

8305.00



Consolidated Financial Statements
June 30, 2017 and 2016

Colorado State University Research Foundation



RECEIVED

By the Office of the State Auditor at 9:39 am, Nov 16, 2017

Colorado State University Research Foundation

Table of Contents
June 30, 2017 and 2016

Independent Auditor's Report.....	1
Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Consolidating Statements of Financial Position	18
Consolidating Statements of Activities	20



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, 2017 and 2016, 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, 2017 and 2016, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 accompanying consolidated financial statements present fairly, in all material respects, the financial positions as of June 30, 2017 and 2016, 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. except 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, 2017 and 2016, 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 18 through 21 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Fort Collins, Colorado
October 17, 2017

Colorado State University Research Foundation
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 4,927,674	\$ 5,958,246
Certificates of deposit	2,586,810	1,250,000
Accounts receivable	286,699	230,058
Prepaid and other assets	285,601	447,123
Investments	10,045	55,790
Direct financing lease	10,099,194	10,408,836
Construction in progress	174,393	6,026,068
Property and equipment, net	53,121,426	46,446,175
Property held for Colorado State University	5,059,474	5,059,474
Due from INTO-CSU, LLC	1,227,500	952,500
	\$ 77,778,816	\$ 76,834,270
 Liabilities and Net Assets		
Accounts payable	\$ 306,181	\$ 127,038
Accrued expenses	1,016,989	742,004
Security deposits - rentals	200,317	188,017
Other liabilities	72,718	1,013,967
Lines of credit	562,149	803,788
Deferred revenue	215,000	150,000
Property held for Colorado State University	5,059,474	5,059,474
Real estate loans and mortgages	54,102,461	51,985,256
Due to INTO-CSU, LLC	1,227,500	952,500
Total liabilities	62,762,789	61,022,044
 Net Assets		
Unrestricted		
Undesignated	4,880,001	4,643,929
Designated for real estate projects	571,000	-
Designated for agricultural programs	102,360	102,360
Invested in property and direct financing lease, net of related debt	9,292,552	10,895,823
	14,845,913	15,642,112
Noncontrolling interest in affiliate	7,000	7,000
Total unrestricted	14,852,913	15,649,112
Permanently restricted	163,114	163,114
Total net assets	15,016,027	15,812,226
	\$ 77,778,816	\$ 76,834,270

Colorado State University Research Foundation
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016

	2017			2016			
	Unrestricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue							
Property rentals and related income	\$ 6,116,993	\$ -	\$ 6,116,993	\$ 6,266,667	\$ -	\$ -	\$ 6,266,667
Royalty revenue	3,055,536	-	3,055,536	2,382,123	-	-	2,382,123
Administrative fees - CSU	3,640,281	-	3,640,281	4,855,791	-	-	4,855,791
Program revenue - Todos Santos	210,979	-	210,979	173,284	-	-	173,284
Grants and other	-	-	-	152,603	-	-	152,603
Ranching operations	141,736	-	141,736	222,450	-	-	222,450
Other revenue	91,302	-	91,302	296,377	-	-	296,377
Net assets released from restriction	-	-	-	4,421,570	(4,421,570)	-	-
Total operating revenue	13,256,827	-	13,256,827	18,770,865	(4,421,570)	-	14,349,295
Operating Expenses							
Property rentals and related expenses	3,650,318	-	3,650,318	5,382,867	-	-	5,382,867
Technology Transfer	3,082,907	-	3,082,907	3,007,948	-	-	3,007,948
Royalty expense	1,884,908	-	1,884,908	1,826,146	-	-	1,826,146
General and administrative	3,369,467	-	3,369,467	1,823,661	-	-	1,823,661
Program expenses - Todos Santos	47,498	-	47,498	33,943	-	-	33,943
Grant expenditures	-	-	-	145,203	-	-	145,203
Ranching expenses	192,507	-	192,507	178,517	-	-	178,517
Total operating expenses	12,227,605	-	12,227,605	12,398,285	-	-	12,398,285
Change in Net Assets - Operating	1,029,222	-	1,029,222	6,372,580	(4,421,570)	-	1,951,010
Nonoperating activities							
Interest income	333,001	-	333,001	330,672	-	-	330,672
Gain on of sale equity interest in cattle ranch	-	-	-	7,868,900	-	-	7,868,900
Forgiveness of debt - Todos Santos	-	-	-	3,130,469	-	-	3,130,469
Gain (loss) on sale of property and equipment	621,419	-	621,419	(405,169)	-	-	(405,169)
Sale of water rights	571,000	-	571,000	-	-	-	-
Gain on sale of investments	78,518	-	78,518	11,206	-	-	11,206
Interest expense	(2,040,321)	-	(2,040,321)	(1,803,813)	-	-	(1,803,813)
Currency translation (loss)	(86,761)	-	(86,761)	-	-	-	-
Reinstatement of previously forgiven debt	(1,302,277)	-	(1,302,277)	-	-	-	-
Change in Net Assets - Nonoperating	(1,825,421)	-	(1,825,421)	9,132,265	-	-	9,132,265
Change in Net Assets Prior to Transfer	(796,199)	-	(796,199)	15,504,845	(4,421,570)	-	11,083,275
Transfer to CSU Foundation	-	-	-	(12,290,470)	-	-	(12,290,470)
Change in Net Assets	(796,199)	-	(796,199)	3,214,375	(4,421,570)	-	(1,207,195)
Net Assets, Beginning of Year	15,649,112	163,114	15,812,226	12,434,737	4,421,570	163,114	17,019,421
Net Assets, End of Year	\$ 14,852,913	\$ 163,114	\$ 15,016,027	\$ 15,649,112	\$ -	\$ 163,114	\$ 15,812,226

