

**AMERICAN SOCIETY FOR ENGINEERING  
EDUCATION AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
OMB CIRCULAR A-133 REPORTS**

**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
American Society for Engineering Education  
Washington, DC

We have audited the accompanying consolidated statements of financial position of the American Society for Engineering Education and Affiliates (the "Society") as of September 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Society as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2011 on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*LarsonAllen LLP*  
LarsonAllen LLP

Arlington, Virginia  
February 22, 2011

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 21,679,408	\$ 6,071,216
Receivables:		
Federal Projects	2,966,662	2,104,870
Other	703,765	494,128
Total Receivables	3,670,427	2,598,998
Prepaid Expenses and Deposits	490,258	477,317
Total Current Assets	25,840,093	9,147,531
<b>INVESTMENTS, AT MARKET</b>	956,772	866,823
<b>PROPERTY AND EQUIPMENT, NET</b>	1,108,303	1,127,232
Total Assets	\$ 27,905,168	\$ 11,141,586
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 1,551,239	\$ 1,456,089
Deferred Revenue:		
Projects, Including Federal Projects of \$22,239,968 and \$5,621,183 in 2010 and 2009, Respectively	22,572,422	5,742,499
Membership Dues	442,941	495,322
Other	292,050	190,394
Total Deferred Revenue	23,307,413	6,428,215
Total Current Liabilities	24,858,652	7,884,304
<b>DEFERRED RENT</b>	-	136,008
Total Liabilities	24,858,652	8,020,312
<b>COMMITMENTS</b>		
<b>NET ASSETS</b>		
Unrestricted Net Assets	1,693,101	1,866,218
Board Designated BASS Accounts	1,002,410	1,051,351
Total Unrestricted Net Assets	2,695,511	2,917,569
Temporarily Restricted	351,005	203,705
Total Net Assets	3,046,516	3,121,274
Total Liabilities and Net Assets	\$ 27,905,168	\$ 11,141,586

See accompanying Notes to the Consolidated Financial Statements.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
Revenue:		
Government Funding	\$ 74,754,576	\$ 61,154,899
General Operations:		
Membership Services	1,239,883	1,260,708
Investment Income	98,899	20,054
Publication Services	1,204,177	1,712,454
Meetings and Conferences	2,508,955	2,234,325
Tau Alpha Pi	25,597	20,827
IACEE	13,714	5,920
Total General Operations	5,091,225	5,254,288
Non-Governmental Funding	142,157	-
BASS Accounts Revenue	315,281	220,585
Fee for Service Income	457,807	302,254
Development	140,112	26,279
International	7,500	32,000
Award Income	19,667	234,867
	80,928,325	67,225,172
Net Assets Released from Restrictions		
Satisfaction of Program Activities	202,000	340,500
Total Revenue	81,130,325	67,565,672
<b>EXPENSES</b>		
Government Programs	74,754,576	61,154,899
Non-Government Programs	142,157	23,000
Publication Services	2,202,856	2,479,743
Membership Services and BASS	870,068	786,866
Awards	24,020	29,772
Convention Services	3,056,086	2,750,918
Tau Alpha Pi	12,296	43,073
IACEE	16,634	15,011
Other	273,690	354,950
Total Expenses	81,352,383	67,638,232
Change in Unrestricted Net Assets	(222,058)	(72,560)
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Meetings and Conferences	349,300	147,000
Net Assets Released from Restrictions	(202,000)	(340,500)
Change in Temporarily Restricted Net Assets	147,300	(193,500)
<b>CHANGE IN NET ASSETS</b>	(74,758)	(266,060)
Net Assets - Beginning of Year	3,121,274	3,387,334
<b>NET ASSETS - END OF YEAR</b>	\$ 3,046,516	\$ 3,121,274

See accompanying Notes to the Consolidated Financial Statements.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (74,758)	\$ (266,060)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	280,194	193,681
Unrealized (Gain) Loss on Investments	(58,228)	8,818
Changes in Assets and Liabilities:		
Receivables	(1,071,429)	(265,156)
Prepaid Expenses and Deposits	(12,941)	(2,397)
Accounts Payable and Accrued Expenses	95,150	696,019
Deferred Revenue	16,879,198	2,297,931
Deferred Rent	(136,008)	(10,161)
Net Cash Provided by Operating Activities	15,901,178	2,652,675
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(261,265)	(771,807)
Purchases of Investments	(31,721)	(24,150)
Net Cash Used by Investing Activities	(292,986)	(795,957)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	15,608,192	1,856,718
Cash and Cash Equivalents - Beginning of Year	6,071,216	4,214,498
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 21,679,408	\$ 6,071,216

*See accompanying Notes to the Consolidated Financial Statements.*

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

***American Society for Engineering Education***

The American Society for Engineering Education (“ASEE”) was founded in 1893 for the purpose of expanding and improving engineering education. ASEE serves its members through publications, projects, and awards. ASEE was incorporated on January 29, 1943 pursuant to the laws of the Commonwealth of Pennsylvania.

***ASEE Convention and Seminar Corporation***

The ASEE Convention and Seminar Corporation (“ASEECS”) was incorporated on September 25, 1991, pursuant to the laws of the State of Delaware. ASEECS was established for the purpose of sponsoring the annual convention of the American Society for Engineering Education. ASEECS also sponsors various seminars, technical conferences and panels and otherwise provides for the instruction of members of ASEE and the public concerning engineering and allied branches of science and technology.

***Tau Alpha Pi of ASEE, Inc.***

Tau Alpha Pi of ASEE, Inc. (“ASEE TAP”) was organized for charitable, scientific and educational purposes, more specifically, to operate as an honor society for the engineering technology profession and to inspire engineering technology students to achieve scholarly excellence. ASEE TAP was incorporated on August 13, 1998 pursuant to the laws of the State of Delaware.

