

AEG FOUNDATION
FINANCIAL STATEMENTS
JUNE 30, 2012
(With Comparative Totals for June 30, 2011)
(See Accountants' Review Report)

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
AEG Foundation

We have reviewed the accompanying statement of financial position of AEG Foundation, as of June 30, 2012, and the related statements of activity and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Foundation management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States, and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Professional Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe the results of our procedures provide a reasonable basis for our report. Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States.

The June 30, 2011 financial statements of AEG Foundation were reviewed by other accountants whose report dated November 7, 2011, stated that based on their procedures, they were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Ann M. Broderick, CPA'. The signature is written in a cursive style.

Bauerle and Company, P.C.

August 23, 2012
Denver, Colorado

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AEG FOUNDATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

(With Comparative Totals for the Year Ended June 30, 2011)

(See Accountants' Review Report)

ASSETS

	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents - Unrestricted	\$ 17,886	\$ 24,366
Accounts Receivable	100	665
Accounts Receivable - Related Party	919	-
Total Accounts Receivable	<u>1,019</u>	<u>665</u>
Prepaid Expenses	1,096	1,674
Investments	<u>844,085</u>	<u>728,275</u>
TOTAL ASSETS	<u>\$ 864,086</u>	<u>\$ 754,980</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 1,263	\$ 3,046
Deferred Income	<u>2,574</u>	<u>900</u>
Total Liabilities	<u>3,837</u>	<u>3,946</u>

NET ASSETS

Unrestricted	353,528	299,210
Temporarily Restricted	<u>506,721</u>	<u>451,824</u>
Total Net Assets	<u>860,249</u>	<u>751,034</u>

**TOTAL LIABILITIES AND
NET ASSETS**

<u>\$ 864,086</u>	<u>\$ 754,980</u>
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The accompanying notes are an integral part of the financial statements.

AEG FOUNDATION

**STATEMENT OF ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)
(See Accountants' Review Report)**

CHANGES IN NET ASSETS:	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL 2012	TOTAL 2011
Revenue:				
Contributions	\$ 18,446	\$ 46,979	\$ 65,425	\$ 53,858
Net Special Event Income	-	5,114	5,114	4,187
Net Investment Income	40,041	43,634	83,675	122,041
Other Income	1,270	-	1,270	1,000
Net Assets Released from Restrictions	40,830	(40,830)	-	-
Total Revenue	<u>100,587</u>	<u>54,897</u>	<u>155,484</u>	<u>181,086</u>
Expenses:				
Research, Education and Public Awareness	28,233	-	28,233	39,069
General Administrative	15,792	-	15,792	16,869
Fundraising	2,244	-	2,244	584
Total Expenses	<u>46,269</u>	<u>-</u>	<u>46,269</u>	<u>56,522</u>
INCREASE IN NET ASSETS	54,318	54,897	109,215	124,564
NET ASSETS - BEGINNING OF YEAR	<u>299,210</u>	<u>451,824</u>	<u>751,034</u>	<u>626,470</u>
NET ASSETS - END OF YEAR	<u>\$ 353,528</u>	<u>\$ 506,721</u>	<u>\$ 860,249</u>	<u>\$ 751,034</u>

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

AEG FOUNDATION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)
(See Accountants' Review Report)**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 109,215	\$ 124,564
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Net Investment Income	(83,675)	(122,041)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(354)	732
Prepaid Expenses	578	(949)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(1,783)	1,774
Deferred Income	1,674	450
Net Cash Provided By Operating Activities	<u>25,655</u>	<u>4,530</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Dividend and Interest Income Reinvested	(4,309)	(3,592)
Purchases of Investments	(89,408)	(44,271)
Proceeds from Sale of Investments	61,582	46,034
Net Cash (Used In) Investing Activities	<u>(32,135)</u>	<u>(1,829)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,480)	2,701
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>24,366</u>	<u>21,665</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 17,886</u>	<u>\$ 24,366</u>

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

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 (With Comparative Totals for June 30, 2011) (See Accountants' Review Report)

1 Summary of Significant Accounting Policies.

Nature of Organization. AEG Foundation (Foundation) was organized in 1992 as a not-for-profit organization dedicated to advancing research, education, public awareness, and technology transfer in the field of environmental and engineering geology through support of publications, speakers, programs, research grants, scholarships, and maintenance of archival data. The programs of the Foundation are supported by contributions.

Basis of Accounting. The financial statements of the Foundation are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities. The Foundation matches revenues from conferences, meetings and grants against the expenses incurred from these sources.

Comparative Financial Information. The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. The prior year presentation does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the reviewed financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Financial Statement Presentation. Financial statement presentation follows the requirements under Generally Accepted Accounting Principles for *Not-for-Profit Organizations*. Under this presentation the Foundation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted net assets. Unrestricted net assets come primarily from donations and contributions and are used by the Foundation for program or supporting services. Temporarily restricted net assets are those net assets whose use has been limited by donors to later periods of time, after specified dates or to specified purposes. Permanently restricted net assets must be maintained in perpetuity

Classification of Net Assets.

