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Consolidated Financial Statements
June 30, 2016 and 2015

Colorado State University
Research Foundation



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Colorado State University Research Foundation

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June 30, 2016 and 2015

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Trustees
Colorado State University Research Foundation
Fort Collins, Colorado

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Colorado State University Research Foundation and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying individual financial statements of Colorado State University Research Foundation and Colorado State University Ventures, Inc. but not CSURF AC. Such individual financial statements comprise the individual statements of financial position as of June 30, 2016 and 2015, and the related individual statements of activities and cash flows for the years then ended, and the related notes to the individual financial statements. We have also compiled the financial statements of CSURF AC as discussed in this report under the heading "Report on the Compiled 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 consolidated 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.

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Opinion

In our opinion, the accompanying consolidating financial statements present fairly, in all material respects, the financial positions as of June 30, 2016 and 2015, and the results of changes in net assets and cash flows for the years then ended of (1) Colorado State University Research Foundation and subsidiaries, consolidated, and (2) Colorado State University Research Foundation and Colorado State University Ventures, Inc. but not CSURF AC, whose financial statements we compiled, as discussed in the following paragraphs, all in accordance with accounting principles generally accepted in the United States of America.

Report on the Compiled Financial Statements

Management is responsible for the accompanying financial statements of CSURF AC, which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the twelve month periods then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants (AICPA). We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on the financial statements of CSURF AC.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole and individually of Colorado State University Research Foundation and Colorado State University Ventures, Inc. but not CSURF AC. The supplementary information on pages 20 through 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated and individual financial statements. The information (as noted) has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Fort Collins, Colorado
October 12, 2016

Colorado State University Research Foundation
Consolidated Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 5,958,246	\$ 2,747,344
Certificates of deposit	1,250,000	-
Investments	55,790	2,438,378
Accounts receivable	230,058	635,412
Cattle inventory	103,125	122,100
Direct financing lease	10,408,836	10,708,854
Construction in progress	6,026,068	2,064,150
Property and equipment, net	46,446,175	49,892,673
Equity interest in cattle ranch	-	4,421,570
Restricted assets	-	129,651
Property held for Colorado State University	5,059,474	4,799,700
Due from INTO-CSU, LLC	952,500	252,500
Prepaid and other assets	343,998	389,443
	\$ 76,834,270	\$ 78,601,775
Liabilities and Net Assets		
Accounts payable	\$ 127,038	\$ 152,506
Accrued expenses	742,004	619,825
Construction retainage	481,833	79,986
Security deposits - rentals	188,017	193,142
Other liabilities	532,134	-
Lines of credit	803,788	1,763,311
Deferred revenue	150,000	57,417
Trust funds payable	-	129,614
Property held for Colorado State University	5,059,474	4,799,700
Real estate loans and mortgages	51,985,256	53,534,353
Due to INTO-CSU, LLC	952,500	252,500
	61,022,044	61,582,354
Net Assets		
Unrestricted		
Undesignated	4,643,929	3,194,053
Invested in property and direct financing lease, net of related debt	10,895,823	9,131,324
Designated for agriculture	102,360	102,360
	15,642,112	12,427,737
Noncontrolling interest in affiliate	7,000	7,000
	15,649,112	12,434,737
Temporarily restricted	-	4,421,570
Permanently restricted	163,114	163,114
	15,812,226	17,019,421
	\$ 76,834,270	\$ 78,601,775

See Notes to Consolidated Financial Statements

Colorado State University Research Foundation
Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015