***International Association for Continuing Engineering Education (IACEE)***

The International Association for Continuing Engineering Education (IACEE) is an international, non-profit and non-governmental organization. The aim of IACEE is to support and enhance lifelong technical education and training and advanced engineering education world-wide, including the special needs of the developing countries. The charter was signed during the opening session of the 4th World Conference on Continuing Engineering Education on May 17, 1989 in Beijing, China. IACEE was incorporated under the laws of the State of Wisconsin with a fiscal year following the calendar year. No intervening events affect the consolidated financial statements of ASEE as a result of the different fiscal years.

**Income Taxes**

ASEE and Affiliates are exempt from the payment of federal income taxes on their exempt activities pursuant to section 501(c)(3) of the Internal Revenue Code. Contributions made to ASEE or to its Affiliates are deductible by the donor for federal income tax purposes, subject to statutory limitations on charitable contributions.

ASEE adopted the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The adoption of this standard had no impact on the ASEE’s financial statements. ASEE’s tax returns for the years 2007, 2008, and 2009 are open for federal and state tax examinations.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Principles of Consolidation**

These financial statements consolidate the accounts of ASEE and Affiliates. Intercompany accounts and transactions have been eliminated in the consolidated financial statements.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The consolidated financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For consolidated financial statement purposes, ASEE and Affiliates consider cash and cash equivalents to include certain certificates of deposit purchased with maturities ranging from twelve to forty-eight months or less. Any penalties for early withdrawal would not have a material effect on the financial statements, as such are considered cash equivalents valued at cost.

A large portion of the cash and cash equivalents is the result of cash received in excess of expenses incurred for various federal projects. Accordingly, these cash and cash equivalents must be used in compliance with the applicable federal project agreements.

**Receivables**

The receivables are stated at their net realizable value. The majority of the receivables are from federal projects. Receivables are considered past due after 30 days. Accounts past due are individually analyzed for collectibility. When all collection efforts have been exhausted, the account is written off against bad debt expense. Management estimates that all receivables are fully collectible.

**Investments**

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statements of financial position.

**Property and Equipment**

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Furniture and equipment and computers and software are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years. Leasehold improvements are amortized using the straight-line method over a period of the lesser of the estimated useful lives of the improvements or the lease term. Acquisitions of property and equipment greater or equal to \$1,000 are capitalized.



**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Assets**

ASEE and Affiliates classify net assets into two categories; unrestricted and temporarily restricted. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted net assets have been designated by the Board of Directors for specific purposes. Temporarily restricted net assets represent contributions with donor-imposed time and/or program restrictions. Temporarily restricted net assets are reclassified to unrestricted when the time restrictions expire or the funds are used for their restricted purpose and are reported in the consolidated statements of activities as net assets released from restrictions. However, revenue is recognized as unrestricted if the restrictions are satisfied in the same period as the revenue is recognized.

**Revenue Recognition**

Revenue from membership dues, subscriptions, advertising, government funding, and conferences is recognized in the year in which it is earned. Amounts received from these sources but not yet earned are recorded as deferred revenue.

**Functional Allocation of Expenses**

The costs of providing the various programs of ASEE and Affiliates are summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs are allocated among the programs benefited. Salaries and benefits are allocated based upon the actual resources used.

**Fair Value Measurements**

The Society categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access. Securities value Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange.

*Level 2* – Inputs that include quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Securities value Level 2 inputs include corporate bonds and government securities.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

The following table presents the Society's fair value hierarchy for those investments measured at fair value on a recurring basis at September 30:

	2010			
	Level 1	Level 2	Level 3	Total
Mutual Fund	\$ 956,772	\$ -	\$ -	\$ 956,772
	2009			
	Level 1	Level 2	Level 3	Total
Mutual Fund	\$ 866,823	\$ -	\$ -	\$ 866,823

**Subsequent Events**

In preparing these financial statements, the Society has evaluated events and transactions for potential recognition or disclosure through February 22, 2011, the date the financial statements were available to be issued.

**NOTE 2 CONCENTRATION OF CREDIT RISK**

Financial instruments that subject the Society to a concentration of credit risk consist of cash and money market funds placed with financial institutions. At certain times during fiscal year 2010, funds invested with financial institutions exceeded the Federal Deposit Insurance Corporation (FDIC) limits. Sweep accounts are in place to minimize risk from cash and money market funds in excess of federally insured limited

**NOTE 3 INVESTMENTS**

Investments at September 30, 2010 and 2009 consist of mutual funds (60% in equities and 40% in fixed income). Unrealized appreciation is included in investment income as a component of unrestricted net assets in the accompanying consolidated statements of activities. Investment income consists of the following for the years ended September 30:

	2010	2009
Interest and Dividends	\$ 40,671	\$ 28,872
Realized Losses on Sale of Investments	-	-
Unrealized Gain (Loss) on Investments	58,228	(8,818)
Total Investment Income	\$ 98,899	\$ 20,054

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at September 30:

	<u>2010</u>	<u>2009</u>
Furniture and Equipment	\$ 130,111	\$ 130,111
Computers and Software	2,099,802	2,440,559
Leasehold Improvements	160,724	160,724
Work in Progress	311,648	66,808
Total	<u>2,702,285</u>	<u>2,798,202</u>
Less Accumulated Depreciation and Amortization	<u>(1,593,982)</u>	<u>(1,670,970)</u>
 Total Property and Equipment, Net	 <u><u>\$ 1,108,303</u></u>	 <u><u>\$ 1,127,232</u></u>

**NOTE 5 BOARD DESIGNATED BASS ACCOUNTS**

The Board designated unrestricted net assets for the BASS Accounts. This represents the accumulated excess revenue over expenses for the Operating field units (BASS).