See Notes to Consolidated Financial Statements

Colorado State University Research Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Cash received from property rentals	\$ 6,116,993	\$ 6,266,667
Cash received from royalties	3,019,018	2,422,383
Cash received from administrative fees	3,815,229	5,542,974
Cash received from programs	329,692	173,284
Cash received from other activities	283,228	1,011,669
Interest received	333,001	330,672
Interest paid	(1,945,063)	(1,802,478)
Cash paid to employees	(3,110,558)	(3,094,446)
Cash paid for royalties and to vendors	(7,028,342)	(7,781,059)
Cash transferred to CSU Foundation	-	(12,290,470)
Net cash from (used for) operating activities	<u>1,813,198</u>	<u>(9,220,804)</u>
Investing Activities		
Sale or maturity of investments	55,746	2,382,588
Purchase of preferred shares	(10,001)	-
Purchase of certificates of deposit	(1,336,810)	(1,250,000)
Purchase of property and equipment	(1,078,842)	(1,559,777)
Proceeds from sale of equity interest in cattle ranch	-	12,290,470
Proceeds from sale of property and equipment	56,025	5,615,268
Proceeds from sale of water rights	571,000	-
Payments received from financing lease	309,642	300,018
Net cash from (used for) investing activities	<u>(1,433,240)</u>	<u>17,778,567</u>
Financing Activities		
Advances from line of credit	509,261	687,481
Borrowings under real estate loans and mortgages	128,615	577,536
Principal payments on		
Lines of credit	(750,900)	(1,647,004)
Real estate loans and mortgages	(1,297,506)	(4,964,874)
Net cash (used for) financing activities	<u>(1,410,530)</u>	<u>(5,346,861)</u>
Net change in cash and cash equivalents	(1,030,572)	3,210,902
Cash and cash equivalents at beginning of year	5,958,246	2,747,344
Cash and cash equivalents at end of year	<u>\$ 4,927,674</u>	<u>\$ 5,958,246</u>

Continued on next page

Colorado State University Research Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

Continued from prior page

	2017	2016
Reconciliation of change in net assets to net cash from (used for) operating activities		
Change in net assets	\$ (796,199)	\$ (1,207,195)
Adjustments to reconcile change in net assets:		
Depreciation and amortization	1,754,040	1,393,201
(Gain) on sale of investments	(78,518)	(11,206)
(Gain) loss on sale of property and equipment	(621,419)	405,169
(Gain) on sale of equity interest in cattle ranch	-	(7,868,900)
(Gain) on sale of water rights	(571,000)	-
Reinstatement/(forgiveness) of debt - Todos Santos	1,302,277	(3,130,469)
Changes in operating assets and liabilities		
Accounts receivable	(27,678)	860,222
Prepaid and other assets	161,522	75,626
Accounts payable	150,180	53,111
Accrued expenses and other liabilities	462,693	122,179
Security deposits - rentals	12,300	(5,125)
Deferred revenue	65,000	92,583
Net cash provided from (used for) operating activities	\$ 1,813,198	\$ (9,220,804)
Supplemental disclosure of non-cash transactions:		
Property acquired through assumption of debt	\$ 2,473,071	\$ 5,869,918
Donated property	\$ -	\$ 259,774

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.