Unrestricted Net Assets: Unrestricted net assets are not subject to donor imposed stipulations. Revenues are reported as increases in unrestricted net assets, and expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor imposed stipulated purpose has been accomplished and or the stipulated time period has elapsed, are reported as reclassifications between the applicable classes of net assets. This category also includes separately maintained funds established by the Board of Directors.

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

(See Accountants' Review Report)

1 Summary of Significant Accounting Policies. (Continued)

Classification of Net Assets. (Continued)

Temporarily Restricted Net Assets: Temporarily restricted net assets include gifts, income, and gains which can be expended, but for which restrictions have not yet been met. Such restrictions include restrictions where donors have specified the purpose for which the net assets are to be spent, or time limitations imposed by donors or implied by the nature of the gift or by interpretations of law. The Board of Directors has the ability to impose temporary restrictions on net assets.

Permanently Restricted Net Assets: Permanently restricted net assets include gifts required by donors to be permanently retained.

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board of Directors to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Expense Allocation. 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.

Contributions. The Foundation records unconditional contributions in accordance with the requirements of Generally Accepted Accounting Principles for not-for-profit entities. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported 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 purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activity as Net Assets Released from Restrictions.

Donated Services. Donated services are recognized as contributions in accordance with Generally Accepted Accounting Principles for not-for-profit entities, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such services.

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

(See Accountants' Review Report)

1 Summary of Significant Accounting Policies. (Continued)

Advertising Costs. The Foundation expenses advertising costs in the period incurred, as the benefits derived from the advertising expense are realized in the current period. For the years ended June 30, 2011 and 2012, there was no advertising expense.

Cash and Cash Equivalents. The Foundation considers cash and cash equivalents to be highly liquid instruments with maturity dates of three months or less from the date of the purchase.

Recognition of Revenue and Support. The Foundation reports unconditional gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activity as Net Assets Released from Restrictions.

Revenue collected in advance is reported as deferred income and is recognized in subsequent periods when earned.

Donations of assets are recorded at estimated fair market value.

Investments. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair market values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Net investment return consists of the Foundation's interest and dividend income, realized and unrealized capital gains and losses generated from the Foundation's investments, less investment management and custodial fees.

Financial Instruments and Credit Risk. The Foundation maintains cash balances in highly respected banks and financial institutions. Accounts at each bank are guaranteed by the FDIC up to \$250,000 per bank. At June 30, 2011 and 2012, the Foundation had no deposits with banks that were uninsured. However, at June 30, 2012 and 2011, the Foundation had \$14,552 and \$14,646, respectively, in a dollar-denominated money market mutual fund, which is not insured. The Foundation has never experienced any losses related to these accounts.

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

(See Accountants' Review Report)

1 Summary of Significant Accounting Policies. (Continued)

Financial Instruments and Credit Risk. (Continued)

The Foundation has significant investments in bond and index funds, and is therefore subject to concentrations of credit risk. Investments are made by investment managers engaged by the Foundation and the investments are monitored by the management of the Foundation in accordance with a board approved Investment Policy. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

Credit risk associated with accounts receivable is limited because the Foundation has had a history of high collectability. The Foundation's investments are made primarily by investment managers engaged by the Foundation, and are monitored by management and the Board of Directors. Though the fair values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long term welfare of the Foundation.

Fair Value Measurements. The Foundation follows the methods of fair value measurement described in ASC 820 "Fair Value Measurements and Disclosures" to determine the fair values of all assets and liabilities required to be measured at fair value. Fair value is based on the price that would be received to sell an asset or paid to transfer liability, i.e., the "exit price," in a orderly transaction between market participants at the measurement date. A hierarchy prioritizes the observable and unobservable inputs used to measure fair value into three broad levels, as described below:

- Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.
- Level 3 – Unobservable inputs are used when little or no market data is available.

In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

(See Accountants' Review Report)

1 Summary of Significant Accounting Policies. (Continued)

Income Tax Status. The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Organization's tax exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(1)(A)(vi), and has been classified as an organization other than a private foundation under Section 509(a)(1).

In accordance with Generally Accepted Accounting Principles, a private entity is required to disclose any material uncertain tax positions that management believes does not meet a "more-likely-than-not" standard of being sustained under an income tax audit and to record a liability for any such taxes including penalty and interest. Management of the Foundation has not identified any uncertain tax positions that would require the recording of a liability mentioned above, or further disclosure at June 30, 2012 and 2011. The years still open for income tax examinations are June 30, 2009 through 2012 for Federal purposes.

Accounts Receivable. Accounts receivable are recorded when invoices are issued. Receivables are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on the Foundation's prior payment history, the existing economic conditions, and upon individual contractual terms. The accounts are continually reviewed by management. Management believes no allowance for doubtful accounts is necessary at June 30, 2012 and 2011.