ASEE provides accounting services, referred to as the Banking and Accounting Services System (BASS), for the benefit of sixty-two participating operating field units that are part of ASEE operations. The operations associated with these field units are combined and presented in the accompanying consolidated statements of activities. There are no restrictions on any transactions authorized by the operating field units. Field units are financially responsible for all ASEE membership services they provide, including travel, newsletters, general administration, and meetings. BASS account funds are combined with the cash and cash equivalents of ASEE and Affiliates on the accompanying consolidated statements of financial position.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 6 RETIREMENT PLAN**

ASEE sponsors a defined contribution plan. Under the terms of the plan, all employees who meet minimum service and age requirements are eligible to participate. Contributions are made by ASEE in an amount equal to 5% of salary expense for each participating employee under the age of 45 and 7.5% of each employee age 45 and over. Salary reductions for employee contributions are permitted. The retirement expense incurred for the years ended September 30, 2010 and 2009 was approximately \$201,000 and \$183,000, respectively.

ASEE has a tax deferred annuity plan whereas employees can enter into a salary reduction agreement with ASEE. Under the terms of the plan, a portion of the employee's compensation is applied on a before-tax basis to an annuity contract owned by the employee, rather than being paid directly to the employee. These amounts, together with any earnings, are not subject to federal income tax until they are paid to the employee (or beneficiary) in the form of benefits.

**NOTE 7 FUNCTIONAL ALLOCATION OF EXPENSES**

ASEE and Affiliates present expenses within the accompanying consolidated statement of activities on a fully allocated basis with respect to general and administrative expenses. Functional expenses by program and supporting services is as follows for the years ending September 30:

	<u>2010</u>	<u>2009</u>
Government Programs	\$ 73,044,722	\$ 59,822,837
Non-Government Programs	141,930	23,000
Publication Services	1,403,987	1,683,693
Membership Services	686,623	608,374
Awards	24,020	29,772
Convention Services	2,540,092	2,302,583
IACEE	15,443	13,053
Tau Alpha Pi	7,836	29,246
Other	<u>174,486</u>	<u>241,060</u>
Total Program Services	78,039,139	64,753,618
General and Administrative	<u>3,313,244</u>	<u>2,884,614</u>
Total Expenses	<u><u>\$ 81,352,383</u></u>	<u><u>\$ 67,638,232</u></u>

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009**

**NOTE 8 COMMITMENTS**

**Operating Leases**

During 2010, ASEE signed an amended lease to rent additional office space. This amended operating lease commitment for office space will begin on October 1, 2010 and expire on September 30, 2020. The Affiliates are charged for their proportionate share of office rent by ASEE. The lease contains an escalation clause. Accordingly, deferred rent totaling \$0 and \$136,008 as of September 30, 2010 and 2009, respectively, is reflected in the accompanying consolidated statement of financial position. Rent expense for the years ended September 30, 2010 and 2009 amounted to \$566,634 and \$598,950, respectively.

Future minimum lease payments for all operating leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2011	\$ 655,329
2012	730,973
2013	747,704
2014	683,440
2015	785,556
Thereafter	<u>4,285,879</u>
Total	<u>\$ 7,888,881</u>

**Hotel Agreements**

ASEECs has entered into several agreements with hotels providing for room accommodations for its meetings and conventions through the year 2015. Many of these agreements contain clauses whereby ASEECs is liable for liquidated damages in the event of cancellation. At September 30, 2010, the maximum potential amount of liquidated damages was approximately \$1,868,000.

**NOTE 9 FRINGE BENEFITS**

**Self-Funded Health Insurance Plan**

ASEE maintains a self-insured health plan. In an attempt to limit its potential exposure, the organization purchased insurance that covers each participant up to \$1 million dollars in lifetime claims (with a \$40k deductible) along with a supplemental umbrella plan that provides an additional \$1 million of aggregate coverage per plan year above the maximum claims liability. Although significant insurance coverage exists there is always the possibility that an extremely sick employee could incur medical bills in excess of total insurance coverage thereby forcing ASEE to absorb any claims above and beyond this amount. Since the chances of this happening are deemed remote, no liability accrual has been booked on the accompanying consolidated statement of financial position for this possibility.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 9 FRINGE BENEFITS (CONTINUED)**

**Post Retirement Health Benefit**

ASEE pays 100% of the Medicare/Gap insurance premiums to eligible retirees and 50% of the premiums for eligible spouses and dependent. To be eligible, employees must be 58 years old and be employed with ASEE for 15 years. Currently, no employees are receiving benefits and two are eligible.

**NOTE 10 LINE OF CREDIT**

ASEE has a \$1,000,000 line of credit. The line of credit's variable interest rate is based on the Wall Street Journal Prime Index; however, the minimum interest cannot drop to a rate below 4%. The Interest is due monthly and the principal is due upon demand. There were no outstanding amounts at September 30, 2010 and 2009.

**NOTE 11 CONTINGENCIES**

The grantors providing federal awards to ASEE have the right to audit the use of such funds. Questioned costs that may arise from such audits would be expensed in the current period as disallowed.

ASEE has certain claims and legal proceedings incident to the ordinary course of business. ASEE's management, after consulting with legal counsel, believes the ultimate resolution of the proceedings will not have a material adverse effect on ASEE's financial position or change in net assets. Accordingly, no provision for any estimated loss is reflected in the accompanying financial statements.

**NOTE 12 SUBSEQUENT EVENT**

ASEE transferred accounting and administration of IACEE to Georgia Tech University on October 31, 2010. Effective with the transfer ASEE no longer retains board control over IACEE. Therefore IACEE will not be consolidated with ASEE in the future.