	2016			2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	
Operating Revenue							
Property rentals and related income	\$ 6,266,667	-	\$ -	\$ 6,266,667	\$ 6,399,506	\$ -	\$ 6,399,506
Royalty revenue	2,382,123	-	-	2,382,123	4,780,883	-	4,780,883
Program revenue - Todos Santos	173,284	-	-	173,284	-	-	-
Forgiveness of debt - Todos Santos	3,130,469	-	-	3,130,469	-	-	-
Grants and other	152,603	-	-	152,603	131,797	-	131,797
Administrative fees - CSU	4,857,040	-	-	4,857,040	3,706,597	-	3,706,597
Revenue from ranching operations	222,450	-	-	222,450	242,819	-	242,819
Other revenue	295,128	-	-	295,128	296,612	-	296,612
Net assets released from restriction	4,421,570	(4,421,570)	-	-	-	-	-
Total operating revenue	21,901,334	(4,421,570)	-	17,479,764	15,558,214	-	15,558,214
Operating Expenses							
Property rentals and related expenses	5,384,202	-	-	5,384,202	4,571,773	-	4,571,773
Royalty expense	1,826,146	-	-	1,826,146	2,727,490	-	2,727,490
Technology Transfer	3,067,278	-	-	3,067,278	3,086,782	-	3,086,782
Program expenses - Todos Santos	33,943	-	-	33,943	-	-	-
Grant expenditures	145,203	-	-	145,203	85,501	-	85,501
General and administrative	1,764,331	-	-	1,764,331	1,361,382	-	1,361,382
Expenses of ranching operations	178,517	-	-	178,517	68,661	-	68,661
Total operating expenses	12,399,620	-	-	12,399,620	11,901,589	-	11,901,589
Change in Net Assets - Operating	9,501,714	(4,421,570)	-	5,080,144	3,656,625	-	3,656,625
Change in Net Assets - Nonoperating							
Interest income	330,672	-	-	330,672	85,605	-	85,605
Interest expense	(1,802,478)	-	-	(1,802,478)	(1,428,347)	-	(1,428,347)
Gain on sale equity interest in cattle ranch	7,868,900	-	-	7,868,900	-	-	-
(Loss) on sale of equipment	(405,169)	-	-	(405,169)	(30,323)	-	(30,323)
Unrealized gain on marketable securities	11,206	-	-	11,206	28,242	-	28,242
Total change in in net assets - nonoperating	6,003,131	-	-	6,003,131	(1,344,823)	-	(1,344,823)
Change in Net Assets Prior to Transfer	15,504,845	(4,421,570)	-	11,083,275	2,311,802	-	2,311,802
Transfer to CSU Foundation	(12,290,470)	-	-	(12,290,470)	-	-	-
Change in Net Assets	3,214,375	(4,421,570)	-	(1,207,195)	2,311,802	-	2,311,802
Net Assets, Beginning of Year	12,434,737	4,421,570	163,114	17,019,421	10,122,935	4,421,570	14,707,619
Net Assets, End of Year	\$ 15,649,112	\$ -	\$ 163,114	\$ 15,812,226	\$ 12,434,737	\$ 4,421,570	\$ 17,019,421

See Notes to Consolidated Financial Statements

Colorado State University Research Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from royalties	\$ 2,422,383	\$ 4,780,883
Cash received from administrative fees	5,542,974	3,858,185
Cash received from property rentals	6,266,667	6,399,506
Cash received from programs	173,284	-
Cash received from other activities	1,011,669	770,802
Cash paid to employees	(3,094,446)	(2,912,394)
Cash paid to suppliers	(7,635,856)	(9,538,676)
Cash paid to grants	(145,203)	-
Cash transferred to CSU Foundation	(12,290,470)	-
Interest received	330,672	88,705
Interest paid	(1,802,478)	(1,428,347)
Net cash (used) provided by operating activities	(9,220,804)	2,018,664
Cash flows for investing activities:		
Sale or maturity of investments	2,382,588	614,992
Purchase of certificates of deposit	(1,250,000)	-
Purchase of property and equipment	(1,559,777)	(834,738)
Proceeds from sale of equity interest in cattle ranch	12,290,470	-
Proceeds from the sale of property and equipment	5,615,268	-
Payments received from financing lease	300,018	91,146
Net cash provided (used) by investing activities	17,778,567	(128,600)
Cash flows from financing activities:		
Advances from line of credit	687,481	1,907,172
Borrowings under real estate loans and mortgages	577,536	3,419,307
Principal payments on		
Lines of credit	(1,647,004)	(2,146,025)
Real estate loans and mortgages	(4,964,874)	(4,265,652)
Net cash (used) by financing activities	(5,346,861)	(1,085,198)
Net increase in cash and cash equivalents	3,210,902	804,866
Cash and cash equivalents at beginning of year	2,747,344	1,942,478
Cash and cash equivalents at end of year	\$ 5,958,246	\$ 2,747,344

Continued on next page

Colorado State University Research Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015

Continued from prior page

	2016	2015
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ (1,207,195)	\$ 2,311,802
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation and amortization	1,393,201	1,213,250
Unrealized (gain) loss on investments	(11,206)	(28,245)
Loss on sale of property and equipment	405,169	30,323
(Gain) on sale of equity interest in cattle ranch	(7,868,900)	-
Forgiveness of debt - Todos Santos	(3,130,469)	-
Changes in operating assets and liabilities		
Accounts receivable	860,222	(1,571,644)
Prepaid and other assets	56,651	(4,076)
Cattle inventory	18,975	(28,500)
Accounts payable	53,111	102,361
Accrued expenses	122,179	101,428
Security deposits - rentals	(5,125)	(2,035)
Deferred revenue	92,583	(106,000)
Net Cash Provided by Operating Activities	\$ (9,220,804)	\$ 2,018,664
Supplemental disclosure of non-cash transactions:		
Property acquired through assumption of debt	\$ 5,869,918	\$ 6,092,781
Donated property	\$ 259,774	\$ 270,000

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Colorado State University Research Foundation (CSURF) was organized in 1941 to aid the universities governed by the Board of Governors of the Colorado State University System (CSUS, including Colorado State University and Colorado State University – Pueblo) in their research and educational efforts. CSURF provides property and equipment leasing, debt financing through mortgage debt service, and land acquisition, development and property management.

