



Consolidated Financial Statements
June 30, 2018 and 2017

**Colorado State University
Research Foundation**



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Office of the State Auditor

October 30, 2018

Colorado State University Research Foundation

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June 30, 2018 and 2017

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Independent Auditor's Report

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

Report on the Consolidated 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, and the related statements of activities and cash flows for the years 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 17 through 20 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 16, 2018

Colorado State University Research Foundation
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 5,604,281	\$ 4,927,674
Certificates of deposit	1,528,805	2,586,810
Accounts and notes receivable	200,772	286,699
Prepaid and other assets	257,329	295,646
Direct-financing lease	9,780,486	10,099,194
Construction-in-progress	315,647	174,393
Property and equipment, net	51,048,493	53,121,426
Property held for sale	428,656	-
Property held for Colorado State University	5,059,474	5,059,474
Due from INTO-CSU, LLC	1,227,500	1,227,500
	\$ 75,451,443	\$ 77,778,816
Liabilities and Net Assets		
Accounts payable	\$ 341,433	\$ 306,181
Accrued expenses and other liabilities	1,064,956	1,089,707
Security deposits - rentals	256,526	200,317
Lines of credit	1,465,160	562,149
Deferred revenue	338,765	215,000
Real estate loans and mortgages	50,171,373	54,102,461
Property held for Colorado State University	5,059,474	5,059,474
Due to INTO-CSU, LLC	1,227,500	1,227,500
Total liabilities	59,925,187	62,762,789
Net Assets		
Unrestricted		
Undesignated	3,398,698	4,880,001
Designated for real estate projects	453,175	571,000
Designated for agricultural programs	102,360	102,360
Invested in property and direct-financing lease, net of related debt	11,401,909	9,292,552
	15,356,142	14,845,913
Noncontrolling interest in affiliate	7,000	7,000
Total unrestricted	15,363,142	14,852,913
Permanently restricted	163,114	163,114
Total net assets	15,526,256	15,016,027
	\$ 75,451,443	\$ 77,778,816

Colorado State University Research Foundation
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted Activities:		
Operating Revenue		
Property rentals and related income	\$ 6,221,603	\$ 6,116,993
Royalty revenue	1,823,157	3,055,536
Administrative fees - CSU	3,806,690	3,640,281
Program revenue - Todos Santos	179,400	210,979
Ranching operations	191,375	141,736
Other revenue	152,192	91,302
Total operating revenue	12,374,417	13,256,827
Operating Expenses		
Property rentals and related expenses	3,835,510	3,650,318
Technology transfer	3,066,588	3,082,907
Royalty expenses	1,298,443	1,884,908
General and administrative	3,142,594	3,369,467
Program expenses - Todos Santos	246,252	47,498
Ranching expenses	207,892	192,507
Total operating expenses	11,797,279	12,227,605
Change in Net Assets - Operating	577,138	1,029,222
Nonoperating activities		
Interest income	334,931	333,001
Gain on sale of property and equipment	104,910	621,419
Sale of water rights	-	571,000
Gain on sale of investments	-	78,518
Interest expense	(1,956,983)	(2,040,321)
Currency translation gain (loss)	(107,705)	(86,761)
Forgiveness of debt - Todos Santos	1,557,938	-
Reinstatement of previously forgiven debt	-	(1,302,277)
Change in Net Assets - Nonoperating	(66,909)	(1,825,421)
Change in Unrestricted Net Assets	510,229	(796,199)
Unrestricted Net Assets, Beginning of Year	14,852,913	15,649,112
Unrestricted Net Assets, End of Year	15,363,142	14,852,913
Permanently restricted activities:		
Permanently Restricted Net Assets, End of Year	163,114	163,114
Total Net Assets	\$ 15,526,256	\$ 15,016,027