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**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION  
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Board of Directors  
American Society for Engineering Education  
Washington, DC

Our report on our audits of the consolidated financial statements of the American Society for Engineering Education and Affiliates as of and for the years ended September 30, 2010 and 2009 appears on page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplemental information and Schedule of Expenditures of Federal Awards, on pages 14 through 20, are presented for purposes of additional analysis and as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Arlington, Virginia  
February 22, 2011



**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2010**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION)**

	American Society for Engineering Education	ASEE Convention and Seminar Corporation	Tau Alpha Pi of ASEE, Inc.	IACEE	Eliminations	Consolidated
<b>CURRENT ASSETS</b>						
Cash and Cash Equivalents	\$ 20,807,404	\$ 818,365	\$ 51,173	\$ 2,466	\$ -	\$ 21,679,408
Receivables:						
Projects	2,966,662	-	-	-	-	2,966,662
Other	376,569	327,196	-	-	-	703,765
Due from Affiliate	1,722,167	-	-	-	(1,722,167)	-
Total Receivables	5,065,398	327,196	-	-	(1,722,167)	3,670,427
Prepaid Expenses and Deposits	93,199	395,998	1,061	-	-	490,258
Total Current Assets	25,966,001	1,541,559	52,234	2,466	(1,722,167)	25,840,093
<b>INVESTMENTS, AT MARKET</b>	956,772	-	-	-	-	956,772
<b>PROPERTY AND EQUIPMENT, NET</b>	980,125	128,178	-	-	-	1,108,303
Total Assets	<u>\$ 27,902,898</u>	<u>\$ 1,669,737</u>	<u>\$ 52,234</u>	<u>\$ 2,466</u>	<u>\$ (1,722,167)</u>	<u>\$ 27,905,168</u>
<b>CURRENT LIABILITIES</b>						
Accounts Payable and Accrued Expenses	\$ 1,525,101	\$ 24,425	\$ 6	\$ 1,707	\$ -	\$ 1,551,239
Due to Affiliate	-	1,722,167	-	-	(1,722,167)	-
Deferred Revenue:						
Projects	22,572,422	-	-	-	-	22,572,422
Membership Dues	442,941	-	-	-	-	442,941
Other	50,528	241,522	-	-	-	292,050
Total Deferred Revenue	23,065,891	241,522	-	-	-	23,307,413
Total Current Liabilities	24,590,992	1,988,114	6	1,707	(1,722,167)	24,858,652
<b>DEFERRED RENT</b>	-	-	-	-	-	-
Total Liabilities	24,590,992	1,988,114	6	1,707	(1,722,167)	24,858,652
<b>COMMITMENTS</b>						
<b>NET ASSETS</b>						
Unrestricted Net Assets	2,307,791	(667,677)	52,228	759	-	1,693,101
Board Designated BASS Accounts	1,002,410	-	-	-	-	1,002,410
Total Unrestricted Net Assets	3,310,201	(667,677)	52,228	759	-	2,695,511
Temporarily Restricted	1,705	349,300	-	-	-	351,005
Total Net Assets	3,311,906	(318,377)	52,228	759	-	3,046,516
Total Liabilities and Net Assets	<u>\$ 27,902,898</u>	<u>\$ 1,669,737</u>	<u>\$ 52,234</u>	<u>\$ 2,466</u>	<u>\$ (1,722,167)</u>	<u>\$ 27,905,168</u>



**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2010**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION)**

	American Society for Engineering Education	ASEE Convention and Seminar Corporation	Tau Alpha Pi of ASEE, Inc.	IACEE	Consolidated
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>					
Revenue:					
Government Funding	\$ 74,754,576	\$ -	\$ -	\$ -	\$ 74,754,576
General Operations:					
Membership Services	1,239,883	-	-	-	1,239,883
Investment Income	98,899	-	-	-	98,899
Publication Services	1,204,177	-	-	-	1,204,177
Meetings and Conferences	-	2,508,955	-	-	2,508,955
Tau Alpha Pi	-	-	25,597	-	25,597
IACEE	-	-	-	13,714	13,714
Total General Operations	<u>2,542,959</u>	<u>2,508,955</u>	<u>25,597</u>	<u>13,714</u>	<u>5,091,225</u>
Non-Governmental Funding	142,157	-	-	-	142,157
BASS Accounts Revenue	315,281	-	-	-	315,281
Fee for Service Income	457,807	-	-	-	457,807
Development	140,112	-	-	-	140,112
International	7,500	-	-	-	7,500
Award Income	19,667	-	-	-	19,667
Total Unrestricted Revenue	<u>78,380,059</u>	<u>2,508,955</u>	<u>25,597</u>	<u>13,714</u>	<u>80,928,325</u>
Net Assets Released from Restrictions					
Satisfaction of Program Activities	35,000	167,000	-	-	202,000
Total Revenue	<u>78,415,059</u>	<u>2,675,955</u>	<u>25,597</u>	<u>13,714</u>	<u>81,130,325</u>
<b>EXPENSES:</b>					
Government Programs	74,754,576	-	-	-	74,754,576
Non-Government Programs	142,157	-	-	-	142,157
Publication Services	2,202,856	-	-	-	2,202,856
Membership Services and BASS	870,068	-	-	-	870,068
Awards	24,020	-	-	-	24,020
Convention Services	-	3,056,086	-	-	3,056,086
Tau Alpha Pi	-	-	12,296	-	12,296
IACEE	-	-	-	16,634	16,634
Other	273,690	-	-	-	273,690
Total Expenses	<u>78,267,367</u>	<u>3,056,086</u>	<u>12,296</u>	<u>16,634</u>	<u>81,352,383</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	147,692	(380,131)	13,301	(2,920)	(222,058)
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>					
Meetings and Conferences	-	349,300	-	-	349,300
Net Assets Released from Restrictions	<u>(35,000)</u>	<u>(167,000)</u>	<u>-</u>	<u>-</u>	<u>(202,000)</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>(35,000)</u>	<u>182,300</u>	<u>-</u>	<u>-</u>	<u>147,300</u>
<b>CHANGE IN NET ASSETS</b>	112,692	(197,831)	13,301	(2,920)	(74,758)
Net Assets - Beginning of Year	<u>3,199,214</u>	<u>(120,546)</u>	<u>38,927</u>	<u>3,679</u>	<u>3,121,274</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,311,906</u>	<u>\$ (318,377)</u>	<u>\$ 52,228</u>	<u>\$ 759</u>	<u>\$ 3,046,516</u>

