

C/U of 8305.00



Financial Statements
June 30, 2016 and 2015
Colorado State
University Ventures, Inc.



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By Justin L. Smith at 12:05 pm, Oct 25, 2016

Colorado State University Ventures, Inc.
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June 30, 2016 and 2015

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
Colorado State University Ventures, Inc.
Fort Collins, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the Colorado State University Ventures, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, the related statements of activities and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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 auditor considers 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.

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 the Colorado State University Ventures, Inc. as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Fort Collins, Colorado
October 12, 2016

Colorado State University Ventures, Inc.
 Statements of Financial Position
 June 30, 2016 and 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| Assets | | |
| Cash and cash equivalents | \$ 936,936 | \$ 1,592,527 |
| Certificate of deposit | 500,000 | - |
| Accounts receivable | 5,090 | 100,718 |
| Prepaid expenses | 2,530 | 4,740 |
| Notes receivable, net | - | 40,260 |
| Property and equipment, net | - | 9,265 |
| Total assets | \$ 1,444,556 | \$ 1,747,510 |
| Liabilities and Net Assets | | |
| Royalties payable | \$ 69,126 | \$ 97,293 |
| Accrued expenses and other liabilities | 109,812 | 95,508 |
| Total liabilities | 178,938 | 192,801 |
| Net Assets | | |
| Unrestricted | 1,265,618 | 1,554,709 |
| Total liabilities and net assets | \$ 1,444,556 | \$ 1,747,510 |

Colorado State University Ventures, Inc.
Statement of Activities
Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|-------------------------------|--------------|--------------|
| Revenue | | |
| Administrative fee - CSU | \$ 2,300,000 | \$ 2,247,000 |
| Royalty revenue | 2,382,123 | 4,780,883 |
| Grant revenue | 145,203 | 12,559 |
| Interest income | 1,613 | 3,102 |
| Consulting revenue | - | 195,690 |
| Miscellaneous revenue | 30,356 | 567 |
| Total revenue | 4,859,295 | 7,239,801 |
| Expenses and losses | | |
| Technology transfer | 3,177,037 | 3,149,682 |
| Royalty expense | 1,826,146 | 2,727,490 |
| Grant expenditures | 145,203 | 12,559 |
| Loss on disposal of equipment | - | 28,073 |
| Total expenses and losses | 5,148,386 | 5,917,804 |
| Change in Net Assets | (289,091) | 1,321,997 |
| Net Assets, Beginning of Year | 1,554,709 | 232,712 |
| Net Assets, End of Year | \$ 1,265,618 | \$ 1,554,709 |

Colorado State University Ventures, Inc.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

| | 2016 | 2015 |
|---|--------------|--------------|
| Cash flows from Operating Activities | | |
| Cash received from CSU | \$ 2,395,628 | \$ 2,176,376 |
| Cash received from royalties | 2,452,739 | 4,739,673 |
| Cash received from grants and consulting | 145,203 | 208,816 |
| Interest received | 1,613 | 3,102 |
| Cash paid to employees and suppliers | (5,150,774) | (5,790,922) |
| Net cash from (used for) operating activities | (155,591) | 1,337,045 |
| Cash flows from Investing Activities | | |
| Purchase of certificate of deposit | (500,000) | - |
| Net cash from (used for) investing activities | (500,000) | - |
| Net increase (decrease) in cash and cash equivalents | (655,591) | 1,337,045 |
| Cash and cash equivalents at the beginning of the year | 1,592,527 | 255,482 |
| Cash and cash equivalents at the end of the year | \$ 936,936 | \$ 1,592,527 |
| Reconciliation of change in net assets to net cash from (used for) operating activities | | |
| Change in net assets | \$ (289,091) | \$ 1,321,997 |
| Adjustments to reconcile change in net assets to net cash from (used for) operating activities | | |
| Depreciation | 9,265 | 13,491 |
| Loss on disposal of equipment | - | 28,073 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 135,888 | (111,834) |
| Prepaid expenses | 2,210 | - |
| Royalties payable | (28,167) | 97,293 |
| Accrued expenses and other liabilities | 14,304 | (11,975) |
| Net Cash from (used for) Operating Activities | \$ (155,591) | \$ 1,337,045 |

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Colorado State University Ventures, Inc. (CSU Ventures or Ventures) was organized in February 2007 to assist in the promotion, development, improvement, and expansion of the facilities and programs of the Colorado State University System (CSUS). The sole voting member of the nonprofit corporation is Colorado State University Research Foundation (CSURF), a nonprofit organization organized to aid the CSUS universities in their research and educational efforts.