Colorado State University Ventures, Inc. (CSU Ventures) was organized in February 2007 to assist in the promotion, development, improvement and expansion of the facilities and programs of CSUS. The sole voting member is CSURF. CSU Ventures is a 501(c)(3) nonprofit corporation that actively supports and promotes the transfer of 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.

In 2014, CSURF formed an entity in Mexico, CSURF de Mexico, Association Civil (CSURF AC) to assist the University in development of a campus in Todos Santos, Mexico. The CSURF portion of the development consists of housing, dining facilities and research farm. Operations and program revenue began during the year ended June 30, 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of CSURF, CSU Ventures and CSURF AC because CSURF has both control and an economic interest in each organization. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as “the Organization.”

Cash and Cash Equivalents

The Organization 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.

Certificates of Deposit

The Organization holds certificates of deposit in a local financial institution with original maturities of one year.

Joint Venture – INTO-CSU, LLC

CSURF is a member in a Joint Venture, INTO-CSU, LLC. The purpose of the Joint Venture is to create an avenue for international students to attend CSU in a number of undergraduate and graduate Pathways Programs. INTO-CSU, LLC helps students integrate into classes as well as housing on campus. CSURF’s primary role is to financially support the joint venture.

Receivables and Credit Policies

Accounts receivable consist primarily of non-interest bearing amounts due from rental of real estate and expense reimbursements. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. No allowance for doubtful accounts has been established at June 30, 2016 and 2015 as management considers the amounts to be fully collectable.

Cattle Inventory

Inventory consists of raised cattle and is stated at the lower of cost (first-in, first-out) or net realizable value. The cost of raised cattle consist of ranch operations and the cost of breeding cattle and raising calves.

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 and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization 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.

Management reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2016 and 2015.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

CSURF may participate in ownership of technology companies that develop technology within the University environment. CSURF accounts for these ownership interests at nominal value, as the companies may be in the development stage, ownership is closely held, and few ownership transactions take place. If the shares of such entities become publicly traded, so that fair value can be determined, CSURF reports such ownership interests at fair value.

Equity Interest in Cattle Ranch

CSURF owned a 50% interest in C.C. Davis and Co., LLC, a Wyoming limited liability company, which owned the 50,000-acre Y-Cross Ranch, located in Horse Creek, Wyoming. The investment was accounted for using the equity method of accounting until its sale during the year ended June 30, 2016 to a third party.

Restricted Assets

CSURF administered several trust funds during the years ended June 30, 2016 and 2015. In exchange for the administrative services provided, CSURF received an administrative fee (a percentage of interest earned on the restricted cash account). These trusts are reflected as restricted assets and as liabilities in the accompanying financial statements as of June 30, 2015. The administrative fee is recognized in the period earned. During the year ended June 30, 2016, these trust funds were dissolved.

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 the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's Board of Directors. There are no temporarily restricted net assets at June 30, 2016.

Contributions are reported 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 statement 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 our actions. The restrictions stipulate that resources be maintained permanently but permit us to expend the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Revenue is recognized when earned.

Rentals, administrative fees and royalty, grant and consulting revenue received in advance are deferred to the applicable period in which the related services are performed.

CSU Ventures is assigned the rights to royalties from inventions produced by the faculty and staff of CSU. The assignment is in exchange for the costs incurred in pursuing economically viable applications of the inventions and protection of such rights. Under the arrangements, generally 60% to 80% of the net royalty revenue is shared with the inventors and CSU.

Income Taxes

CSURF 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). CSURF 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 CSURF is subject to unrelated business income tax and has filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS for both years ended June 30, 2016 and 2015. CSURF's Form 990-T are no longer subject to tax examination for years prior to 2012.

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.

CSURF AC has been incorporated as a nonprofit association under the Mexican corporate laws since October 2013. In addition, the tax authorities have approved CSURF AC as a nonprofit entity under the Mexican tax rules. A nonprofit status allows issuing tax-deductible receipts and treating such income as tax exempt for income tax purposes. Annual reporting before the tax authorities is required to keep the income tax exempt status.

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

The Organization manages deposit concentration risk by placing cash, money market accounts, and 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, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated and individual financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets and primarily consisted of combining immaterial amounts into "other" categories.

Note 2 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to management's assessment of the quality, risk or liquidity profile of the asset.

Colorado University Research Foundation
Notes to Consolidated Financial Statements
June 30, 2016 and 2015

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Certificates of deposit, traded – valued using pricing models based on credit quality, time to mature, stated interest rates and market-rate assumptions.

Common stock – valued using readily determinable fair values in the open market.