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2010**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION)**

	Government Programs	Non- Government Programs	Publication Services	Membership Services and BASS	Awards
Projects Participant Support	\$ 70,039,706	\$ 141,531	\$ -	\$ -	\$ -
Salaries and Benefits, Net of Reimbursements	1,749,664	399	507,733	206,204	-
Printing and Graphic Design	21,256	-	249,960	18,178	-
Rent and Related, Net of Reimbursements	-	-	-	-	-
BASS Accounts Expense	-	-	-	364,223	-
Travel and Related	242,675	-	10,087	8,893	-
Depreciation and Amortization	-	-	-	-	-
Postage and Freight, Net of Reimbursements	32,049	-	94,083	37,655	72
Computer/Professional Services	337,892	-	517,408	11,690	405
Miscellaneous	72	-	1,662	726	-
Outreach/Marketing	102,817	-	7,009	-	-
Mail Charges	-	-	-	15,446	-
Dues and Registration	1,850	-	511	175	-
AV, Bus Services and Facilities Rental	404,615	-	-	110	-
Telephone, Net of Reimbursement	3,315	-	2,352	148	8
Supplies, Net of Reimbursement	21,957	-	4,248	12,228	1,558
Repairs and Maintenance	9,459	-	1,800	-	-
Legal and Accounting	-	-	-	-	-
Catering	8,123	-	-	3,540	-
Photocopying	8,567	-	5,518	4,242	-
Recruitment and Staff Training	25	-	897	-	-
Honoraria	60,670	-	-	3,165	21,977
Subscriptions	10	-	719	-	-
Bad Debt Expense	-	-	-	-	-
	<u>73,044,722</u>	<u>141,930</u>	<u>1,403,987</u>	<u>686,623</u>	<u>24,020</u>
Indirect Costs	<u>1,709,854</u>	<u>227</u>	<u>798,869</u>	<u>183,445</u>	<u>-</u>
Total	<u>\$ 74,754,576</u>	<u>\$ 142,157</u>	<u>\$ 2,202,856</u>	<u>\$ 870,068</u>	<u>\$ 24,020</u>

Convention Services	Tau Alpha Pi	IACEE	Other	Total Program Services	General Administrative	Total
\$ -	\$ -	\$ -	\$ -	\$ 70,181,237	\$ -	\$ 70,181,237
1,050,221	1,271	1,107	109,215	3,625,814	1,641,808	5,267,622
79,565	-	-	-	368,959	16,488	385,447
2,599	-	-	-	2,599	642,221	644,820
-	-	-	-	364,223	-	364,223
107,303	302	6,107	4,756	380,123	88,277	468,400
75,784	-	-	-	75,784	204,410	280,194
17,930	637	639	135	183,200	11,266	194,466
102,751	475	-	34,359	1,004,980	237,403	1,242,383
110,209	115	7,500	6,104	126,388	120,928	247,316
2,536	-	-	190	112,552	250	112,802
16	-	-	621	16,083	1,796	17,879
745	-	-	1,345	4,626	58,263	62,889
304,281	-	-	-	709,006	5,798	714,804
6,388	42	22	1,431	13,706	32,563	46,269
45,016	4,505	-	3,422	92,934	58,584	151,518
9,260	-	-	2,179	22,698	72,349	95,047
15,754	207	68	-	16,029	48,876	64,905
558,549	282	-	141	570,635	18,558	589,193
3,517	-	-	522	22,366	11,967	34,333
360	-	-	25	1,307	40,025	41,332
34,440	-	-	4,914	125,166	-	125,166
629	-	-	5,147	6,505	1,414	7,919
12,239	-	-	(20)	12,219	-	12,219
<u>2,540,092</u>	<u>7,836</u>	<u>15,443</u>	<u>174,486</u>	<u>78,039,139</u>	<u>3,313,244</u>	<u>81,352,383</u>
<u>515,994</u>	<u>4,460</u>	<u>1,191</u>	<u>99,204</u>	<u>3,313,244</u>	<u>(3,313,244)</u>	<u>-</u>
<u>\$ 3,056,086</u>	<u>\$ 12,296</u>	<u>\$ 16,634</u>	<u>\$ 273,690</u>	<u>\$ 81,352,383</u>	<u>\$ -</u>	<u>\$ 81,352,383</u>

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED SEPTEMBER 30, 2009**  
**(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION)**