Colorado State University Research Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Cash received from property rentals	\$ 6,221,603	\$ 6,116,993
Cash received from royalties	1,956,418	3,019,018
Cash received from administrative fees - CSU	4,013,566	3,815,229
Cash received from programs	168,691	329,692
Cash received from other activities	414,685	283,228
Interest received	334,931	333,001
Interest paid	(1,972,529)	(1,945,063)
Cash paid to employees	(3,208,390)	(3,110,558)
Cash paid for royalties and to vendors	(6,952,151)	(7,028,342)
Net cash from operating activities	976,824	1,813,198
Investing Activities		
Maturity of certificates of deposit	1,067,150	55,746
Purchase of preferred shares	-	(10,001)
Purchase of certificates of deposit	(9,145)	(1,336,810)
Purchase of property and equipment	(1,080,991)	(1,078,842)
Proceeds from sale of property and equipment	190,360	56,025
Proceeds from sale of water rights	-	571,000
Payments received from financing lease	318,708	309,642
Net cash from (used for) investing activities	486,082	(1,433,240)
Financing Activities		
Advances from line of credit	979,278	509,261
Borrowings under real estate loans and mortgages	127,046	128,615
Principal payments on		
Lines of credit	(76,267)	(750,900)
Real estate loans and mortgages	(1,816,356)	(1,297,506)
Net cash (used for) financing activities	(786,299)	(1,410,530)
Net change in cash and cash equivalents	676,607	(1,030,572)
Cash and cash equivalents at beginning of year	4,927,674	5,958,246
Cash and cash equivalents at end of year	\$ 5,604,281	\$ 4,927,674

Continued on next page

Colorado State University Research Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

Continued from prior page

	2018	2017
Reconciliation of change in net assets to net cash from operating activities		
Change in net assets	\$ 510,229	\$ (796,199)
Adjustments to reconcile change in net assets:		
Depreciation and amortization	1,814,724	1,754,040
(Gain) on sale of investments	-	(78,518)
(Gain) on sale of property and equipment	(104,910)	(621,419)
(Gain) on sale of water rights	-	(571,000)
(Forgiveness) reinstatement of debt - Todos Santos	(1,557,938)	1,302,277
Changes in operating assets and liabilities		
Accounts receivable	130,059	(27,678)
Prepaid and other assets	38,317	161,522
Accounts payable	(8,880)	150,180
Accrued expenses and other liabilities	(24,751)	462,693
Security deposits - rentals	56,209	12,300
Deferred revenue	123,765	65,000
Net cash provided from operating activities	\$ 976,824	\$ 1,813,198
Supplemental disclosure of non-cash transactions:		
Property acquired through assumption of debt	\$ -	\$ 2,473,071
Sale of property - debt repayment at closing	681,560	-
Forgiveness of debt - Todos Santos	1,557,938	-
Property and equipment held for sale	428,656	-

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 office space, housing, dining facilities and research farm.

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 at June 30, 2018 and 2017.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-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, 2018 and 2017.

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 statements 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, 2018 and 2017.

Ownership Interests

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 statements of financial position. Net investment return/(loss) is reported in the consolidated statements 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, 2018 and 2017.

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 CSURF's actions. The restrictions stipulate that resources be maintained permanently but permit CSURF 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.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Note 12 presents total expenses by function.

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, 2018 and 2017. 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, 2018 and 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 and notes 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 financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Note 2 - Fair Value Measurements and Disclosures

The Organization reports certain assets 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 can be accessed 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, inputs are developed 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 an assessment of the quality, risk or liquidity profile of the asset.

Certificates of deposit are invested and traded in the financial markets. Those certificates of deposit are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2. Investments in certificates of deposit totaled \$1,528,805 and \$2,586,810 as of June 30, 2018 and 2017, respectively.

Note 3 - 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, 2018, the future minimum lease payments to be received by CSURF are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2019	\$ 606,348
2020	606,348
2021	606,348
2022	606,348
2023	606,348
Thereafter	<u>8,468,600</u>
	11,500,340
Less amount representing interest	<u>(1,719,854)</u>
	<u>\$ 9,780,486</u>

Note 4 - Property and Equipment

Property and equipment consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 16,467,187	\$ 17,198,739
Water rights	36,000	-
Buildings and improvements	46,674,133	46,316,743
Furniture and equipment	1,158,142	1,158,142
Breeding herd	<u>353,100</u>	<u>347,517</u>
	64,688,562	65,021,141
Less accumulated depreciation	<u>(13,640,069)</u>	<u>(11,899,715)</u>
	<u>\$ 51,048,493</u>	<u>\$ 53,121,426</u>

Construction-in-progress consists of the following at June 30, 2018 and 2017:

	2018	2017
Center Avenue - Technology	\$ -	\$ 119,291
Software implementation	164,686	-
Southwest Metro District project	95,170	-
Other	55,791	55,102
	\$ 315,647	\$ 174,393

CSURF 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, 2018 and 2017 totaled \$2,023,143 and \$2,186,282, respectively. In addition, CSURF had property held for sale as of June 30, 2018 with a net book value of \$428,656. The cost and accumulated depreciation (taken until the property became idle or classified as held for sale) has been included in the depreciable assets listed above although the properties are no longer being depreciated.

Note 5 - 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. The cost of these properties approximated \$5,060,000 at June 30, 2018 and 2017.