The following represents assets measured at fair value on a recurring basis at June 30, 2016 and 2015:

	<u>Total</u>	<u>Fair Value Measurements at Report Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>At June 30, 2016</u>				
Common stock	\$ 55,790	\$ 55,790	\$ -	\$ -
<u>At June 30, 2015</u>				
Money market funds	\$ 1,705,033	\$ -	\$ -	\$ -
Common stock	44,584	44,584	-	-
Certificates of deposit, traded	688,761	-	688,761	-
	<u>\$ 2,438,378</u>	<u>\$ 44,584</u>	<u>\$ 688,761</u>	<u>\$ -</u>

Note 3 - Property and Equipment

Property and equipment, which is primarily held for rental, consisted of the following at June 30, 2016 and 2015:

	2016	2015
Land	\$ 15,277,752	\$ 18,314,987
Buildings and improvements	40,506,034	39,839,952
Furniture and equipment	1,202,888	1,239,473
Breeding herd	387,211	350,317
	57,373,885	59,744,729
Less accumulated depreciation	(10,927,710)	(9,852,056)
	\$ 46,446,175	\$ 49,892,673

Construction in progress consists of the following at June 30, 2016 and 2015:

	2016	2015
Todos Santos	\$ -	\$ 1,828,014
Other	20,079	236,136
Center Avenue - Technology	6,005,989	-
Total	\$ 6,026,068	\$ 2,064,150

The Organization has idle property on hand from time to time due to lease termination, the need for significant repairs or for other various reasons. Property that was idle at June 30, 2016 and 2015 totaled \$2,525,355 and \$2,252,239, respectively. The cost and accumulated depreciation (taken until the property became idle) has been included in the depreciable assets listed above as the amounts are not significant.

Note 4 - Direct-Financing Lease

CSURF entered into a direct-financing lease with the CSU Board of Governors for the Powerhouse Energy Institute. The direct-financing lease has an original 10 year term maturing March 31, 2025, with the option to renew for one additional 10 year term at which time the lease payments will be adjusted. CSU also has the option, at any time, to pay off the lease at an amount sufficient to fulfill the outstanding principal and interest on CSURF's note payable. The direct-financing lease consists of monthly payments of principal and interest beginning April 2015, with interest at 2.85%.

As of June 30, 2016, the future minimum lease payments to be received by CSURF are as follows:

Years ending June 30,		
2017	\$	606,348
2018		606,348
2019		606,348
2020		606,348
2021		606,348
Thereafter		<u>9,681,295</u>
		12,713,035
Less amount representing interest		<u>(2,304,199)</u>
	\$	<u><u>10,408,836</u></u>

Note 5 - Equity Interest in Cattle Ranch

Since 1997, CSURF owned a 50% equity interest in C.C. Davis and Co., LLC (the LLC), a Wyoming limited liability company that owned the Y Cross Ranch. Equal interest in the LLC was gifted to CSURF and the University of Wyoming Foundation. The purpose of the gift was to generate scholarships and internships for students through net revenues generated from ranch operations, and to provide a working laboratory for university students to study ranching and resource management. During the year ended June 30, 2016, the ranch was sold to a third party for \$23,503,553 less closing and other fees of which CSURF received \$12,910,990. After deducting various costs, CSURF transferred \$12,290,470 to CSU Foundation so that the funds could continue to be used for the underlying purpose of the initial gift.

Note 6 - Property Held for Colorado State University

CSURF holds title to certain properties that are held solely for the benefit of various CSU departments. CSURF acts in an agency capacity. These properties approximated \$5,060,000 and \$4,800,000 at June 30, 2016 and 2015, respectively.

Note 7 - Investment in CSURF AC

CSURF formed a subsidiary in Mexico, CSURF de Mexico, Association Civil (CSURF AC) in which to hold the development of housing, dining and research facilities in Todos Santos, Mexico as a CSU satellite campus. The ownership of the real property in Mexico is separate from CSURF AC and is held by a Mexican Trust. The terms of the Trust agreement, should the Trust be terminated, requires transfer of the property to the development partner or sale of the property and distribution of the proceeds.

CSURF AC entered into certain agreements with a development partner (MIRA) whereby CSURF AC borrowed funds from MIRA under terms of note obligations for the development of the property. As of June 30, 2015, CSURF AC had drawn \$3,031,673 under these debt obligations.

The land for the campus and research farm was to be transferred to the Trust by MIRA in various phases upon completion. During the year ended June 30, 2016, development of the campus was substantially complete and, upon transfer of the property, MIRA forgave debt totaling \$3,130,469.