	Government Programs	Non- Government Programs	Publication Services	Membership Services and BASS	Awards
Projects Participant Support	\$ 57,005,447	\$ 23,000	\$ -	\$ -	\$ -
Salaries and Benefits, Net of Reimbursements	1,615,060	-	573,068	210,641	-
Printing and Graphic Design	55,166	-	371,408	17,480	-
Rent and Related, Net of Reimbursements	-	-	-	-	-
BASS Accounts Expense	-	-	-	230,854	-
Travel and Related	317,671	-	15,832	8,611	1,508
Depreciation and Amortization	-	-	-	-	-
Postage and Freight, Net of Reimbursements	30,944	-	145,667	41,991	34
Computer/Professional Services	467,240	-	531,410	45,534	372
Miscellaneous	-	-	20,382	18,593	-
Consulting	155,982	-	250	-	-
Mail Charges	10,638	-	8,447	16,535	-
Dues and Registration	4,595	-	-	-	-
AV, Bus Services and Facilities Rental	13,409	-	4,223	59	-
Telephone, Net of Reimbursement	3,810	-	1,831	260	-
Supplies, Net of Reimbursement	52,599	-	1,385	9,853	1,460
Repairs and Maintenance	-	-	-	-	-
Legal and Accounting	-	-	-	-	-
Catering	58,996	-	-	1,981	-
Photocopying	8,010	-	4,539	5,030	-
Recruitment and Staff Training	-	-	432	-	-
Honoraria	23,270	-	2,391	952	26,398
Subscriptions	-	-	2,428	-	-
Bad Debt Expense	-	-	-	-	-
	<u>59,822,837</u>	<u>23,000</u>	<u>1,683,693</u>	<u>608,374</u>	<u>29,772</u>
Indirect Costs	<u>1,332,062</u>	<u>-</u>	<u>796,050</u>	<u>178,492</u>	<u>-</u>
Total	<u>\$ 61,154,899</u>	<u>\$ 23,000</u>	<u>\$ 2,479,743</u>	<u>\$ 786,866</u>	<u>\$ 29,772</u>

Convention Services	Tau Alpha Pi	IACEE	Other	Total Program Services	General Administrative	Total
\$ -	\$ -	\$ -	\$ -	\$ 57,028,447	\$ -	\$ 57,028,447
972,007	1,166	1,624	168,604	3,542,170	1,491,180	5,033,350
105,407	-	-	191	549,652	4,115	553,767
-	-	-	-	-	649,422	649,422
-	-	-	-	230,854	-	230,854
173,684	1,250	5,686	16,205	540,447	94,816	635,263
28,276	-	-	-	28,276	165,405	193,681
20,875	1,104	17	2,411	243,043	5,308	248,351
149,998	100	4,147	26,591	1,225,392	166,314	1,391,706
110,106	225	-	3,296	152,602	55,156	207,758
-	-	-	-	156,232	-	156,232
397	-	-	178	36,195	432	36,627
590	-	-	-	5,185	60,559	65,744
329,921	-	266	5,367	353,245	938	354,183
14,338	61	29	3,628	23,957	22,311	46,268
47,417	6,561	-	1,126	120,401	83,401	203,802
-	-	-	-	-	25,859	25,859
4,475	-	-	-	4,475	16,594	21,069
312,850	519	1,279	2,783	378,408	13,183	391,591
7,765	-	5	533	25,882	10,820	36,702
-	-	-	394	826	12,353	13,179
24,333	18,260	-	5,238	100,842	-	100,842
-	-	-	1,087	3,515	6,448	9,963
144	-	-	3,428	3,572	-	3,572
<u>2,302,583</u>	<u>29,246</u>	<u>13,053</u>	<u>241,060</u>	<u>64,753,618</u>	<u>2,884,614</u>	<u>67,638,232</u>
<u>448,335</u>	<u>13,827</u>	<u>1,958</u>	<u>113,890</u>	<u>2,884,614</u>	<u>(2,884,614)</u>	<u>-</u>
<u>\$ 2,750,918</u>	<u>\$ 43,073</u>	<u>\$ 15,011</u>	<u>\$ 354,950</u>	<u>\$ 67,638,232</u>	<u>\$ -</u>	<u>\$ 67,638,232</u>

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2010**

Federal Grantor / Program Title	Federal CFDA Number	Grant / Agreement Number	Federal Expenditures
<b>DEPARTMENT OF DEFENSE</b>			
SMART Scholarship Program	12.300	Various	\$ 26,112,666
Navy Research Laboratory and Other Postdoc Fellowship Program	12.300	Various	3,409,850
ONR Summer Faculty Research Program	12.300	N00014004D501/0002	1,674,059
Naval Research Enterprise Intern Program/Science and Engineering Apprentice Program	12.300	N00014004D501/0001	2,927,719
Air Force National Defense Science and Engineering Graduate (NDSEG) Fellowship Program	N/A	Various	33,574,585
Air Force Summer Faculty Fellowship Program	N/A	FA955004C0052	2,106,556
Subtotal			<u>69,805,435</u>
<b>NATIONAL SCIENCE FOUNDATION (NSF)</b>			
NSF Graduate Research Fellowship Program	N/A	DGE-046243	1,810,592
NSF Engineering in a Global Economy	47.041	EEC-0743223	21,652
NSF EAPSI	N/A	NSFOISE-0811356	246,427
NSF Family Engineering	N/A	Various	22,652
ARRA - NSF Industrial Postdoc Program	47.082	EEC-0946373	1,218,421
Subtotal			<u>3,319,744</u>
<b>NATIONAL AERONAUTICS &amp; SPACE ADMINISTRATION</b>			
NASA Aeronautic Space Program	N/A	NNH08CC19C	1,629,397
Subtotal			<u>1,629,397</u>
Total			<u>\$ 74,754,576</u>

N/A Not Available

**NOTES TO THE SCHEDULE**

The Schedule of Expenditures of Federal Awards has been prepared using the accrual basis of accounting.



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**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**

Board of Directors  
American Society for Engineering Education  
Washington, DC

We have audited the consolidated financial statements of the American Society for Engineering Education (the "Society") and Affiliates as of and for the year ended September 30, 2010, and have issued our report thereon dated February 22, 2011. We conducted our audit 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Society's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (see finding FS 10-01 and FS 10-02). 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.



Board of Directors  
American Society for Engineering Education

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Society's consolidated financial statements are free of 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 determination of consolidated financial statement amounts. 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*.

This report is intended solely for the information and use of the Board of Directors, Finance Committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Arlington, Virginia  
February 22, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
American Society for Engineering Education  
Washington, DC

**Compliance**

We have audited the American Society for Engineering Education (the "Society") with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The Society's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Society's management. Our responsibility is to express an opinion on the Society's compliance based on our audit.