CSURF de Mexico, Association Civil (CSURF AC) was organized in 2014 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 recognition 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 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. These certificates are not traded on the open market.

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 and, to do so, a promissory note was established between the entities. Interest payments at 5% per annum began on March 1, 2017 and the outstanding principal balance is due in February 2027. Principal balance was \$1,227,500 and \$952,500 at June 30, 2017 and 2016, respectively.

Receivables and Credit Policies

Accounts receivable consist primarily of non-interest bearing amounts due from rental of real estate and license agreements. 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 as management considers the accounts receivable to be fully collectable at June 30, 2017 and 2016.

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 consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed 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, 2017 and 2016.

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 consolidated statement of financial position. Net investment return/(loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

The Organization may participate in ownership of technology companies that develop technology within the University environment. Management 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, management reports such ownership interests at fair value.

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. Included in this net asset class are unrestricted Board-designated net assets consisting of net assets designated by the Board for real estate projects and for agricultural programs.

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. There were no temporarily restricted net assets as of June 30, 2017 and 2016.

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 revenue received in advance are deferred to the applicable period in which the related services are performed.

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), which qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(iv), and has been determined not to be a private foundation under Section 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, 2017 and 2016. CSURF's Form 990-T are no longer subject to tax examination for years prior to 2013.

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), which qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(iv), and has been determined not to be a private foundation under Section 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 as of June 30, 2017 and is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

CSURF AC is incorporated as a nonprofit association under Mexican corporate laws and, as such, is subject to the income tax regulations of Mexico.

Estimates

The preparation of consolidated 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 consolidated 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 and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits. 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. Although the fair values of investments are subject to fluctuations on a year-to-year basis, management and the Board believes that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

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.

Subsequent Events

The Organization has evaluated subsequent events through October 17, 2017, the date which the consolidated financial statements were available to be issued.

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.

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, 2017 and 2016.

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

Preferred stock – valued at the original purchase price of the shares, as shares were acquired within three months of year-end.

The following represents assets measured at fair value on a recurring basis at June 30, 2017 and 2016:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>At June 30, 2017</u>				
Common stock	\$ 44	\$ 44	\$ -	\$ -
Preferred stock	10,001	-	10,001	-
	<u>\$ 10,045</u>	<u>\$ 44</u>	<u>\$ 10,001</u>	<u>\$ -</u>
<u>At June 30, 2016</u>				
Common stock	<u>\$ 55,790</u>	<u>\$ 55,790</u>	<u>\$ -</u>	<u>\$ -</u>

Note 3 - Property and Equipment

Property and equipment consisted of the following at June 30, 2017 and 2016:

	2017	2016
Land	\$ 17,198,739	\$ 15,277,752
Buildings and improvements	46,316,743	40,506,034
Furniture and equipment	1,158,142	1,202,888
Breeding herd	347,517	387,211
	65,021,141	57,373,885
Less accumulated depreciation	(11,899,715)	(10,927,710)
	\$ 53,121,426	\$ 46,446,175

Construction in progress consists of the following at June 30, 2017 and 2016:

	2017	2016
Center Avenue - Technology	\$ 119,291	\$ 6,005,989
Other	55,102	20,079
	\$ 174,393	\$ 6,026,068

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, 2017 and 2016 totaled \$2,186,282 and \$2,252,355, respectively. The cost and accumulated depreciation (taken until the property became idle) has been included in the depreciable assets listed above although the properties are no longer being depreciated.

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, 2017, the future minimum lease payments to be received by CSURF are as follows:

Years Ending June 30,	Amount
2018	\$ 606,348
2019	606,348
2020	606,348
2021	606,348
2022	606,348
Thereafter	9,074,948
	12,106,688
Less amount representing interest	(2,007,494)
	\$ 10,099,194

Note 5 - Equity Interest in Cattle Ranch

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 at June 30, 2017 and 2016.

Note 7 - Investment in CSURF AC

During 2015, CSURF AC entered into certain promissory notes with a development partner (MIRA) whereby CSURF AC borrowed funds from MIRA for the development of the property. The land for the campus and research farm was to be transferred to the Trust in various phases upon completion and, upon transfer, MIRA was to forgive the debt. 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.

During 2017, MIRA rescinded the forgiveness of debt specific to two promissory notes, totaling \$1,302,277, connected to the land acquisition. The re-signed promissory notes have maturity dates of March 2018.

