

CSM ALUMNI FOUNDATION, INC.

**Financial Statements
and
Independent Auditors' Report
June 30, 2018**

CSM ALUMNI FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
CSM Alumni Foundation, Inc.
Golden, Colorado

We have audited the accompanying financial statements of CSM Alumni Foundation, Inc. (a non-profit corporation) (the "Association"), which are comprised of the statement of financial position as of June 30, 2018, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Directors
CSM Alumni Foundation, Inc.
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CSM Alumni Foundation, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CORRECTION OF AN ERROR

As discussed in Note 2 to the financial statements, an error in investment income allocation, which resulted in an understatement of unrestricted net assets and an overstatement of temporarily restricted net assets as of June 30, 2017, was discovered by management of the Association during the current year. Accordingly, amounts reported for net assets as of June 30, 2017, have been restated in the June 30, 2018, financial statements to correct the error. Our opinion is not modified with respect to that matter.

Plante & Moran, PLLC

Plante & Moran, PLLC

Denver, Colorado
December 7, 2018

CSM ALUMNI FOUNDATION, INC.

Statement of Financial Position
June 30, 2018

Assets

Assets	
Cash and cash equivalents	\$ 285,043
Accounts receivable - related party	4,030
Investments	<u>2,015,700</u>
Total assets	<u>\$ 2,304,773</u>

Liabilities and Net Assets

Liabilities	
Accounts payable	<u>681</u>
Total liabilities	<u>681</u>
Commitments	
Net assets	
Unrestricted	
Undesignated	224,405
Board-designated for endowment	<u>536,567</u>
Total unrestricted	760,972
Temporarily restricted	1,206,069
Permanently restricted	<u>337,051</u>
Total net assets	<u>2,304,092</u>
Total liabilities and net assets	<u>\$ 2,304,773</u>

See notes to financial statements.

CSM ALUMNI FOUNDATION, INC.

**Statement of Activities
For the Year Ended June 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and support				
Contributions and support	\$ 2,333	\$ 1,000	\$ -	\$ 3,333
Investment income	104,238	114,954	-	219,192
Reunions and special programs	-	126,021	-	126,021
Other revenue	<u>37,206</u>	<u>-</u>	<u>-</u>	<u>37,206</u>
	143,777	241,975	-	385,752
Net assets released from restrictions	<u>156,860</u>	<u>(156,860)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and support	<u>300,637</u>	<u>85,115</u>	<u>-</u>	<u>385,752</u>
Expenses				
Program services				
Reunions and special programs	134,104	-	-	134,104
Student financial assistance	<u>28,867</u>	<u>-</u>	<u>-</u>	<u>28,867</u>
Total program services	<u>162,971</u>	<u>-</u>	<u>-</u>	<u>162,971</u>
Supporting services				
Administration	<u>144,323</u>	<u>-</u>	<u>-</u>	<u>144,323</u>
Total supporting services	<u>144,323</u>	<u>-</u>	<u>-</u>	<u>144,323</u>
Total expenses	<u>307,294</u>	<u>-</u>	<u>-</u>	<u>307,294</u>
Change in net assets	(6,657)	85,115	-	78,458
Net assets at beginning of year (restated)	<u>767,629</u>	<u>1,120,954</u>	<u>337,051</u>	<u>2,225,634</u>
Net assets at end of year	<u>\$ 760,972</u>	<u>\$ 1,206,069</u>	<u>\$ 337,051</u>	<u>\$ 2,304,092</u>

See notes to financial statements.

CSM ALUMNI FOUNDATION, INC.

Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities	
Change in net assets	\$ <u>78,458</u>
Adjustments to reconcile change in net assets to net cash used in operating activities	
Net realized and unrealized gains on investments	(147,402)
Changes in assets and liabilities	
Accounts receivable	(3,030)
Accounts payable and accrued expenses	<u>532</u>
	<u>(149,900)</u>
Net cash used in operating activities	<u>(71,442)</u>
Cash flows from investing activities	
Purchases of investments	(71,790)
Sales of investments	<u>188,412</u>
Net cash provided by investing activities	<u>116,622</u>
Net increase in cash and cash equivalents	45,180
Cash and cash equivalents at beginning of year	<u>239,863</u>
Cash and cash equivalents at end of year	<u>\$ 285,043</u>

See notes to financial statements.

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

CSM Alumni Foundation, Inc., doing business as the Colorado School of Mines Alumni Association (the "Association"), commenced activities in 1895. The Association was incorporated in the state of Colorado in 1936.

