



Consolidated Financial Statements
June 30, 2023 and 2022

Colorado State University Research
Foundation (dba CSU STRATA)

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Independent Auditor's Report

To the Board of Trustees
Colorado State University STRATA
Fort Collins, Colorado

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Colorado State University Research Foundation dba CSU STRATA, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of CSU STRATA as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of CSU STRATA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CSU STRATA's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities of the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CSU STRATA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CSU STRATA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Fort Collins, Colorado
October 23, 2023

CSU STRATA
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 9,268,774	\$ 11,262,155
Operating investments	3,994,440	-
Accounts and notes receivable, net	973,851	581,769
Prepaid and other assets	344,526	360,854
Direct-financing lease	8,234,082	8,522,401
Property and equipment, net	39,397,963	41,207,685
Intangible assets	790,317	790,317
Property held for sale	-	1,314,327
Assets held for Colorado State University	8,406,391	13,125,140
	<u>\$ 71,410,344</u>	<u>\$ 77,164,648</u>
Liabilities and Net Assets		
Accounts payable	\$ 382,701	\$ 304,015
Accrued expenses and other liabilities	3,336,474	1,278,036
Security deposits - rentals	244,794	216,773
Lines of credit	246,835	1,481,580
Deferred revenue	303,298	226,381
Real estate loans and mortgages	37,469,890	40,640,285
Assets held for Colorado State University	8,406,391	13,125,140
	<u>50,390,383</u>	<u>57,272,210</u>
Net Assets		
Without donor restrictions		
Undesignated	9,871,543	8,395,047
Designated for agricultural programs	-	103,163
Invested in property and direct-financing lease, net of related debt	10,952,472	11,194,445
	<u>20,824,015</u>	<u>19,692,655</u>
With donor restrictions	195,946	199,783
	<u>21,019,961</u>	<u>19,892,438</u>
	<u>\$ 71,410,344</u>	<u>\$ 77,164,648</u>

CSU STRATA
Consolidated Statements of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Property rentals and related income	\$ 7,409,979	\$ -	\$ 7,409,979
Royalty revenue	3,157,647	-	3,157,647
Service fees	5,686,776	-	5,686,776
Realized gain on equity securities	641,457	-	641,457
Program revenue - Todos Santos	247,655	-	247,655
Ranching operations	234,682	-	234,682
Net investment return	122,081	-	122,081
Contributions and grants	257,554	-	257,554
Interest income	220,528	-	220,528
Gain on sale of property and equipment	12,954	-	12,954
Other revenue	98,034	-	98,034
Net assets released from restriction	3,837	(3,837)	-
	<u>18,093,184</u>	<u>(3,837)</u>	<u>18,089,347</u>
Expenses			
Program expenses	13,168,986	-	13,168,986
General and administrative	3,607,525	-	3,607,525
	<u>16,776,511</u>	<u>-</u>	<u>16,776,511</u>
Loss on foreign currency translation adjustment	185,313	-	185,313
Change in Net Assets	1,131,360	(3,837)	1,127,523
Net Assets, Beginning of Year	<u>19,692,655</u>	<u>199,783</u>	<u>19,892,438</u>
Net Assets, End of Year	<u>\$ 20,824,015</u>	<u>\$ 195,946</u>	<u>\$ 21,019,961</u>

CSU STRATA
Consolidated Statements of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Property rentals and related income	\$ 6,941,440	\$ -	\$ 6,941,440
Royalty revenue	3,107,991	-	3,107,991
Service fees	4,535,511	-	4,535,511
Program revenue - Todos Santos	79,245	-	79,245
Ranching operations	266,298	-	266,298
Interest income	204,862	-	204,862
Gain on sale of property and equipment	109,959	-	109,959
Contributions and grants	40,767	-	40,767
Other revenue	121,180	-	121,180
Net assets released from restriction	759	(759)	-
	<u>15,408,012</u>	<u>(759)</u>	<u>15,407,253</u>
Total revenue, support, and gains			
Expenses and Losses			
Program expenses	12,045,980	-	12,045,980
General and administrative	2,902,316	-	2,902,316
	<u>14,948,296</u>	<u>-</u>	<u>14,948,296</u>
Total expenses			
Change in Net Assets	459,716	(759)	458,957
Net Assets, Beginning of Year	<u>19,232,939</u>	<u>200,542</u>	<u>19,433,481</u>
Net Assets, End of Year	<u>\$ 19,692,655</u>	<u>\$ 199,783</u>	<u>\$ 19,892,438</u>