Note 8 - Lines of Credit

Lines of credit consisted of the following at June 30, 2017 and 2016:

	2017	2016
Equipment leasing \$1,000,000 line of credit, interest due in quarterly payments at rate of 3.75% per annum, principal and any accrued interest due at maturity in December 2017, secured by all accounts and equipment other than that held in a trust, fiduciary or bond capacity.	\$ 129,888	\$ 153,788
USC Building \$3,000,000 line of credit, principal and interest due at maturity, interest adjusted to the Prime Rate with a floor of 3.25% and a ceiling of 7.95% per annum (rate of 3.75% per annum as of June 30, 2017), principal and any accrued interest due at maturity in December 2017, secured by a deed of trust and all assignments of rents associated with the property.	432,261	650,000
	\$ 562,149	\$ 803,788

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	\$ 261,751
Interest rates at June 30, 2017, rates are primarily variable	3.45% - 4.45%
Maturity dates	2018 - 2027

Future maturities of real estate loans and mortgages are as follows:

Years Ending June 30,	Amount
2018	\$ 3,189,006
2019	1,594,064
2020	1,593,818
2021	3,241,206
2022	1,499,803
Thereafter	42,984,564
	\$ 54,102,461

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	\$ 3,215,890
Maturity dates	2018 - 2062

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

	<u>2017</u>	<u>2016</u>
Land	\$ 9,093,958	\$ 9,152,017
Buildings and improvements	29,602,152	35,743,936
	38,696,110	44,895,953
Less accumulated depreciation	(6,626,227)	(9,833,549)
	<u>\$ 32,069,883</u>	<u>\$ 35,062,404</u>

As of June 30, 2017, future minimum rental revenue under the non-cancelable operating leases having remaining terms in excess of one year are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2018	\$ 2,543,527
2019	1,935,555
2020	1,824,482
2021	1,344,789
2022	1,145,100
	<u>\$ 8,793,453</u>

CSURF as Lessee:

CSURF began leasing land in Fort Collins from a private third party 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

Board-designated net assets, included within the unrestricted net asset classification, represent funds designated by the Board for agricultural programs (the Harper fund) of \$102,360 and for future real estate projects of \$571,000.

Note 13 - Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program-related expenses	\$ 11,896,704	\$ 11,960,859
Management and general expenses	<u>2,371,222</u>	<u>2,241,239</u>
Total functionalized expenses	<u>\$ 14,267,926</u>	<u>\$ 14,202,098</u>

Note 14 - 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 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	\$ 1,496,286
Maturity dates	2018 - 2024

Note 15 - 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 \$433,000 (cash payments of \$394,000 after use of forfeitures totaling \$39,000) and \$401,000 for the years ended June 30, 2017 and 2016, respectively.

Note 16 - Commitments and Contingencies

Debt Guarantee

CSURF is the guarantor of a loan dated October 1981, which has an outstanding balance of \$29,674 at June 30, 2017. 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.



Supplementary Information
June 30, 2017 and 2016

**Colorado State University
Research Foundation**

Colorado State University Research Foundation
Consolidating Statement of Financial Position
June 30, 2017