The Association assists alumni job seekers and potential employers; helps students through the Student Financial Assistance Fund; and sponsors class reunions, campus events, and alumni luncheons. The Association is dedicated to serving Colorado School of Mines ("CSM") and its alumni by promoting continued excellence in education at CSM and the personal and professional development of CSM alumni. Beginning in fiscal year 2017, the alumni sections were rebranded as M Clubs and managed by the Colorado School of Mines Foundation (the "Foundation").

As of January 1, 2016, the Association no longer accepted any membership dues. As of February 1, 2016, the Association entered into a Services Agreement with the Foundation and CSM; the Association's operational employees became employees of the Foundation; and certain budget and operational functions, including alumni programs, became the responsibility of the Foundation. The Association will remain a separate legal entity and will continue to exercise fiduciary responsibility over the business and affairs of the Association, including managing the assets owned by the Association and overseeing the special initiatives approved by the Association's Board of Directors (the "Board"). The Board will have advisory responsibility over the alumni programs managed by the Foundation.

The Association publishes *Mines Magazine*[®] in conjunction with CSM to maintain a liaison between alumni, friends, and CSM. Effective February 1, 2016, CSM became responsible for all operating costs associated with the publication and distribution of the magazine. An editorial board oversees the magazine pursuant to a separate agreement between the Association and CSM. The editorial board includes representation from the Board and CSM.

Basis of Presentation

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are assets currently available at the discretion of the Board for use in the Association's operations and other resources.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted amounts are assets that must be maintained permanently by the Association as required by the donor, but the Association is permitted to use or expend part or all of any income derived from those assets.

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Association considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, unless held as part of the Association's investment portfolio. At various times throughout the year, the Association maintained balances in excess of federally insured limits.

Investments

The Association reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with unrealized gains and losses included on the statement of activities.

Furniture and Equipment

Furniture and equipment are recorded at cost or, if donated, at fair value at the date of donation. Depreciation of furniture and equipment is calculated on the straight-line method over the estimated useful lives of the assets, ranging from five to ten years, and consists generally of furniture, equipment, and computers. Assets with an initial purchase price under \$1,500 are expensed in the year purchased.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions. Donor-restricted support is recorded as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

Beginning in January 2016, the majority of contributions are recognized by the Foundation and are no longer reflected in the Association's financial statements.

Revenue Recognition

Reunions and special programs, publication, merchandise sales and commissions, and other revenue are recognized as revenue on the statement of activities in the year in which the service or product is provided. Payments received in advance are deferred and reported as revenue when earned.

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents, investment securities, and accounts receivable. The Association places its cash and cash equivalents with creditworthy, high-quality financial institutions. Accounts at each institution are insured by the FDIC up to \$250,000. The Association has significant investments in marketable securities and is, therefore, subject to concentrations of credit risk. Investments are monitored by a committee of the Board. Though market values of investments are subject to fluctuation on a year-to-year basis, management believes the investments are prudent for the long-term welfare of the Association.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. Income from activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. For the year ended June 30, 2018, the Association did not incur taxes for unrelated trade or business income.

The Association applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, including the determination of the Association's tax-exempt status, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2018. If incurred, interest and penalties associated with tax positions are recorded in the period assessed as administration expenses. No interest or penalties have been assessed as of June 30, 2018.

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017, with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented.

Subsequent Events

The Association has evaluated all subsequent events through the auditors' report date, which is the date the financial statements were available to be issued, and has determined that there are no events requiring disclosure.

Note 2 - Restatement

The Association's June 30, 2017, ending net asset balances have been restated due to an error that was identified related to the allocation of investment earnings, which resulted in an understatement of unrestricted net assets and an overstatement of temporarily restricted net assets.

The net asset balances as of June 30, 2017, have been restated as follows:

	<u>2017</u>	<u>Effect</u>	<u>2017</u>
	(As Previously Reported)		(Restated)
Net assets			
Unrestricted	\$ 707,133	\$ 60,496	\$ 767,629
Temporarily restricted	1,181,450	(60,496)	1,120,954
Permanently restricted	<u>337,051</u>	<u>-</u>	<u>337,051</u>
Total net assets	<u>\$ 2,225,634</u>	<u>\$ -</u>	<u>\$ 2,225,634</u>

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 3 - Investments

Investments are stated at their fair values and consist of the following at June 30, 2018:

Mutual funds - equity securities	\$	149,557
Mutual funds - debt securities		112,599
Equity securities		1,390,387
Bonds		<u>363,157</u>
Total investments	\$	<u>2,015,700</u>

Investment income is summarized as follows for the year ended June 30, 2018:

Interest and dividend income, net of investment fees of \$10,578	\$	71,790
Net realized and unrealized gain		<u>147,402</u>
Net income from investments	\$	<u>219,192</u>

Note 4 - Net Assets

Prior to the change in the membership model, the Board designated lifetime memberships to be held in perpetuity in a Board-designated endowment. Each year, the Board appropriates an amount to support the general operations of the Association out of the endowment. The Board-designated funds are included in unrestricted net assets and that designations can be changed or removed by the Board at any time.