CSU STRATA

Consolidated Statements of Functional Expenses
Year Ended June 30, 2023

	Program Expense			General and Administrative		Total
	CSU Strata	Todos Santos	Total	Administrative	Total	
Salaries, benefits and taxes	\$ 3,883,561	\$ 107,534	\$ 3,991,095	\$ 2,127,348	\$ 6,118,443	
Royalty payments	2,145,669	-	2,145,669	-	2,145,669	
Professional services	897,164	-	897,164	855,685	1,752,849	
Depreciation and amortization	1,528,308	96,051	1,624,359	124,015	1,748,374	
Property management expense and utilities	1,500,339	8,559	1,508,898	3,950	1,512,848	
Interest	1,398,530	-	1,398,530	-	1,398,530	
Property taxes	860,882	-	860,882	3,373	864,255	
Insurance	264,907	10,912	275,819	38,866	314,685	
Office expenses	-	3,031	3,031	224,992	228,023	
Ranch expenses	165,071	-	165,071	-	165,071	
Other	81,078	-	81,078	33,748	114,826	
Rent	28,120	71,524	99,644	7,106	106,750	
Dues and licenses	21,900	-	21,900	78,956	100,856	
Direct program expenses - Todos Santos	-	93,875	93,875	-	93,875	
Sponsorships	-	-	-	48,159	48,159	
Travel and entertainment	-	1,971	1,971	35,056	37,027	
Maintenance and repairs	-	-	-	26,271	26,271	
Total expenses	\$ 12,775,529	\$ 393,457	\$ 13,168,986	\$ 3,607,525	\$ 16,776,511	

CSU STRATA

Consolidated Statements of Functional Expenses
Year Ended June 30, 2022

	Program Expense			General and Administrative		Total
	CSURF	Todos Santos	Total	Administrative	Total	
Salaries, benefits and taxes	\$ 3,096,903	\$ 101,389	\$ 3,198,292	\$ 1,760,550	\$ 4,958,842	
Royalty payments	2,154,893	-	2,154,893	-	2,154,893	
Depreciation and amortization	1,523,188	92,191	1,615,379	126,590	1,741,969	
Interest	1,418,047	-	1,418,047	-	1,418,047	
Professional services	801,289	16,909	818,198	485,541	1,303,739	
Property management expense and utilities	1,264,749	10,042	1,274,791	5,026	1,279,817	
Property taxes	934,702	-	934,702	2,494	937,196	
Insurance	230,934	10,628	241,562	53,757	295,319	
Dues and licenses	99,244	230	99,474	189,326	288,800	
Other	132,564	141	132,705	14,232	146,937	
Office expenses	-	4,028	4,028	112,736	116,764	
Ranch expenses	88,833	-	88,833	-	88,833	
Rent	22,968	19,824	42,792	8,233	51,025	
Travel and entertainment	-	-	-	50,821	50,821	
Sponsorships	-	-	-	47,883	47,883	
Maintenance and repairs	-	-	-	45,127	45,127	
Direct program expenses - Todos Santos	-	22,284	22,284	-	22,284	
Total expenses	\$ 11,768,314	\$ 277,666	\$ 12,045,980	\$ 2,902,316	\$ 14,948,296	

CSU STRATA

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Cash received from property rentals	\$ 7,094,814	\$ 6,809,306
Cash received from royalties	3,157,647	3,107,991
Cash received from service fees - CSUS	5,686,776	4,535,511
Cash received from programs	247,655	63,841
Cash received from other activities	590,270	443,649
Interest received	220,529	204,862
Interest paid	(1,361,179)	(1,469,067)
Cash paid to employees	(4,578,576)	(3,842,934)
Cash paid for royalties	(401,236)	(2,160,258)
Cash paid to vendors	(6,660,023)	(6,154,543)
Net cash from operating activities	<u>3,996,677</u>	<u>1,538,358</u>
Investing Activities		
Net purchases/maturities of operating investments	(3,872,359)	1,057,857
Purchase of property and equipment	(144,634)	(294,197)
Purchase of intangible assets	-	(754,317)
Net cash proceeds from sale of property and equipment	1,347,950	372,253
Cash proceeds from sale of equity securities	641,459	-
Payments received from direct-financing lease	288,319	282,023
Net cash (used for) from investing activities	<u>(1,739,265)</u>	<u>663,619</u>
Financing Activities		
Advances from lines of credit	123,609	151,311
Principal payments on		
Lines of credit	(1,358,354)	(44,979)
Real estate loans and mortgages	(3,170,395)	(1,761,706)
Net cash used for financing activities	<u>(4,405,140)</u>	<u>(1,655,374)</u>
Net change in Cash, Cash Equivalents, and Restricted Cash	(2,147,728)	546,603
Cash, Cash Equivalents, and Restricted Cash Beginning of Year	<u>12,366,586</u>	<u>11,819,983</u>
Cash, Cash Equivalents, and Restricted Cash End of Year	<u>\$ 10,218,858</u>	<u>\$ 12,366,586</u>
Cash and cash equivalents	\$ 9,268,774	\$ 11,262,155
Cash restricted for CSU included in assets held for CSU	<u>950,084</u>	<u>1,104,431</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 10,218,858</u>	<u>\$ 12,366,586</u>