	CSURF	CSU Ventures	CSURF AC (Compiled)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 4,607,723	\$ 198,247	\$ 121,704	\$ -	\$ 4,927,674
Certificates of deposit	1,076,599	1,510,211	-	-	2,586,810
Accounts receivable	194,223	87,163	54,929	(49,616)	286,699
Prepaid and other assets	275,469	3,820	6,312	-	285,601
Investments	44	10,001	-	-	10,045
Direct financing lease	10,099,194	-	-	-	10,099,194
Construction in progress	174,393	-	-	-	174,393
Property and equipment, net	49,112,665	-	4,008,761	-	53,121,426
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	1,227,500	-	-	-	1,227,500
	<u>\$ 72,942,356</u>	<u>\$ 1,809,442</u>	<u>\$ 4,191,706</u>	<u>\$ (1,164,688)</u>	<u>\$ 77,778,816</u>
Liabilities and Net Assets					
Accounts payable	\$ 293,676	\$ 41,580	\$ 20,541	\$ (49,616)	\$ 306,181
Accrued expenses	863,435	153,554	-	-	1,016,989
Security deposits - rentals	200,317	-	-	-	200,317
Other liabilities	72,718	-	-	-	72,718
Lines of credit	562,149	-	-	-	562,149
Deferred revenue	215,000	-	-	-	215,000
Property held for CSU	5,059,474	-	-	-	5,059,474
Real estate loans and mortgages	52,671,569	-	1,430,892	-	54,102,461
Due to INTO-CSU, LLC	1,227,500	-	-	-	1,227,500
Total liabilities	<u>61,165,838</u>	<u>195,134</u>	<u>1,451,433</u>	<u>(49,616)</u>	<u>62,762,789</u>
Net Assets					
Unrestricted					
Undesignated	4,225,361	1,614,308	155,404	(1,115,072)	4,880,001
Designated for real estate projects	571,000	-	-	-	571,000
Designated for agricultural programs	102,360	-	-	-	102,360
Invested in property and direct finance lease, net of related debt	6,714,683	-	2,577,869	-	9,292,552
	<u>11,613,404</u>	<u>1,614,308</u>	<u>2,733,273</u>	<u>(1,115,072)</u>	<u>14,845,913</u>
Noncontrolling interest in affiliate	-	-	7,000	-	7,000
Total unrestricted	<u>11,613,404</u>	<u>1,614,308</u>	<u>2,740,273</u>	<u>(1,115,072)</u>	<u>14,852,913</u>
Permanently restricted	163,114	-	-	-	163,114
Total net assets	<u>11,776,518</u>	<u>1,614,308</u>	<u>2,740,273</u>	<u>(1,115,072)</u>	<u>15,016,027</u>
	<u>\$ 72,942,356</u>	<u>\$ 1,809,442</u>	<u>\$ 4,191,706</u>	<u>\$ (1,164,688)</u>	<u>\$ 77,778,816</u>

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
Accounts receivable	224,968	5,090	78,579	(78,579)	230,058
Prepaid and other assets	319,568	2,530	125,025	-	447,123
Investments	55,790	-	-	-	55,790
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
	<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
Security deposits - rentals	188,017	-	-	-	188,017
Other liabilities	1,013,967	-	-	-	1,013,967
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
Designated for agricultural program	102,360	-	-	-	102,360
Invested in property and direct finance lease, net of related debt	6,937,995	-	3,957,828	-	10,895,823
	<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 Activities
Year Ended June 30, 2017

	CSURF		CSU Ventures		CSURF AC (compiled)		Eliminations	Consolidated
	Unrestricted	Permanently Restricted	Total	Unrestricted	Unrestricted	Unrestricted		
Operating Revenue								
Property rentals and related income	\$ 6,116,993	\$ -	\$ 6,116,993	\$ -	\$ -	\$ -	\$ -	\$ 6,116,993
Royalty revenue	-	-	-	3,055,536	-	-	-	3,055,536
Administrative fees - CSU	1,243,809	-	1,243,809	2,555,000	192,770	(151,298)	-	3,640,281
Program revenue - Todos Santos	-	-	-	-	210,979	-	-	210,979
Ranching operations	141,736	-	141,736	-	-	-	-	141,736
Other revenue	39,047	-	39,047	45,555	6,700	-	-	91,302
Total operating revenue	<u>7,541,585</u>	<u>-</u>	<u>7,541,585</u>	<u>5,456,091</u>	<u>410,449</u>	<u>(151,298)</u>	<u>-</u>	<u>13,256,827</u>
Operating Expenses								
Property rentals and related expenses	3,650,318	-	3,650,318	-	-	-	-	3,650,318
Technology Transfer	-	-	-	3,234,205	-	(151,298)	-	3,082,907
Royalty expense	-	-	-	1,884,908	-	-	-	1,884,908
General and administrative	2,837,143	-	2,837,143	-	532,324	-	-	3,369,467
Program expenses - Todos Santos	-	-	-	-	47,498	-	-	47,498
Ranching expenses	192,507	-	192,507	-	-	-	-	192,507
Total operating expenses	<u>6,679,968</u>	<u>-</u>	<u>6,679,968</u>	<u>5,119,113</u>	<u>579,822</u>	<u>(151,298)</u>	<u>-</u>	<u>12,227,605</u>
Change in Net Assets - Operating	<u>861,617</u>	<u>-</u>	<u>861,617</u>	<u>336,978</u>	<u>(169,373)</u>	<u>-</u>	<u>-</u>	<u>1,029,222</u>
Nonoperating Activities								
Interest income	321,289	-	321,289	11,712	-	-	-	333,001
Gain on sale of property and equipment	621,419	-	621,419	-	-	-	-	621,419
Sale of water rights	571,000	-	571,000	-	-	-	-	571,000
Gain on sale of investments	78,518	-	78,518	-	-	-	-	78,518
Interest expense	(2,040,321)	-	(2,040,321)	-	-	-	-	(2,040,321)
Currency translation (loss)	-	-	-	-	(86,761)	-	-	(86,761)
Reinstatement of previously forgiven debt	-	-	-	-	(1,302,277)	-	-	(1,302,277)
Change in Net Assets - Nonoperating	<u>(448,095)</u>	<u>-</u>	<u>(448,095)</u>	<u>11,712</u>	<u>(1,389,038)</u>	<u>-</u>	<u>-</u>	<u>(1,825,421)</u>
Change in Net Assets	413,522	-	413,522	348,690	(1,558,411)	-	-	(796,199)
Net Assets, Beginning of Year	11,199,882	163,114	11,362,996	1,265,618	4,298,684	(1,115,072)	-	15,812,226
Net Assets, End of Year	<u>\$ 11,613,404</u>	<u>\$ 163,114</u>	<u>\$ 11,776,518</u>	<u>\$ 1,614,308</u>	<u>\$ 2,740,273</u>	<u>\$ (1,115,072)</u>	<u>\$ 15,016,027</u>	