The temporarily restricted net assets consist of the following as of June 30, 2018:

Grants and scholarships	\$	847,455
Unexpended endowment earnings		271,556
Specific alumni chapters		84,434
Other		<u>2,624</u>
	\$	<u>1,206,069</u>

In the year ended June 30, 2003, the Association received a gift of \$50,000 to be held in perpetuity. The income from this fund is to be used for grants to CSM students to assist in the purchase of their textbooks. Other permanently restricted net assets totaling \$287,051 at June 30, 2018, consist of gifts that have been designated by the donor for the endowment fund of the Association. There are no restrictions on the use of the income from this endowment.

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 5 - Related Party Transactions

Colorado School of Mines Foundation

As of June 30, 2018, the Association has \$4,030 of receivables related to various golf tournaments and events held by alumni sections. These amounts are included on the accompanying statement of financial position as accounts receivable - related party. The Association paid the Foundation \$72,400 for the management services it provided during the year ended June 30, 2018.

Note 6 - Fair Value of Financial Instruments

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy prioritizes observable and unobservable inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs where little or no market data is available, which requires the reporting entity to develop its own assumptions.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Following is a description of the valuation methodologies used for assets measured at fair value:

Equities and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Bonds: Valued based on the par value and yield to maturity percentage.

There were no changes to valuation techniques during the year ended June 30, 2018.

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 6 - Fair Value of Financial Instruments (continued)

Financial assets carried at fair value as of June 30, 2018 are classified in the table below in one of the three categories described above:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - equity securities	\$ 149,557	\$ -	\$ -	\$ 149,557
Mutual funds - debt securities	112,599	-	-	112,599
Equity securities	1,390,387	-	-	1,390,387
Bonds	-	<u>363,157</u>	-	<u>363,157</u>
Total	<u>\$ 1,652,543</u>	<u>\$ 363,157</u>	<u>\$ -</u>	<u>\$ 2,015,700</u>

Note 7 - Investment in Endowments

The Association's endowment consists of two donor-restricted funds and one Board-designated fund established for a variety of purposes. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor-gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund.
2. The purposes of the Association and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Association.
7. The investment policies of the Association.

CSM ALUMNI FOUNDATION, INC.

Notes to Financial Statements

Note 7 - Investment in Endowments (continued)

The Association has adopted spending and investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The Finance and Investment Committee of the Association is responsible for selecting the asset mix and managers for the endowments of the Association. The target asset allocation is as follows: (a) 10% minimum and 20% maximum in money markets, (b) 35% minimum and 50% maximum in fixed income, and (c) 30% minimum and 65% maximum in equities.

The Association has a policy of appropriating distributions based on the earnings of the investments held by the endowment fund and targets annual spending of 5% of asset balances. Expenditures from the donor-restricted endowment funds are controlled by the Board in concert with the donors' intent. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity.

Invested Endowment Asset Composition by Type of Fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 271,556	\$ 337,051	\$ 608,607
Board-designated endowment funds	<u>536,567</u>	<u>-</u>	<u>-</u>	<u>536,567</u>
Total funds	<u>\$ 536,567</u>	<u>\$ 271,556</u>	<u>\$ 337,051</u>	<u>\$ 1,145,174</u>

Changes in Invested Endowment Assets for the Fiscal Year Ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year (restated)	<u>\$ 589,034</u>	<u>\$ 217,642</u>	<u>\$ 337,051</u>	<u>\$ 1,143,727</u>
Investment return				
Investment income	17,843	17,358	-	35,201
Net appreciation	<u>36,801</u>	<u>36,556</u>	<u>-</u>	<u>73,357</u>
Total investment return	<u>54,644</u>	<u>53,914</u>	<u>-</u>	<u>108,558</u>
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(107,111)</u>	<u>-</u>	<u>-</u>	<u>(107,111)</u>
Endowment assets, end of year	<u>\$ 536,567</u>	<u>\$ 271,556</u>	<u>\$ 337,051</u>	<u>\$ 1,145,174</u>