Note 8 - Lines of Credit

Lines of credit consisted of the following at June 30, 2016 and 2015:

	2016	2015
Equipment leasing line of credit, \$1,000,000, quarterly payments of accrued interest, interest rate of 3.75%, maturity date of December 2016, collateralized by all accounts and equipment except those held in a trust, fiduciary or bond capacity.	\$ 153,788	\$ 207,796
USC Building \$3,000,000 line of credit, principal plus interest due at maturity, interest rate adjusted to the Prime Rate with a floor of 3.25% and ceiling of 7.95%, maturity date of December 2016, collateralized by a deed of trust and all assignments of rents associated with the property.	650,000	1,555,515
	\$ 803,788	\$ 1,763,311

Note 9 - Real Estate Loans and Mortgages

CSURF borrows to fund the purchase of real estate primarily used for rental activities. A summary of loan obligations is as follows:

Aggregate monthly principal and interest payments	\$ 269,511
Interest rates at June 30, 2016, rates are primarily variable	2.75% - 4.68%
Maturity dates	2017 - 2027

A summary of the principal payments due on the real estate loans and mortgages over the next five years ending June 30:

Years ending June 30,	
2017	\$ 3,120,481
2018	2,661,637
2019	2,450,853
2020	2,379,912
2021	2,001,946
	\$ 12,614,829

Note 10 - Operating Leases

CSURF as Lessor:

CSURF leases various residential and commercial properties under operating lease agreements which generate rental income. A summary of the agreements is as follows:

Aggregate annual base income	\$ 3,163,822
Maturity dates	2016-2063

Property subject to operating leases is as follows at June 30:

	2016	2015
Land	\$ 9,152,017	\$ 11,086,965
Buildings and improvements	35,743,936	33,836,778
	44,895,953	44,923,743
Less accumulated depreciation	(9,833,549)	(5,758,455)
	\$ 35,062,404	\$ 39,165,288

As of June 30, 2016, future minimum rental revenue under the non-cancelable operating leases having remaining terms in excess of one year are as follows:

Years ending June 30,	
2017	\$ 3,120,481
2018	2,661,637
2019	2,450,853
2020	2,379,912
2021	2,001,946
	\$ 12,614,829

CSURF as Lessee:

CSURF began leasing land in Fort Collins from C.J. Streit during 2000. During the year ended June 30, 2016, the parties reached an agreement to perform a 1031 exchange for two other properties. Monthly rent increased from \$6,667 to \$7,500 upon completion of the exchange.

Note 11 - Permanently Restricted Net Assets

During 1969, CSURF received a gift of approximately 11,650 acres of land, improvements and other assets, valued at \$163,114. The gift of the property, referred to as the Maxwell Ranch, requires that the real estate not be sold or disposed of by CSURF. Accordingly, the gift has been accounted for as permanently restricted net assets. Any net gain or loss generated from the operation of the ranch is recorded in unrestricted net assets.

Note 12 - Board Designated Net Assets

Unrestricted net assets at June 30, 2016 and 2015 represent funds designated for agricultural and animal purposes (the Harper fund), totaling \$102,360.

Note 13 - Related Party Transactions

The President of CSURF serves in the same capacity for Colorado State University Foundation (CSUF) and is the chairman for the Board of Directors of CSU Ventures.

CSURF's general counsel served as an officer of CSURF during the year ended June 30, 2015 and legal expense paid to the attorney during that year totaled \$36,000. Effective July 1, 2015, the attorney retired and thereupon resigned as CSURF's general legal counsel and as an officer of CSURF. Also effective July 1, 2015, the attorney joined CSURF's Board of Trustees.

CSURF sold properties during the year ended June 30, 2016 to the Board of Governors of CSUS for a total sales price of \$6,950,638, resulting in a recorded loss of \$394,298.

CSURF leases various residential and commercial properties to CSU and to the Board of Governors of CSUS under operating lease agreements which generate rental income. CSU is responsible for operating costs associated with the buildings, including maintenance and repairs.

A summary of the agreements is as follows:

Aggregate annual base income	\$ 810,636
Maturity dates	2017-2025

Note 14 - Retirement Plan

CSURF has a defined-contribution money purchase retirement plan, which covers full-time employees who have attained age 21 and have completed one year of service. CSURF contributions, calculated at 10% of employee base compensation up to \$25,000 plus 14.3% over \$25,000 of compensation, were approximately \$401,000 and \$351,000 for the years ended June 30, 2016 and 2015, respectively.

Note 15 - Commitments and Contingencies

Debt Guarantee

CSURF is the guarantor of a loan dated October 1981, which has an outstanding balance of \$34,811 at June 30, 2016. The original loan was between a not-for-profit organization and the Farmer's Home Administration expecting to mature on October 27, 2021. Under the terms of the agreement, CSURF is obligated to make payments on the indebtedness should the borrower become unable. In that situation, the borrower is obligated to transfer the collateral property to CSURF by warranty deed.

Note 16 - Subsequent Events

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

Subsequent to June 30, 2016, CSUV settled litigation with XY, Inc. and was awarded \$1,650,000 to be paid in two installments. The first installment of \$825,000 was received in July 2016.