Note 6 - 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 had maturity dates of March 2018.

During 2018, MIRA forgave the remaining balance of the promissory notes totaling \$1,557,938.

Note 7 - Lines of Credit

Lines of credit consisted of the following at June 30, 2018 and 2017:

	2018	2017
Equipment leasing \$1,000,000 line of credit, interest due in quarterly payments at rate of 4.50% per annum, principal and any accrued interest due at maturity in December 2018, secured by all accounts and equipment other than that held in a trust, fiduciary or bond capacity.	\$ 94,459	\$ 129,888
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 4.50% and 3.75% per annum as of June 30, 2018 and 2017, respectively), principal and any accrued interest due at maturity in December 2018, secured by a deed of trust and all assignments of rents associated with the property.	1,370,701	432,261
	\$ 1,465,160	\$ 562,149

Note 8 - 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	\$ 274,164
Interest rates at June 30, 2018, rates are primarily variable	2.85% - 5.50%
Maturity dates	2020 - 2027

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

Years Ending June 30,	Amount
2019	\$ 1,597,900
2020	1,617,325
2021	3,276,903
2022	1,543,620
2023	1,560,198
Thereafter	40,575,427
	\$ 50,171,373

Note 9 - 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	\$ 3,045,742
Maturity dates	2019 - 2063

Property subject to operating lease is as follows at June 30, 2018 and 2017:

	2018	2017
Land	\$ 8,557,709	\$ 9,093,958
Buildings and improvements	38,751,844	29,602,152
	47,309,553	38,696,110
Less accumulated depreciation	(8,422,618)	(6,626,227)
	\$ 38,886,935	\$ 32,069,883

As of June 30, 2018, 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,	Amount
2019	\$ 3,428,615
2020	3,172,435
2021	2,214,251
2022	1,670,964
2023	1,165,118
	\$ 11,651,383

CSURF as Lessee:

CSURF began leasing land in Fort Collins from a private third party during 2000. CSURF paid \$90,000 in rent expense for the years ended June 30, 2018 and 2017.

Note 10 - 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 11 - Board-Designated Net Assets

The Harper Fund was established in the early 1990s and these funds were designated by the Board of Trustees for activities related to agriculture programs. In 2017, CSURF sold water rights for \$571,000. The Board designated the proceeds from this sale for future real estate projects. In 2018, the Board authorized the use of up to \$260,000 of these funds for costs associated with the development of a new metropolitan district in Fort Collins. The project costs are expected to be reimbursed by the Colorado Department of Transportation, at which time the designated funds will be replenished.

Note 12 - Functionalized Expenses

Total expenses by function were as follows for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program-related expenses	\$ 11,153,952	\$ 12,067,419
General and administrative	<u>2,600,310</u>	<u>2,200,507</u>
Total functionalized expenses	<u>\$ 13,754,262</u>	<u>\$ 14,267,926</u>

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 received administrative fees from CSU of \$3,806,690 and \$3,640,281 during the years ended June 30, 2018 and 2017, respectively.

CSURF sold properties during the year ended June 30, 2018 to the Board of Governors of CSUS for a total sales price of \$871,920 (cash of \$190,360 and debt repayment at closing of \$681,560), resulting in a recorded gain of \$104,910.

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	\$ 1,708,104
Maturity dates	2018 - 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 \$407,000 and \$433,000 for the years ended June 30, 2018 and 2017, respectively.

Note 15 - Commitments and Contingencies**Debt Guarantee**

CSURF is the guarantor of a loan dated October 1981, which has an outstanding balance of \$25,099 at June 30, 2018. 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 16, 2018, the date the consolidated financial statements were available to be issued.

In July 2018, CSURF entered into a permanent financing agreement with First National Bank of Omaha for \$760,000 for the previously acquired 916 and 925 James Court properties located in Fort Collins.

In July 2018, CSURF and CSUS entered into an agreement by which CSUS would purchase the property 2243 Centre Avenue in Fort Collins for \$9,200,000 on or before March 29, 2019. As of June 30, 2018, the debt outstanding on this property was approximately \$6,360,000.

In May 2018, CSURF entered into an agreement with a third party to purchase a property in Gunnison, Colorado for \$1,200,000. The contract is expected to close in October 2018. In September 2018, the original agreement was amended which included an adjustment to the purchase price to \$1,353,200. Having paid \$50,000 of earnest money, CSURF expects to pay cash of approximately \$190,000 at closing and finance the remaining purchase price of approximately \$1,113,200. The Board of Governors of CSUS approved the purchase of this property from CSURF within ten business days of CSURF's closing.