Variable Interest Entities. The "Consolidation" topic of the Accounting Standards Codification requires variable interest entities to be consolidated for financial statement presentation. In addition, there are several disclosure requirements in the notes to the financial statements. The objective is to improve the financial reporting by companies involved in variable interest entities. Management of the Foundation has not identified any variable interest entities that require consolidation.

Subsequent Events. In preparing its financial statements, the Foundation has evaluated subsequent events through August 23, 2012, which is the date the financial statements were available to be issued. Management of the Foundation has not identified any material subsequent events that require reporting or disclosure.

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

(See Accountants' Review Report)

2 Fair Value Measurements.

Assets at Fair Value as of June 30, 2012

	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Corporate Bonds (1)	\$ -	\$ 53,851	\$ -	\$ 53,851
Fixed Income:				
Mutual Funds (2)	40,445	-	-	40,445
Equity Mutual Funds (2)	31,590	-	-	31,590
Common Equities (2)	370,751	-	-	370,751
Fixed Income Equities (2)	289,148	-	-	289,148
Real Estate:				
Investment Trust (2)	58,300	-	-	58,300
Total	<u>\$ 790,234</u>	<u>\$ 53,851</u>	<u>\$ -</u>	<u>\$ 844,085</u>

Assets at Fair Value as of June 30, 2011

	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Corporate Bonds (1)	\$ -	\$ 53,004	\$ -	\$ 53,004
Fixed Income:				
Mutual Funds (2)	38,784	-	-	38,784
Equity Mutual Funds (2)	54,410	-	-	54,410
Common Equities (2)	223,015	-	-	223,015
Fixed Income Equities (2)	306,632	-	-	306,632
Real Estate:				
Investment Trust (2)	52,430	-	-	52,430
Total	<u>\$ 675,271</u>	<u>\$ 53,004</u>	<u>\$ -</u>	<u>\$ 728,275</u>

⁽¹⁾The fair values of investments in debt securities (corporate bonds) are based on current interest rates for debt instruments with similar characteristics, as estimated by the custodians of the securities. Management believes that the pricing models utilized by the custodians provide reasonable estimations of the fair values of the securities

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

(See Accountants' Review Report)

2 Fair Value Measurements. (Continued)

⁽²⁾The fair values of direct investments in equity securities, exchange-traded investment funds, or investments in fixed income and equity mutual funds are based upon quoted market prices for identical securities in active markets, and published redemption values at the close of business at June 30, 2012 and 2011.

3 Net Investment Income.

Net investment income consisted of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Dividend and Interest Income	\$ 44,999	\$ 40,974
Net Realized and Unrealized gains	38,676	81,067
	<u>\$ 83,675</u>	<u>\$ 122,041</u>

4 Temporarily Restricted Net Assets.

Temporarily restricted net assets consist of contributions restricted by donors for particular purposes described below at June 30:

	<u>2012</u>	<u>2011</u>
Scholarships:		
Marliave Fund	\$ 33,449	\$ 25,098
Beardsley-Kuper	54,560	51,014
Mathewson Fund	14,281	13,652
Stout Fund	54,703	52,192
Lemke Fund	48,409	45,841
Tilford Fund	105,424	96,754
Lecturers/Speakers:		
Jahns Fund	17,580	11,929
Education:		
Shlemon Fund	91,111	80,645
Publications:		
Legget Fund	20,886	17,290
Research:		
Research Fund	66,318	57,409
Total	<u>\$ 506,721</u>	<u>\$ 451,824</u>

AEG FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

(With Comparative Totals for June 30, 2011)

(See Accountants' Review Report)

4 Temporarily Restricted Net Assets. (Continued)

Temporarily restricted net assets were released from restrictions as follows during the years ended June 30:

	<u>2012</u>	<u>2011</u>
Scholarships:		
Marliave Fund	\$ 57	\$ 4,057
Beardsley-Kuper	6,218	3,772
Mathewson Fund	1,500	-
Stout Fund	5,226	5,184
Lemke Fund	2,400	1,250
Tilford Fund	5,000	6,000
Lecturers/Speakers:		
Jahns Fund	-	10,500
Education:		
Shlemon Fund	3,000	-
Publications:		
Legget Fund	7,833	4,918
Research:		
Research Fund	-	3,386
Operations:		
Operational Fund	9,596	7,188
Total	<u>\$ 40,830</u>	<u>\$ 46,255</u>

5 Related Party Transactions.

The Foundation is affiliated with the Association of Environmental and Engineering Geologists (the "Association"), the primary purpose of which is to promote the value and importance of geologic practice in detecting, containing, and remediating contaminated soil and ground water; recognize and mitigate hazardous geologic processes to promote public safety and welfare; and siting, planning, designing, constructing, and maintaining engineered works.

During the year ended June 30, 2012 and 2011, the Foundation paid \$4,137 and \$10,500, respectively, to the Association for speaker and administrative expenses. The Association remitted to the Foundation \$24,956, and \$15,151, respectively for individual donations collected by the Association on behalf of the Foundation for the year ended June 30, 2012 and 2011. At June 30, 2012 and 2011, \$919 and \$615, respectively, was due from the Association to the Foundation.