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Colorado State University Research Foundation, doing business as CSU STRATA, 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 – Fort Collins, Colorado State University – Pueblo, and Colorado State University – Global) in their research and educational efforts. Colorado State University STRATA provides property and equipment leasing, intellectual property and licensing management, debt financing through mortgage debt service, and land acquisition, development and property management.

CSURF de Mexico, Association Civil (CSURF AC) was organized in 2014 to assist the University in development of a campus in Todos Santos, Mexico. On October 5, 2021, CSURF Todos Santos (CSURF TS), a Mexican corporation, was established to respond to changes in Mexican law relating to taxing authorities. Financial information relating to CSURF AC and CSURF TS is presented in total for both entities, herein, although each entity stands alone for reporting purposes within Mexico. As of June 30, 2023 and 2022 total assets for these entities was \$3,426,209 and \$3,495,985, respectively.

Principles of Consolidation

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

Cash, Cash Equivalents, and Restricted Cash

All cash and highly liquid financial instruments with original maturities of three months or less are considered to be cash and cash equivalents. Restricted cash includes cash held for CSU related to the ongoing I-25 & Prospect project, which is reported within Assets held for Colorado State University within the consolidated statements of financial position.

CSU STRATA maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2023 and 2022, CSU STRATA had approximately \$2,250,000 and \$12,100,000, respectively, in excess of FDIC-insured limits.

Receivables and Credit Policies

Accounts and notes receivable consist primarily of noninterest-bearing amounts due from rental of real estate and license agreements. An allowance for uncollectable accounts and notes receivable is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts and notes receivable are written off when deemed uncollectable. At June 30, 2023 and 2022 the allowance for doubtful accounts was \$80,914 and \$53,474, respectively.

Investments

Operating investments 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 statements of financial position. Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Investments in equity securities without readily determinable fair values are measured using the practical expedient at cost minus impairment (if any) and adjusted for any observable price changes in orderly transactions of identical securities or similar securities of the same issuer. Investments in equity securities without readily determinable fair values are considered annually for indicators of impairment.

CSU STRATA participates in ownership of entities that develop technology within the University environment. Therefore, CSU STRATA's investments generally do not have readily determinable fair values and are measured at initial cost and adjusted for impairment and any other observable price changes. As these entities may be in the development stage, ownership is closely held, few ownership transactions take place, and CSU STRATA has not historically received significant returns on these investments, they are considered to be fully impaired and recorded at a nominal value. The cumulative amount of impairment was approximately \$300,000 as of June 30, 2023 and 2022.

As of and for the years ended June 30, 2023 and 2022, the carrying value and adjustments to these investments were not significant with balances being presented in prepaid expenses and other assets in the consolidated statements of financial position.

Leases

CSU STRATA classifies its leases at inception as operating or direct financing leases. Direct financing leases meet certain criteria that have the economic characteristics of transferring ownership of the underlying asset and are accounted for similar to financing arrangements. Selling profit on a direct financing lease is deferred and amortized over the lease term, and a selling loss is recognized at lease commencement. Interest income on the net investment in leases is recognized as direct financing revenue over the lease term in a manner that produces a constant rate of return on the net investment in the lease. A lease is classified as an operating lease if it does not qualify as a direct financing lease.

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, 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, 2023 and 2022.

Intangible Assets

Intangible asset additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Intangible assets consist of water rights, which are considered to have an indefinite useful life and are not amortized. The carrying values of intangible assets 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, 2023 and 2022. The carrying value of the water rights were \$790,317 as of June 30, 2023 and 2022.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board designated, from net assets without donor restrictions, net assets for agricultural programs as of June 30, 2022. No such designations remained as of June 30, 2023 (Note 11).

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. CSU STRATA reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. CSU STRATA reports conditional contributions restricted by donors as increases in net assets without donor restrictions if the restrictions and conditions expire simultaneously in the reporting period.

Revenue and Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met.