Supplementary Information
June 30, 2018 and 2017

**Colorado State University
Research Foundation**

Colorado State University Research Foundation
Consolidating Statement of Financial Position
June 30, 2018

	CSURF	CSU Ventures	CSURF AC (Compiled)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 4,911,499	\$ 604,171	\$ 88,611	\$ -	\$ 5,604,281
Certificates of deposit	512,732	1,016,073	-	-	1,528,805
Accounts and notes receivable	134,202	66,570	5,484	(5,484)	200,772
Prepaid and other assets	227,342	12,966	17,021	-	257,329
Direct-financing lease	9,780,486	-	-	-	9,780,486
Construction-in-progress	260,745	54,902	-	-	315,647
Property and equipment, net	47,165,025	-	3,883,468	-	51,048,493
Property held for sale	428,656	-	-	-	428,656
Investment in CSURF AC	1,115,072	-	-	(1,115,072)	-
Property held for CSU	5,059,474	-	-	-	5,059,474
Due from INTO-CSU, LLC	1,227,500	-	-	-	1,227,500
	<u>\$ 70,822,733</u>	<u>\$ 1,754,682</u>	<u>\$ 3,994,584</u>	<u>\$ (1,120,556)</u>	<u>\$ 75,451,443</u>
Liabilities and Net Assets					
Accounts payable	\$ 303,437	\$ 38,182	\$ 5,298	\$ (5,484)	\$ 341,433
Accrued expenses and other liabilities	827,050	237,906	-	-	1,064,956
Security deposits - rentals	256,526	-	-	-	256,526
Lines of credit	1,465,160	-	-	-	1,465,160
Deferred revenue	334,265	4,500	-	-	338,765
Real estate loans and mortgages	50,171,373	-	-	-	50,171,373
Property held for CSU	5,059,474	-	-	-	5,059,474
Due to INTO-CSU, LLC	1,227,500	-	-	-	1,227,500
Total liabilities	<u>59,644,785</u>	<u>280,588</u>	<u>5,298</u>	<u>(5,484)</u>	<u>59,925,187</u>
Net Assets					
Unrestricted					
Undesignated	2,995,760	1,419,192	98,818	(1,115,072)	3,398,698
Designated for real estate projects	453,175	-	-	-	453,175
Designated for agricultural programs	102,360	-	-	-	102,360
Invested in property and direct- finance lease, net of related debt	7,463,539	54,902	3,883,468	-	11,401,909
	<u>11,014,834</u>	<u>1,474,094</u>	<u>3,982,286</u>	<u>(1,115,072)</u>	<u>15,356,142</u>
Noncontrolling interest in affiliate	-	-	7,000	-	7,000
Total unrestricted	<u>11,014,834</u>	<u>1,474,094</u>	<u>3,989,286</u>	<u>(1,115,072)</u>	<u>15,363,142</u>
Permanently restricted	163,114	-	-	-	163,114
Total net assets	<u>11,177,948</u>	<u>1,474,094</u>	<u>3,989,286</u>	<u>(1,115,072)</u>	<u>15,526,256</u>
	<u>\$ 70,822,733</u>	<u>\$ 1,754,682</u>	<u>\$ 3,994,584</u>	<u>\$ (1,120,556)</u>	<u>\$ 75,451,443</u>

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	275,513	13,821	6,312	-	295,646
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
Investment in CSURF AC	1,115,072	-	-	(1,115,072)	-
Property held for CSU	5,059,474	-	-	-	5,059,474
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 and other liabilities	936,153	153,554	-	-	1,089,707
Security deposits - rentals	200,317	-	-	-	200,317
Lines of credit	562,149	-	-	-	562,149
Deferred revenue	215,000	-	-	-	215,000
Real estate loans and mortgages	52,671,569	-	1,430,892	-	54,102,461
Property held for CSU	5,059,474	-	-	-	5,059,474
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 program	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 Activities
Year Ended June 30, 2018