See Notes to Consolidated Financial Statements

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

	CSURF			CSU Ventures		CSURF AC (completed)		Consolidated
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Unrestricted	Eliminations	
Operating Revenue								
Property rentals and related income	\$ 6,266,667	\$ -	\$ -	\$ 6,266,667	\$ -	\$ -	\$ -	\$ 6,266,667
Royalty revenue	-	-	-	-	2,382,123	-	-	2,382,123
Administrative fees - CSU	2,463,826	-	-	2,463,826	2,300,000	261,054	(169,089)	4,855,791
Program revenue - Todos Santos	-	-	-	-	-	173,284	-	173,284
Grants and other	7,400	-	-	7,400	145,203	-	-	152,603
Ranching operations	222,450	-	-	222,450	-	-	-	222,450
Other revenue	221,086	-	-	221,086	30,356	44,935	-	296,377
Net assets released from restriction	4,421,570	(4,421,570)	-	-	-	-	-	-
Total operating revenue	13,602,999	(4,421,570)	-	9,181,429	4,857,682	479,273	(169,089)	14,349,295
Operating Expenses								
Property rentals and related expenses	5,382,867	-	-	5,382,867	-	-	-	5,382,867
Technology Transfer	-	-	-	-	3,177,037	-	(169,089)	3,007,948
Royalty expense	-	-	-	-	1,826,146	-	-	1,826,146
General and administrative	1,482,228	-	-	1,482,228	-	341,433	-	1,823,661
Program expenses - Todos Santos	-	-	-	-	-	33,943	-	33,943
Grant expenditures	-	-	-	-	145,203	-	-	145,203
Ranching expenses	178,517	-	-	178,517	-	-	-	178,517
Total operating expenses	7,043,612	-	-	7,043,612	5,148,386	375,376	(169,089)	12,398,285
Change in Net Assets - Operating	6,559,387	(4,421,570)	-	2,137,817	(290,704)	103,897	-	1,951,010
Nonoperating Activities								
Interest income	329,059	-	-	329,059	1,613	-	-	330,672
Gain on sale of equity interest in cattle ranch	7,868,900	-	-	7,868,900	-	-	-	7,868,900
Forgiveness of debt - Todos Santos	-	-	-	-	-	3,130,469	-	3,130,469
Interest expense	(1,803,813)	-	-	(1,803,813)	-	-	-	(1,803,813)
(Loss) on sale of property and equipment	(405,169)	-	-	(405,169)	-	-	-	(405,169)
Gain on sale of investments	11,206	-	-	11,206	-	-	-	11,206
Change in Net Assets - Nonoperating	6,000,183	-	-	6,000,183	1,613	3,130,469	-	9,132,265
Change in Net Assets Prior to Transfer	12,559,570	(4,421,570)	-	8,138,000	(289,091)	3,234,566	-	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)	3,234,566	-	(1,207,195)
Net Assets, Beginning of Year	10,930,782	4,421,570	163,114	15,515,466	1,554,709	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	\$ 4,298,684	\$ (1,115,072)	\$ 15,812,226

See Notes to Consolidated Financial Statements