Colorado State University Research Foundation
Consolidating Statement of Financial Position
June 30, 2016

	CSURF	CSU Ventures	CSURF AC (Compiled)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 4,867,005	\$ 936,936	\$ 154,305	\$ -	\$ 5,958,246
Certificates of deposit	750,000	500,000	-	-	1,250,000
Investments	55,790	-	-	-	55,790
Accounts receivable	224,968	5,090	78,579	(78,579)	230,058
Cattle inventory	103,125	-	-	-	103,125
Direct financing lease	10,408,836	-	-	-	10,408,836
Construction in progress	6,026,068	-	-	-	6,026,068
Property and equipment, net	42,488,347	-	3,957,828	-	46,446,175
Property held for CSU	5,059,474	-	-	-	5,059,474
Investment in CSURF AC	1,115,072	-	-	(1,115,072)	-
Due from INTO-CSU, LLC	952,500	-	-	-	952,500
Prepaid and other assets	216,443	2,530	125,025	-	343,998
	<u>\$ 72,267,628</u>	<u>\$ 1,444,556</u>	<u>\$ 4,315,737</u>	<u>\$ (1,193,651)</u>	<u>\$ 76,834,270</u>
Liabilities and Net Assets					
Accounts payable	\$ 119,438	\$ 69,126	\$ 17,053	\$ (78,579)	\$ 127,038
Accrued expenses	632,192	109,812	-	-	742,004
Construction retainage	481,833	-	-	-	481,833
Security deposits - rentals	188,017	-	-	-	188,017
Other liabilities	532,134	-	-	-	532,134
Lines of credit	803,788	-	-	-	803,788
Deferred revenue	150,000	-	-	-	150,000
Property held for CSU	5,059,474	-	-	-	5,059,474
Real estate loans and mortgages	51,985,256	-	-	-	51,985,256
Due to INTO-CSU, LLC	952,500	-	-	-	952,500
Total liabilities	<u>60,904,632</u>	<u>178,938</u>	<u>17,053</u>	<u>(78,579)</u>	<u>61,022,044</u>
Net Assets					
Unrestricted					
Undesignated	4,159,527	1,265,618	333,856	(1,115,072)	4,643,929
Invested in property and direct finance lease, net of related debt	6,937,995	-	3,957,828	-	10,895,823
Designated for agriculture	102,360	-	-	-	102,360
	<u>11,199,882</u>	<u>1,265,618</u>	<u>4,291,684</u>	<u>(1,115,072)</u>	<u>15,642,112</u>
Noncontrolling interest in affiliate	-	-	7,000	-	7,000
Total unrestricted	<u>11,199,882</u>	<u>1,265,618</u>	<u>4,298,684</u>	<u>(1,115,072)</u>	<u>15,649,112</u>
Permanently restricted	163,114	-	-	-	163,114
Total net assets	<u>11,362,996</u>	<u>1,265,618</u>	<u>4,298,684</u>	<u>(1,115,072)</u>	<u>15,812,226</u>
	<u>\$ 72,267,628</u>	<u>\$ 1,444,556</u>	<u>\$ 4,315,737</u>	<u>\$ (1,193,651)</u>	<u>\$ 76,834,270</u>

Colorado State University Research Foundation
Consolidating Statement of Financial Position
June 30, 2015