Rental revenue is recognized ratably over the rental period. Security deposits and prepaid rent received in advance of the rental period are deferred to the end of contract or applicable period, respectively. Service fees received from CSUS cover a scope of services determined under the Master Services Agreement in effect through June 30, 2024, which includes technology transfer, real estate, financing and corporate services. Service fees are recognized over time as the performance obligations under each service area are satisfied. Royalty revenue is recognized in accordance with the respective license agreements at the point in time in which the related licensed intellectual property is used. Income from ranching operations is recognized at a point in time when the title of the livestock is transferred to the customer.

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. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and amortization and rent, which are allocated on a square footage basis, as well as salaries, benefits and taxes, professional services, and dues and licenses, which are allocated on the basis of estimates of time and effort.

Income Taxes

CSU STRATA 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, and has been determined not to be a private foundation. CSU STRATA is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

In addition, CSU STRATA is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. CSU STRATA has determined that certain operations are 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, 2023 and 2022. CSU STRATA's Form 990-T is no longer subject to tax examination for years prior to 2020.

CSURF AC and CSURF TS are incorporated as separate nonprofit associations under Mexican corporate laws and, as such, are subject to the income tax regulations of Mexico including indirect value added tax (IVA).

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.

Foreign Currency Translation

The functional currency of CSURF AC is the Mexican Peso. Assets and liabilities are translated at the year-end exchange rates and revenues and expenses are translated at the average exchange rate for the period, with the corresponding exchange effect reflected as gain/(loss) on foreign currency translation adjustment.

Financial Instruments and Credit Risk

Deposit concentration risk is managed 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, CSU STRATA 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 CSU STRATA’s long-term welfare.

Subsequent Events

Management has evaluated subsequent events through October 23, 2023, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability

CSU STRATA operates on a balanced budget, and regularly monitors liquidity to meet operating needs and other contractual commitments while also striving to maximize the investment of available funds.

Financial assets are considered to be available for general expenditure if there are no donor or other restrictions that would preclude expenditures outright, or in satisfaction of any purpose restrictions. At June 30, 2023 and 2022, financial assets available for general expenditure within one year are comprised of the following:

	2023	2022
Cash and cash equivalents	\$ 9,235,942	\$ 11,225,486
Operating investments	3,994,440	-
Accounts and notes receivable, net	973,851	581,769
	\$ 14,204,233	\$ 11,807,255

Note 3 - 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 or liability, 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 or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. 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, considering factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk, or liquidity profile of the asset.

A significant portion of investment assets are classified within Level 1 because they comprise U.S. government obligations with readily determinable fair values based on closing market prices or daily redemption values. CSU STRATA held \$3,994,440 and \$0 of U.S. government obligations as of June 30, 2023 and 2022, respectively.

Note 4 - Direct-Financing Lease

During 2015, CSU STRATA entered into a direct-financing lease with the CSUS 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. CSUS also has the option, at any time, to pay off the lease at an amount sufficient to fulfill the outstanding principal and interest on CSU STRATA's note payable. The direct-financing lease consists of monthly payments of principal and interest beginning April 2015, with interest at 2.85%. In January 2021, the lease was amended to mature on March 31, 2030 and the interest rate was lowered to 2.18%.

Future minimum lease payments to be received are as follows:

Years Ending June 30,	Amount
2024	\$ 473,787
2025	473,787
2026	473,787
2027	473,787
2028	473,787
Thereafter	6,964,513
	9,333,448
Less amount representing interest	(1,099,366)
	\$ 8,234,082

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30, 2023 and 2022:

	2023	2022
Land	\$ 14,473,731	\$ 14,596,973
Buildings and improvements	40,589,624	40,367,380
Furniture and equipment	1,727,197	1,742,410
Breeding herd	311,098	356,445
	57,101,650	57,063,208
Less accumulated depreciation and amortization	(17,703,687)	(15,855,523)
	\$ 39,397,963	\$ 41,207,685

CSU STRATA 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 totaled \$2,558,965 and \$550,000 at June 30, 2023 and 2022, respectively.

As of June 30, 2022 property held for sale totaled \$1,314,327. On July 25, 2022, CSU STRATA executed an agreement to sell all parcels of land held as part of the Utterback Ranch, which were recorded either within assets held for Colorado State University or property held for sale, for a total sales price of approximately \$10.5 million. Net proceeds were transferred to CSU Foundation for the benefit of Colorado State University.