We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Society's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Society's compliance with those requirements.

In our opinion, the Society complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items SA-02, SA-03 and SA10-04.

**Internal Control Over Compliance**

The management of the Society is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Society's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Society's 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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items SA10-02 and SA10-03 to be material weaknesses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items SA10-04 and SA10-01. *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.

The Society's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Society's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, Finance Committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Larson Allen LLP*  
LarsonAllen LLP

Arlington, Virginia  
February 22, 2011

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2010**

**PART I: SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

We have audited the consolidated financial statements of the American Society for Engineering Education and Affiliates (the "Society"), as of and for the year ended September 30, 2010, and have issued an unqualified opinion thereon dated February 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting:

- |  |     |
|--|-----|
| ▪ Material weakness identified   | No  |
| ▪ Significant deficiency identified that is not considered to be a material weakness | Yes |
| ▪ Noncompliance material to consolidated financial statements noted                  | No  |

***Federal Awards***

We have also issued an unqualified opinion dated February 22, 2011, based on our consideration of the Society's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2010.

Internal control over major programs:

- |  |     |
|--|-----|
| ▪ Material weakness identified   | Yes |
| ▪ Significant deficiency identified that is not considered to be a material weakness | Yes |

Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.	Yes
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The major programs identified and tested are as follows:

Federal Grantor/ Program Title	Federal CFDA Number
Department of Defense:	
Air Force Summer Fellowship Program	N/A
SMART Scholarship Program	12.300
Navy Research Laboratory and Other Postdoc Fellowship Program	12.300
ONR Summer Faculty Research Program	12.300
Naval Research Enterprise Intern Program/Science and Engineering Apprentice Program	12.300
National Science Foundation:	
ARRA - NSF Industrial Postdoc Program	47.082

For the September 30, 2010 audit, the threshold used to distinguish between Type A and Type B programs was \$2,242,637.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2010**

**PART I: SUMMARY OF AUDITORS' RESULTS (CONTINUED)**

The Society did not qualify as a low-risk auditee as defined in the *Compliance Supplement*.

**PART II: CONSOLIDATED FINANCIAL STATEMENT FINDINGS**

**Finding FS10-01 – Lack of Segregation of Duties**

Statement of Condition: The Society's internal controls can improve in two significant areas: 1) one person has access to all financial areas and no review process is in place over the posting of journal entries of that individual. 2) The Society does not have a review process over the completion of some of the bank reconciliations including one major grant account. This lack of adequate segregation of duties over the journal entry posting process and bank reconciliation review is a significant deficiency in the Organization's internal controls over financial reporting.

Criteria: Management is responsible for establishing and maintaining internal controls over both the resources of the Society and its financial reporting processes.

Cause of Condition: The Organization's internal controls do not adequately ensure that adequate segregation of duties exists over the accounting and financial process.

Recommendation: We recommend that management review current access to various systems and review procedures to enhance the delegation of responsibilities in these two areas.

Management Response: The Finance Department went through a significant transition during FY2010, and during this time, the Society's CFO and Assistant Controller had to carry out overlapping functions. Following this transition, the Society is now able to ensure proper measures are in place in all aspects of our internal control over the resources and its financial reporting process.

Subsequent to the fiscal year end, the Society changed the setting of the CFO's access to the accounting system to limit her functions to generating and viewing reports only. The Society also assigned a third staff member to perform the bank reconciliations in question, and assigned the Assistant Controller to review the bank reconciliations.

**Finding FS10-02 – Accounting for Fringe Benefit Activities**

Statement of Condition: The Society had not previously recorded to its financial statements a bank account used to deposit insurance premiums for its employees and certain participants of its federally funding programs. This checking account is used for self insured health plan used to pay claims and stop loss insurance premiums. The Society also failed to record the liability for potential claims in accordance with accounting principles. The impact of recording this account was an increase in cash of \$216,544, liability of \$72,121 and decrease in benefits for this year of \$144,423.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2010**

**Finding FS10-02 – Accounting for Fringe Benefit Activities (Continued)**

Additionally, a postretirement plan for health and prescription benefits has not been recorded in accordance with generally accepted accounting principles. The unrecorded liability is estimated to be between \$96,000 and \$250,000; however, an actuary report has not been done at this point and the actual amount is unknown.

It was also brought to our attention that in prior years when funding collected and transferred to this account was more than claims paid, the excess was returned to the Society and recorded as miscellaneous revenue, resulting in an overstatement of the indirect rate charged to its federal programs in years 2005 through 2009 of \$139,252.

Criteria: Management is responsible for establishing and maintaining internal controls over the financial reporting process, including the fringe benefits.

Cause of Condition: Policies and procedures for handling of the benefit plans do not exist and current finance staff needs additional training on the implications from an accounting perspective of such programs.

Recommendation: We recommend that management take necessary steps to improve its procedures in handling of the fringe benefits, including obtaining health claim lag reports and more closely monitoring the account activity maintained by the third party administrator to maintain employee confidentiality. We also recommend that the Society review the signatures on this account to ensure that at least one current management is authorized on the account.

Furthermore, we suggest that the Organization contact the cognizant agency with respect to the historically indirect cost rate so as to gain advice on how to handle the past year impact, although not material, of both the over and under recorded fringe benefit costs.

Management Response: The Society went through a transition in its management during FY2010, and the failure to record accounting transactions related to the health claims funding account was raised and corrected under the new management. The Society realized the former CFO's broad responsibilities limited her ability to look beyond the day-to-day tasks; therefore, management has reduced the CFO's responsibilities, thereby allowing the new CFO to have time to establish and maintain internal controls over the financial reporting process, including the fringe benefits.