	<u>CSURF</u>	<u>CSU Ventures</u>	<u>CSURF AC</u> <u>(compiled)</u>	<u>Eliminations</u>	<u>Total</u>
Unrestricted Activities:					
Operating Revenue					
Property rentals and related income	\$ 6,221,603	\$ -	\$ -	\$ -	\$ 6,221,603
Royalty revenue	-	1,823,157	-	-	1,823,157
Administrative fees - CSU	1,372,528	2,433,900	157,693	(157,431)	3,806,690
Program revenue - Todos Santos	-	-	179,400	-	179,400
Ranching operations	191,375	-	-	-	191,375
Other revenue	25,528	108,168	18,496	-	152,192
Total operating revenue	<u>7,811,034</u>	<u>4,365,225</u>	<u>355,589</u>	<u>(157,431)</u>	<u>12,374,417</u>
Operating Expenses					
Property rentals and related expenses	3,835,510	-	-	-	3,835,510
Technology transfer	-	3,224,019	-	(157,431)	3,066,588
Royalty expenses	-	1,298,443	-	-	1,298,443
General and administrative	2,832,037	-	310,557	-	3,142,594
Program expenses - Todos Santos	-	-	246,252	-	246,252
Ranching expenses	207,892	-	-	-	207,892
Total operating expenses	<u>6,875,439</u>	<u>4,522,462</u>	<u>556,809</u>	<u>(157,431)</u>	<u>11,797,279</u>
Change in Net Assets - Operating	<u>935,595</u>	<u>(157,237)</u>	<u>(201,220)</u>	<u>-</u>	<u>577,138</u>
Nonoperating Activities					
Interest income	317,908	17,023	-	-	334,931
Gain on sale of property and equipment	104,910	-	-	-	104,910
Interest expense	(1,956,983)	-	-	-	(1,956,983)
Currency translation (loss)	-	-	(107,705)	-	(107,705)
Forgiveness of debt - Todos Santos	-	-	1,557,938	-	1,557,938
Change in Net Assets - Nonoperating	<u>(1,534,165)</u>	<u>17,023</u>	<u>1,450,233</u>	<u>-</u>	<u>(66,909)</u>
Change in Unrestricted Net Assets	(598,570)	(140,214)	1,249,013	-	510,229
Unrestricted Net Assets, Beginning of Year	11,613,404	1,614,308	2,740,273	(1,115,072)	14,852,913
Unrestricted Net Assets, End of Year	11,014,834	1,474,094	3,989,286	(1,115,072)	15,363,142
Permanently Restricted Activities:					
Permanently Restricted Net Assets, End of Year	<u>163,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,114</u>
Total Net Assets	<u>\$ 11,177,948</u>	<u>\$ 1,474,094</u>	<u>\$ 3,989,286</u>	<u>\$(1,115,072)</u>	<u>\$ 15,526,256</u>

Colorado State University Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2017

	<u>CSURF</u>	<u>CSU Ventures</u>	<u>CSURF AC</u> (compiled)	<u>Eliminations</u>	<u>Total</u>
Unrestricted Activities:					
Operating Revenue					
Property rentals and related income	\$ 6,116,993	\$ -	\$ -	\$ -	\$ 6,116,993
Royalty revenue	-	3,055,536	-	-	3,055,536
Administrative fees - CSU	1,243,809	2,355,000	192,770	(151,298)	3,640,281
Program revenue - Todos Santos	-	-	210,979	-	210,979
Ranching operations	141,736	-	-	-	141,736
Other revenue	39,047	45,555	6,700	-	91,302
Total operating revenue	<u>7,541,585</u>	<u>5,456,091</u>	<u>410,449</u>	<u>(151,298)</u>	<u>13,256,827</u>
Operating Expenses					
Property rentals and related expenses	3,650,318	-	-	-	3,650,318
Technology transfer	-	3,234,205	-	(151,298)	3,082,907
Royalty expenses	-	1,884,908	-	-	1,884,908
General and administrative	2,837,143	-	532,324	-	3,369,467
Program expenses - Todos Santos	-	-	47,498	-	47,498
Ranching expenses	192,507	-	-	-	192,507
Total operating expenses	<u>6,679,968</u>	<u>5,119,113</u>	<u>579,822</u>	<u>(151,298)</u>	<u>12,227,605</u>
Change in Net Assets - Operating	<u>861,617</u>	<u>336,978</u>	<u>(169,373)</u>	<u>-</u>	<u>1,029,222</u>
Nonoperating Activities					
Interest income	321,289	11,712	-	-	333,001
Gain on sale of property and equipment	621,419	-	-	-	621,419
Sale of water rights	571,000	-	-	-	571,000
Gain on sale of investments	78,518	-	-	-	78,518
Interest expense	(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>11,712</u>	<u>(1,389,038)</u>	<u>-</u>	<u>(1,825,421)</u>
Change in Net Assets	413,522	348,690	(1,558,411)	-	(796,199)
Net Assets, Beginning of Year	<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>
Net Assets, End of Year	11,613,404	1,614,308	2,740,273	(1,115,072)	14,852,913
Permanently Restricted Activities:					
Permanently Restricted Net Assets,					
End of Year	<u>163,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,114</u>
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>