	CSURF	CSU Ventures	CSURF AC (Compiled)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 961,620	\$ 1,592,527	\$ 193,197	\$ -	\$ 2,747,344
Investments	2,438,378	-	-	-	2,438,378
Accounts receivable	494,434	140,978	-	-	635,412
Cattle inventory	122,100	-	-	-	122,100
Direct financing lease	10,708,854	-	-	-	10,708,854
Construction in progress	236,136	-	1,828,014	-	2,064,150
Property and equipment, net	47,933,446	9,265	1,949,962	-	49,892,673
Equity interest in cattle ranch	4,421,570	-	-	-	4,421,570
Restricted assets	129,651	-	-	-	129,651
Property held for CSU	4,799,700	-	-	-	4,799,700
Investment in CSURF AC	1,115,072	-	-	(1,115,072)	-
Due from INTO-CSU, LLC	252,500	-	-	-	252,500
Prepaid and other assets	259,882	4,740	124,821	-	389,443
	<u>\$ 73,873,343</u>	<u>\$ 1,747,510</u>	<u>\$ 4,095,994</u>	<u>\$ (1,115,072)</u>	<u>\$ 78,601,775</u>
Liabilities and Net Assets					
Accounts payable	\$ 55,213	\$ 97,293	\$ -	\$ -	\$ 152,506
Accrued expenses	524,317	95,508	-	-	619,825
Construction retainage	79,986	-	-	-	79,986
Security deposits - rentals	193,142	-	-	-	193,142
Lines of credit	1,763,311	-	-	-	1,763,311
Deferred revenue	57,417	-	-	-	57,417
Trust funds payable	129,614	-	-	-	129,614
Property held for CSU	4,799,700	-	-	-	4,799,700
Real estate loans and mortgages	50,502,677	-	3,031,676	-	53,534,353
Due to INTO-CSU, LLC	252,500	-	-	-	252,500
Total liabilities	<u>58,357,877</u>	<u>192,801</u>	<u>3,031,676</u>	<u>-</u>	<u>61,582,354</u>
Net Assets					
Unrestricted					
Undesignated	2,452,663	1,545,444	311,018	(1,115,072)	3,194,053
Invested in property and direct finance lease, net of related debt	8,375,759	9,265	746,300	-	9,131,324
Designated for agriculture	102,360	-	-	-	102,360
	<u>10,930,782</u>	<u>1,554,709</u>	<u>1,057,318</u>	<u>(1,115,072)</u>	<u>12,427,737</u>
Noncontrolling interest in affiliate	-	-	7,000	-	7,000
Total unrestricted	<u>10,930,782</u>	<u>1,554,709</u>	<u>1,064,318</u>	<u>(1,115,072)</u>	<u>12,434,737</u>
Temporarily restricted	4,421,570	-	-	-	4,421,570
Permanently restricted	163,114	-	-	-	163,114
Total net assets	<u>15,515,466</u>	<u>1,554,709</u>	<u>1,064,318</u>	<u>(1,115,072)</u>	<u>17,019,421</u>
	<u>\$ 73,873,343</u>	<u>\$ 1,747,510</u>	<u>\$ 4,095,994</u>	<u>\$ (1,115,072)</u>	<u>\$ 78,601,775</u>

Colorado State University Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2016

Year Ended June 30, 2016

	CSURF			CSU Ventures			CSURF AC (Compiled)			Consolidated		
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Restricted	Unrestricted	Temporarily	Restricted		Eliminations	
		Restricted	Restricted		Restricted			Restricted				Total
Operating Revenue												
Property rentals and related income	\$ 6,266,667	\$ -	\$ -	\$ 6,266,667	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,266,667
Royalty revenue	-	-	-	2,382,123	-	-	-	-	-	-	-	2,382,123
Program revenue - Todos Santos	-	-	-	-	-	-	173,284	-	-	-	-	173,284
Forgiveness of debt - Todos Santos	-	-	-	-	-	-	3,130,469	-	-	-	-	3,130,469
Grants and other	7,400	-	-	7,400	145,203	-	-	-	-	-	-	152,603
Administrative fees - CSU	2,465,075	-	-	2,465,075	2,300,000	-	-	-	-	-	-	4,857,040
Revenue from ranching operations	222,450	-	-	222,450	-	-	-	-	-	-	-	222,450
Other revenue	219,837	-	-	219,837	30,356	-	-	-	-	-	-	295,128
Release of funds from restriction	4,421,570	(4,421,570)	-	-	-	-	-	-	-	-	-	-
Total operating revenue	13,602,999	(4,421,570)	-	9,181,429	4,857,682	-	4,857,682	3,609,742	-	(169,089)	-	17,479,764
Operating Expenses												
Property rentals and related expenses	5,384,202	-	-	5,384,202	-	-	-	-	-	-	-	5,384,202
Royalty expense	-	-	-	1,826,146	-	-	-	-	-	-	-	1,826,146
Technology Transfer	59,330	-	-	3,177,037	-	-	-	-	-	-	-	3,067,278
Program expenses - Todos Santos	-	-	-	-	-	-	33,943	-	-	-	-	33,943
Grant expenditures	-	-	-	145,203	-	-	-	-	-	-	-	145,203
General and administrative	1,422,898	-	-	1,422,898	-	-	-	-	-	-	-	1,452,031
Expenses of ranching operations	178,517	-	-	178,517	-	-	-	-	-	-	-	1,764,331
Total operating expenses	7,044,947	-	-	7,044,947	5,148,386	-	5,148,386	375,376	-	(169,089)	-	12,399,620
Change in Net Assets - Operating	6,558,052	(4,421,570)	-	2,136,482	(290,704)	-	(290,704)	3,234,366	-	3,234,366	-	5,080,144
Change in Net Assets - Nonoperating												
Interest income	329,059	-	-	329,059	1,613	-	1,613	-	-	-	-	330,672
Interest expense	(1,802,478)	-	-	(1,802,478)	-	-	-	-	-	-	-	(1,802,478)
Gain on sale of equity interest in cattle ranch	7,868,900	-	-	7,868,900	-	-	-	-	-	-	-	7,868,900
(Loss) on sale of equipment	(405,169)	-	-	(405,169)	-	-	-	-	-	-	-	(405,169)
Unrealized gain on marketable securities	11,206	-	-	11,206	-	-	-	-	-	-	-	11,206
Total change in in net assets - nonoperating	6,001,518	-	-	6,001,518	1,613	-	1,613	-	-	-	-	6,003,131
Change in Net Assets Prior to Transfer	12,559,570	(4,421,570)	-	8,138,000	(289,091)	-	(289,091)	3,234,366	-	3,234,366	-	11,083,275
Transfer to CSU Foundation	(12,290,470)	-	-	(12,290,470)	-	-	-	-	-	-	-	(12,290,470)
Change in Net Assets	269,100	(4,421,570)	-	(4,152,470)	(289,091)	-	(289,091)	3,234,366	-	3,234,366	-	(1,207,195)
Net Assets, Beginning of Year	10,930,782	4,421,570	163,114	15,515,466	1,554,709	-	1,554,709	1,064,318	-	1,064,318	(1,115,072)	17,019,421
Net Assets, End of Year	\$ 11,199,882	\$ -	\$ 163,114	\$ 11,362,996	\$ 1,265,618	\$ -	\$ 1,265,618	\$ 4,298,684	\$ -	\$ 4,298,684	\$ (1,115,072)	\$ 15,812,226