The Society has improved the control over the health claims funding account by implementing a procedure that requires monthly reports of check registers, and claims lag reports from the third party administrator. Furthermore, the Society is looking into different options to implement regular training of its staff in both the Finance and Human Resources Departments on the fringe benefits.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2010**

**PART III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding SA10-01 – Unauthorized Expenditures**

**Basic and Applied Scientific Research CFDA# 12.300 Department of Defense SMART Scholarship Program**

Statement of Condition: The Society paid a portion of a program invoice with federal funds that was an unauthorized expenditure (known cost \$300) as defined by OMB A-122. This exception was noted in one of our sample size of twenty-five items of testing of internal control over compliance. This is a significant deficiency in the Organization's internal controls over compliance.

Criteria: Management is responsible for establishing and maintaining internal controls over the expenditures of federal funds.

Cause of Condition: The Organization's internal controls did not identify the portion of the federal expenditure that was unauthorized.

Recommendation: We recommend that management take necessary steps to improve its internal control over the expenditure of federal funds by instituting a detailed review process on invoices for federal program expenditures and ongoing training of allowable cost under both OMB-122 and contract requirements.

Management Response: The Society believes it has sufficient internal control in reviewing process on invoices, and this incident was an isolated incident where the vendor had intentionally buried a small fee to solicit funds for its foundation through their tuition invoices. The Society has reviewed other schools' invoices, and found that this new tactic was implemented by one institution where only a few students under its programs were attending. The Society has contacted the school and asked them to modify the invoices for the students under its programs. The staff in the Projects and the Finance Departments will obtain annual training on the OMB circulars relevant to administering its government awards again in FY2011.

**Finding SA10-02 – Interest earned on Federal Drawdown Requests**

**Trans-NSF Recovery Act Research Support CFDA# 47.082 National Science Foundation Industrial Postdoc Program and Basic and Applied Scientific Research CFDA# 12.300 Department of Defense SMART Scholarship Program**

Statement of Condition: The Organization did not remit the interest over \$250 on the federal drawdown requests before it was spent on the federal programs in accordance with OMB A-110. We noted that the internal controls were ineffective in detecting or preventing non compliance with this requirement in 100% of the sample of draw downs selected for testing for both major programs. In regards to the SMART program, due to contract language it is unclear as to the limit of advance funding that the Society can have on hand at any point to pay scholarships.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2010**

**Finding SA10-02 – Interest earned on Federal Drawdown Requests(Continued)**

Criteria: Management is required to return to the federal government any interest earned on federal drawdown requests funds in excess of \$250 in any calendar year.

Cause of Condition: The Organization's internal control procedures did not properly identify the excess amount of interest earned on the federal drawdown requests.

Recommendation: We recommend that the Organization implement procedures to adhere to its cash management policy and document such actions when performed.

Management Response: The Society went through a significant growth in government programs since FY2008 and has gone through significant and unprecedented transitions in its management during FY2010. The new management of the Society realizes the need for strengthening the controls over compliances with administering the federal government awards, and is currently evaluating different options to enhance its controls and procedures in accordance with all OMB circulars applicable for the Society. One of the options it's considering is to assign the task of overseeing compliance matters on all government contracts to a manager other than the CFO and Projects Director to ensure all checks and balances are in place in every aspect of administering the federal government awards including but not limited to the areas in question in SA10-02 and SA10-03. The Society will continue its annual training of its staff in the Projects and Finance Department on OMB circulars.

**Finding SA10-03 – Program Reporting**

**Basic and Applied Scientific Research CFDA# 12.300 Department of Defense SMART Scholarship Program**

Statement of Condition: The Organization does not have a system in place to track the dates federal program reports are filed as required by OMB A-133. We noted that internal controls over compliance were ineffective in detecting non compliance with filing the annual SF 425, Quarterly SF 425s and the Interim DD882.

Criteria: Management is required to report on federal grant programs as required by the federal grantor.

Cause of Condition: The Organization's internal control procedures did not implement procedures for recording the dates program reports were filed.

Recommendation: We recommend that the Organization implement procedures to track reports by their due date and date they were filed with the federal agency.

**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2010**

**Finding SA10-03 – Program Reporting (Continued)**

Management Response: The Society went through a significant growth in government programs since FY2008 and has gone through significant and unprecedented transitions in its management during FY2010. The new management of the Society realizes the need for strengthening the controls over compliances with administering the federal government awards, and is currently evaluating different options to enhance its controls and procedures in accordance with all OMB circulars applicable for the Society. One of the options it's considering is to assign the task of overseeing compliance matters on all government contracts to a manager other than the CFO and Projects Director to ensure all checks and balances are in place in every aspect of administering the federal government awards including but not limited to the areas in question in SA10-02 and SA10-03. The Society will continue its annual training of its staff in the Projects and Finance Department on OMB circulars.

**Finding SA10-04 – Accounting for Fringe Benefit Activities**

See finding FA10-02 which applies to all programs, within the indirect cost rate.



**AMERICAN SOCIETY FOR ENGINEERING EDUCATION AND AFFILIATES  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN  
YEAR ENDED SEPTEMBER 30, 2010**

**PART I: AUDIT FINDINGS**

**Major Program - OMB Circular A-133, Section 501(A)  
*Finding 09-04 – Eligibility Requirement Documentation***

Statement of Condition: During the performance of our eligibility testing on major programs, we noted one exception where a file did not initially contain required documentation; however, supplemental evidence was provided by the Organization that demonstrated eligibility for this participant.

Status:

No findings in the current year audit related to eligibility. The Society has created a checklist to ensure all program requirements are met.

**PART II: CORRECTIVE ACTION PLAN**

***Findings FS10-01, FS10-02, SA10-01, SA10-02, SA10-03***

Contact Person: Sae-Young Park

Corrective Action Plan: See Schedule of Findings and Questioned Costs Parts II and III

Anticipated Completion Date: Calendar year 2011.