,176

7. Pension Plans

The Society has a noncontributory defined benefit pension plan (the Plan) covering substantially all of its employees. Normal retirement age is 65, but provisions are made for early retirement. Benefits are based on salary and years of service. The Society funds the Plan in accordance with the minimum amount required under the Employee Retirement Income Security Act of 1974, as amended. The Society uses a June 30 measurement date.

The following table provides information with respect to the Plan as of and for the year ended June 30, 2006:

	2006
Benefit obligation at June 30	$(32,061,907)
Fair value of plan assets at June 30	26,144,852
Funded status	$ (5,917,055)
Amounts recognized in the statements of financial position:	
Prepaid benefit cost (accrued benefit cost), included in prepaid expenses, deferred charges, and deposits	$ 1,876,174
Total net periodic benefit cost	$ 2,727,660
Employer contributions	$ —
Benefits paid	1,029,744

Weighted average assumptions used to determine benefit obligations at June 30:

Discount rate	6.25%
Expected return on plan assets	7.50
Rate of compensation increase	4.00

Weighted average assumptions used to determine net periodic benefit cost for the year ended June 30, 2006:

Discount rate	5.25%
Expected return on plan assets	7.50
Rate of compensation increase	4.00

The expected long-term rate of return for the Plan's total assets is based on both the Society's historical rate of return and the expected rate of return on the Society's asset classes, weighted based on target allocations for each class. The typical asset allocation consists of 40-65% of the funds to be invested in equity securities, with the remaining funds to be invested in debt securities and cash equivalents.

The accumulated benefit obligation for the Plan was $25,042,923 at June 30, 2006.

The Society's pension plan weighted average asset allocations at June 30, 2006, by asset category, are as follows:

	2006
Mutual funds invested in equity securities	76%
Mutual funds invested in debt securities	21
Cash	3
	100%

The pension investments are managed to provide a reasonable investment return compared to the market, while striving to preserve capital and provide cash flows required for distributions. The portfolio is diversified among investment managers and mutual funds selected by the Plan's trustees using the advice of an independent performance evaluator.

The Society does not expect to make contributions to the Plan in fiscal year 2007.

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

Year ending June 30	Amount
2007	$ 1,318,000
2008	1,782,000
2009	1,673,000
2010	1,739,000
2011	1,872,000
2012 – 2016	12,545,000

The Society also maintains a thrift plan under Section 403(b) of the Code covering substantially all employees. The Society's contribution was approximately $597,000 for the year ended June 30, 2006.

8. Postretirement Health Care and Life Insurance Benefits

The Society provides certain noncontributory healthcare and life insurance benefits to retired employees (the Plan). Society employees may become eligible for these benefits if they reach the age and service requirements of the Plan while working for the Society. This unfunded plan is designed to provide benefits to participants upon attaining age 55 with twenty years of service or age 62 with ten years of service. In addition, employees hired prior to January 1, 1995, are also eligible for these benefits upon attainment of age 65 with five years of pension plan participation. The estimated cost of such benefits is accrued over the working lives for those employees expected to qualify for such benefits. The Society uses a June 30 measurement date. This benefit was terminated for current employees as of July 1, 2005, and is in effect only for current participants.

The following table provides information with respect to the postretirement benefits as of and for the year ended June 30, 2006:

	2006
Postretirement benefit obligation	$2,818,685
Accrued benefit recognized	4,089,983
Net periodic postretirement benefit cost	57,995
Employer contribution	207,992
Plan participants' contribution	35,808
Benefits paid	243,800

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2006; the rate was assumed to decrease to 5.0% in fiscal 2014 and remain at that level thereafter. The effect of increasing or decreasing the healthcare cost trend rates by 1% is not significant because of the fixed nature of the benefits provided under the Plan. The discount rate used to determine the benefit obligation was 6.25% at June 30, 2006. The discount rate used to determine the net periodic postretirement benefit cost was 5.25% in 2006.

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

Year ending June 30	Amount
2007	$264,000
2008	258,000
2009	259,000
2010	264,000
2011	292,000
2012 – 2016	1,155,000

9. Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets and the income earned on permanently restricted net assets are restricted by donors to the following purposes at June 30, 2006:

	Temporarily restricted	Premanently restricted
Award programs	$ 204,306	40,110
The Engineering Library	296,492	74,695
Membership programs	—	21,762
	$ 500,798	136,567

Temporarily restricted net asset activity has not been separately presented in the statement of activities. There was no activity in permanently restricted net assets during 2006.

Temporarily restricted activity for 2006 is summarized below:

	2006
Interest and dividends, net of investment fees	$ 17,272
Appreciation in fair value of investments	55,678
Other revenue	800
Net assets released from restrictions	(41,267)
Increase in temporarily restricted net assets	$ 32,483

The increase in unrestricted net assets in 2006 was $9,996,097.

10.. Commitments

The Society's principal offices are located at Three Park Avenue, New York, under a lease expiring on September 30, 2013. Approximate rental payments are $2,552,000 per year for 2007 and 2008, and $2,717,000 per year for 2009, $2,772,000 for 2010 through 2013, and payment for partial fiscal year 2014 of $693,000.

In connection with this lease, the Society has provided as security a $2,332,000 letter of credit. No amounts have been drawn against this letter of credit.

In addition to its principal offices, the Society also has a number of other lease commitments for regional offices and office equipment expiring through 2013. The following is a schedule of the approximate minimum future rentals on all leases at June 30, 2006:

Year ending June 30	Amount
2007	$ 3,131,000
2008	2,939,000
2009	3,058,000
2010	3,120,000
2011	3,128,000
2012 and thereafter	6,339,020
	$21,715,020

Rent expense under all of the Society's leases was approximately $2,975,000 in 2006. The Society sublet space in one of its operating offices and subrental income was approximately $86,000 in 2006.

11. Contingencies

The Society is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot be determined, management believes that eventual liability, if any, will not have a significant effect on the Society's financial position or changes in net assets.

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ASME OFFICES

HEADQUARTERS
Three Park Ave.
New York, NY 10016-5990 U.S.A.
212-591-7000
Fax: 212-591-7674
http://www.asme.org

Service Center
22 Law Dr.
P.O. Box 2900
Fairfield, NJ 07007-2900 U.S.A.
973-882-1170
Fax: 973-882-5155
E-mail: infocentral@asme.org

Information Central/Orders
P.O. Box 2300
Fairfield, NJ 07007-2300 U.S.A.
973-882-1170
800-THE-ASME (800-843-2763)
Fax: 973-882-8113
E-mail: infocentral@asme.org

Washington Center and Center for Research and Technology Development
1828 L Street, NW Suite 906
Washington, DC 20036-5104 U.S.A.
202-785-3756
Fax: 202-429-9417 (Public Affairs)
202-785-8120 (Research)
E-mail: washington@asme.org and crtd@asme.org

Europe Office
Avenue DeTervueren, 300
1150 Brussels
Belgium
32-2-743-1543
Fax: 32-2-743-1550
E-mail: jacqueline.bowmanassociationhq.com

International Gas Turbine Institute
5775 Glenridge Drive NE
Suite C115
Atlanta, GA 30328-7141 U.S.A.
404-847-0072
Fax: 404-847-0151
E-mail: igti@asme.org

International Petroleum Technology Institute
11757 Katy Freeway
Suite 865
Houston, TX 77079-1733 U.S.A.
281-493-3491
866-276-3738
Fax: 281-493-3493
E-mail: petroleum@asme.org