CSU Ventures is a 501(c)(3) non-profit corporation that actively supports and promotes the transfer of Colorado State University (CSU) research and innovations into the marketplace for the benefit of society. CSU Ventures: (1) serves CSU faculty and researchers who wish to protect and license intellectual property; (2) builds relationships with industries and investors seeking to engage with CSU and; (3) leverages CSU innovation to foster business formation and enhance regional economic vitality.

Cash and Cash Equivalents

CSU Ventures considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Certificate of Deposit

The Organization holds a certificate of deposit in a local financial institution with an original maturity of one year.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due from royalty agreements and consulting services. Management determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance for uncollectible accounts has been established as management considers accounts receivable to be fully collectible at June 30, 2016 and 2015.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of CSU Ventures and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by CSU Ventures' Board of Directors. There were no temporarily restricted net assets as of June 30, 2016 and 2015.

CSU Ventures reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of CSU Ventures. There were no permanently restricted net assets as of June 30, 2016 and 2015

Revenue and Revenue Recognition

Revenue is recognized when earned. Administrative fees and royalty, grant and consulting revenue received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Income Taxes

CSU Ventures is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Sections 170(b)(1)(A)(iv), and has been determined not to be a private foundation under Sections 509(a)(1). CSU Ventures is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that CSU Ventures is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Financial Instruments and Credit Risk

CSU Ventures manages deposit concentration risk by placing cash, money market accounts and investments in certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, CSU Ventures has not experienced losses in any of these accounts.

Note 2 - Notes Receivable

In response to their mission to actively support and promote the transfer of research and innovations into the marketplace, CSU Ventures enters into various forms of agreements with technology licensees, which may include convertible notes receivable. The goal of such agreements is to monetize the potential successful efforts of licensees as a reflection of the support efforts currently expended by Ventures' team.

Notes receivable terms include interest (ranging from 5% to 8% per annum) on any outstanding principal balances, specified maturity dates (ranging from 12 to 32 months) and conversion features triggered by Qualified Financing or Corporate Transaction events of the licensee. Note terms also include voluntary conversion by Ventures if a Financing or Transaction does not occur prior to the stated maturity date.

Licensees are typically startup entities and risk of repayment is significant with respect to monies advanced on their behalf. In addition, any equity position gained in such entities is likely a minority interest and difficult to value as shares are not publicly traded. Due to these circumstances, CSU Ventures does not record note receivable agreements and instead includes all costs associated with the support of technology licensees as technology transfer costs in the Statement of Activities. Should conversion of an agreement result in ownership of corporate shares, such shares are carried at a de minimis value until such shares are publicly traded. At that time, shares are carried at market value as determined at each reporting period.

Note 3 - Property and Equipment

Property and equipment consisted of the following at June 30, 2016 and 2015:

| | 2016 | 2015 |
|-------------------------------|-------------|-----------------|
| Administrative equipment | \$ 44,474 | \$ 44,474 |
| | 44,474 | 44,474 |
| Less accumulated depreciation | (44,474) | (35,209) |
| | <u>\$ -</u> | <u>\$ 9,265</u> |

Note 4 - Related Party Transactions

CSU Ventures received administrative fees from CSU of \$2,300,000 and \$2,247,000 during the years ended June 30, 2016 and 2015, respectively.

CSU Ventures reimbursed certain costs of administrative services to CSURF of \$169,089 and \$151,588 during the years ended June 30, 2016 and 2015, respectively.

Note 5 - Subsequent Events

Management has evaluated subsequent events through October 12, 2016, the date the financial statements were available to be issued.

In July 2016, CSU Ventures settled litigation with XY, Inc. regarding certain patent rights. CSU Ventures was awarded \$1,650,000 to be paid in two installments, with the first installment being received in July 2016. The second installment is due no later than December 24, 2016.