Note 6 - Lines of Credit

Lines of credit consist of the following at June 30, 2023 and 2022:

	2023	2022
Equipment leasing \$1,000,000 line of credit, interest due in quarterly payments at rate of 4.95% per annum, principal and any accrued interest due at maturity in December 2023, secured by all accounts and equipment other than that held in a trust, fiduciary or bond capacity.	\$ 246,835	\$ 186,379
Prospect Plaza \$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 7.50% and 4.75% per annum as of June 30, 2023 and 2022), principal and any accrued interest due at maturity in December 2023, secured by a deed of trust and all assignments of rents associated with the property.	-	1,295,201
	\$ 246,835	\$ 1,481,580

Note 7 - Real Estate Loans and Mortgages

CSU STRATA borrows to fund the purchase of real estate primarily used for rental activities. A summary of loan obligation terms is as follows:

Monthly principal and interest payments (1)	\$1,300 - \$50,000
Interest rates at June 30, 2023, rates are primarily variable	2.18% - 4.75%
Maturity dates	2024 - 2035

(1) Some loans require balloon payments, and these maturities are reflected in the table below.

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

<u>Years Ending June 30,</u>	<u>Amount</u>
2024	\$ 3,235,842
2025	7,978,916
2026	6,400,640
2027	5,526,265
2028	653,343
Thereafter	13,674,884
	<u>\$ 37,469,890</u>

Note 8 - Assets Held for Colorado State University

CSU STRATA holds title to assets, including restricted cash, accounts receivable, and properties, that are held solely for the benefit of various CSUS departments, and CSU STRATA acts in an agency capacity. The balances of these assets as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Restricted cash	\$ 950,084	\$ 1,104,431
Accounts receivable	519,320	418,728
Properties held	6,936,987	6,146,069
Properties held for sale	-	5,455,912
	<u>\$ 8,406,391</u>	<u>\$ 13,125,140</u>

Note 9 - Operating Leases

CSU STRATA leases various residential and commercial properties that generate rental income under operating lease agreements maturing from 2023 through 2059 with fixed lease payments ranging from approximately \$150 per month to \$27,000 per month. Property subject to operating leases is as follows at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land	\$ 8,069,934	\$ 9,358,705
Buildings and improvements	31,145,184	31,145,184
	39,215,118	40,503,889
Less accumulated depreciation	<u>(9,375,776)</u>	<u>(8,310,050)</u>
	<u>\$ 29,839,342</u>	<u>\$ 32,193,839</u>

Depreciation expense for leased property subject to operating leases is provided on the straight-line method over the estimated useful life of the property in amounts necessary to reduce the assets to their estimated residual values. Depreciation expense relating to leased property subject to operating leases was \$1,065,726 for the years ended June 30, 2023 and 2022.

Lease income recognized on operating leases was \$5,529,020 and \$5,139,924 for the years ended June 30, 2023 and 2022, respectively.

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
2024	\$ 3,457,719
2025	3,033,092
2026	1,434,939
2027	1,313,611
2028	1,300,054
Thereafter	16,321,392
	\$ 26,860,807

Note 10 - Net Assets with Donor Restrictions

In 1969, CSU STRATA 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 CSU STRATA does not sell or dispose of the property. Accordingly, the gift has been accounted for as net assets with donor restrictions. Any net gain or loss generated from the operation of the ranch is recorded in net assets without donor restrictions.

The remaining net assets with donor restrictions consist of funds restricted for use in further development of inventions in the amount of \$32,832 and \$36,669 at June 30, 2023 and 2022, respectively.

Note 11 - Board-Designated Net Assets

The Harper Fund was established in the early 1990s and these funds were previously designated by the Board of Trustees (the Board) for activities related to agriculture programs. These amounts totaled \$0 and \$103,163 for the years ended June 30, 2023 and 2022 respectively. During the year ended June 30, 2023, all designations were properly satisfied.

Note 12 - Related Party Transactions

CSU STRATA received service and other fees from CSUS of \$5,373,586 and \$4,454,750 during the years ended June 30, 2023 and 2022, respectively.

CSU STRATA leases various residential and commercial properties to CSUS and to the Board of Governors of CSUS under operating lease agreements which generate rental income. CSUS is responsible for operating costs associated with the buildings, including maintenance and repairs. These agreements mature at various dates through 2027 and for the years ended June 30, 2023 and 2022, generated income of \$1,657,242 and \$1,633,300, respectively.

Note 13 - Retirement Plan

CSU STRATA has a defined-contribution money purchase retirement plan that covers full-time employees who have attained age 21 and have completed one year of service. Contributions, calculated at 10% of employee base compensation up to \$25,000 plus 14.3% over \$25,000 of compensation, were \$479,127 and \$384,183 for the years ended June 30, 2023 and 2022, respectively.