Colorado State University Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2015

Year Ended June 30, 2015

	CSURF			CSU Ventures			CSURF AC (Compiled)			Total	Eliminations	Consolidated
	Unrestricted	Temporarily	Permanently	Unrestricted	Temporarily	Restricted	Unrestricted	Temporarily	Restricted			
		Restricted	Restricted		Restricted	Restricted		Restricted				
Operating Revenue	\$ 6,399,506	\$ -	\$ 6,399,506	\$ 4,780,883	\$ -	\$ 4,780,883	\$ -	\$ -	\$ -	\$ -	\$ 6,399,506	
Property rentals and related income	-	-	-	4,780,883	-	4,780,883	-	-	-	-	4,780,883	
Royalty revenue	119,238	-	119,238	12,559	-	12,559	-	-	-	-	131,797	
Grants and other	1,611,185	-	1,611,185	2,247,000	-	2,247,000	-	-	-	(151,588)	3,706,597	
Administrative fees - CSU	242,819	-	242,819	-	-	-	-	-	-	-	242,819	
Revenue from ranching operations	99,986	-	99,986	196,257	-	196,257	369	-	369	-	296,612	
Other revenue	8,472,734	-	8,472,734	7,236,699	-	7,236,699	369	-	369	(151,588)	15,558,214	
Operating Expenses	4,571,773	-	4,571,773	2,727,490	-	2,727,490	-	-	-	-	4,571,773	
Property rentals and related expenses	-	-	-	2,727,490	-	2,727,490	-	-	-	-	2,727,490	
Royalty expense	88,688	-	88,688	3,149,682	-	3,149,682	-	-	-	(151,588)	3,086,782	
Technology Transfer	72,942	-	72,942	12,559	-	12,559	-	-	-	-	85,501	
Grant expenditures	1,325,883	-	1,325,883	-	-	-	35,499	-	35,499	-	1,361,382	
General and administrative	68,661	-	68,661	-	-	-	-	-	-	-	68,661	
Expenses of ranching operations	6,127,947	-	6,127,947	5,889,731	-	5,889,731	35,499	-	35,499	(151,588)	11,901,589	
Total operating expenses	2,344,787	-	2,344,787	1,346,968	-	1,346,968	(35,130)	-	(35,130)	-	3,656,625	
Change in Net Assets - Operating	82,503	-	82,503	3,102	-	3,102	-	-	-	-	85,605	
Interest income	(1,428,347)	-	(1,428,347)	-	-	-	-	-	-	-	(1,428,347)	
Interest expense	(2,250)	-	(2,250)	(28,073)	-	(28,073)	-	-	-	-	(30,323)	
(Loss) on sale of equipment	28,242	-	28,242	-	-	-	-	-	-	-	28,242	
Unrealized gain on marketable securities	(1,319,852)	-	(1,319,852)	(24,971)	-	(24,971)	-	-	-	-	(1,344,823)	
Total change in in net assets - nonoperating	1,024,935	-	1,024,935	1,321,997	-	1,321,997	(35,130)	-	(35,130)	-	2,311,802	
Change in Net Assets	9,905,847	4,421,570	14,490,531	232,712	-	232,712	537,951	-	537,951	(553,575)	14,707,619	
Net Assets, Beginning of Year	-	-	-	-	-	-	561,497	-	561,497	(561,497)	-	
Contribution of capital	\$ 10,930,782	\$ 4,421,570	\$ 15,515,466	\$ 1,554,709	\$ -	\$ 1,554,709	\$ 1,064,318	\$ -	\$ 1,064,318	\$ (1,115,072)	\$ 17,019,421	
Net Assets, End of Year												