



**Financial Statements  
and  
Independent Auditors' Report  
June 30, 2017**

**EKS&H**

**COLORADO STATE UNIVERSITY FOUNDATION**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Colorado State University Foundation  
Fort Collins, Colorado

We have audited the accompanying financial statements of Colorado State University Foundation (the "Foundation"), which are comprised of the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **OPINION**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado State University Foundation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **REPORT ON SUMMARIZED COMPARATIVE INFORMATION**

We have previously audited the Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **OTHER MATTER**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of management and general expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*EKS+H LLLP*

EKS&H LLLP

September 14, 2017  
Denver, Colorado

**COLORADO STATE UNIVERSITY FOUNDATION**

**Statement of Financial Position**

**June 30, 2017**

**(With Summarized Financial Information for June 30, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 923,802	\$ 1,214,856	\$ 3,158,376	\$ 5,297,034	\$ 1,023,427
Investments	34,543,192	262,358,061	196,263,820	493,165,073	425,163,141
Pledges receivable, net	-	57,425,018	23,190,775	80,615,793	44,626,270
Property and equipment, net of accumulated depreciation	31,490	-	-	31,490	20,784
Cash surrender value of life insurance policies	-	36,794	653,249	690,043	644,401
Prepays and other assets	<u>58,033</u>	<u>431,107</u>	<u>24,405</u>	<u>513,545</u>	<u>364,893</u>
Total assets	<u>\$ 35,556,517</u>	<u>\$ 321,465,836</u>	<u>\$ 223,290,625</u>	<u>\$ 580,312,978</u>	<u>\$ 471,842,916</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable (primarily to CSU)	\$ 223,348	\$ 2,257,050	\$ -	\$ 2,480,398	\$ 1,260,004
Other accrued liabilities	154,347	-	-	154,347	176,010
Life income agreements	416,140	86,839	251,893	754,872	807,214
Deposits held in custody for CSU	<u>-</u>	<u>1,315,598</u>	<u>12,256,894</u>	<u>13,572,492</u>	<u>13,009,093</u>
Total liabilities	<u>793,835</u>	<u>3,659,487</u>	<u>12,508,787</u>	<u>16,962,109</u>	<u>15,252,321</u>
<b>Net assets</b>					
<b>Unrestricted</b>					
Undesignated	6,179,506	-	-	6,179,506	5,453,643
Board-designated	30,739,087	-	-	30,739,087	21,354,385
Endowment investment losses in excess of gift value	<u>(2,155,911)</u>	<u>-</u>	<u>-</u>	<u>(2,155,911)</u>	<u>(5,806,014)</u>
Total unrestricted net assets	34,762,682	-	-	34,762,682	21,002,014
Temporarily restricted	-	317,806,349	-	317,806,349	254,394,357
Permanently restricted	<u>-</u>	<u>-</u>	<u>210,781,838</u>	<u>210,781,838</u>	<u>181,194,224</u>
Total net assets	<u>34,762,682</u>	<u>317,806,349</u>	<u>210,781,838</u>	<u>563,350,869</u>	<u>456,590,595</u>
Total liabilities and net assets	<u>\$ 35,556,517</u>	<u>\$ 321,465,836</u>	<u>\$ 223,290,625</u>	<u>\$ 580,312,978</u>	<u>\$ 471,842,916</u>

See notes to financial statements.

**COLORADO STATE UNIVERSITY FOUNDATION**

**Statement of Activities  
For the Year Ended June 30, 2017  
(With Summarized Financial Information for June 30, 2016)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Support and revenue					
Contributions	\$ 284,289	\$ 77,535,679	\$ 30,310,292	\$ 108,130,260	\$ 97,479,102
Net investment income (loss)	22,657,047	28,533,302	13,857	51,204,206	(9,408,846)
Actuarial change in value of life income agreements	(26,240)	7,180	(43,234)	(62,294)	(83,681)
Other revenue	325,884	46,890	24,026	396,800	12,520,862
Net assets released from restrictions - satisfaction of program restrictions	<u>40,982,499</u>	<u>(40,982,499)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>64,223,479</u>	<u>65,140,552</u>	<u>30,304,941</u>	<u>159,668,972</u>	<u>100,507,437</u>
Expenses and distributions					
Program services					
CSU College of -					
Agricultural Sciences	4,138,149	-	-	4,138,149	3,980,817
Health & Human Sciences	2,681,508	-	-	2,681,508	3,717,306
Business	1,683,787	-	-	1,683,787	1,621,965
Engineering - Scott	2,390,853	-	-	2,390,853	3,838,367
Liberal Arts	1,462,332	-	-	1,462,332	1,936,958
Natural Resources - Warner	2,484,531	-	-	2,484,531	2,513,579
Natural Sciences	2,643,699	-	-	2,643,699	2,068,500
Veterinary Medicine and Biomedical Sciences	11,505,487	-	-	11,505,487	10,009,113
Athletics	3,079,331	-	-	3,079,331	2,940,452
Central Development	8,445,756	-	-	8,445,756	7,480,070
Other CSU programs	<u>8,536,955</u>	<u>-</u>	<u>-</u>	<u>8,536,955</u>	<u>7,488,188</u>
Total program services	49,052,388	-	-	49,052,388	47,595,315
Support services					
Management and general	<u>2,461,254</u>	<u>-</u>	<u>-</u>	<u>2,461,254</u>	<u>3,171,463</u>
Total expenses and distributions	<u>51,513,642</u>	<u>-</u>	<u>-</u>	<u>51,513,642</u>	<u>50,766,778</u>
Change in allowance for uncollectible pledges	<u>-</u>	<u>856,326</u>	<u>538,730</u>	<u>1,395,056</u>	<u>1,926,574</u>
Change in net assets	12,709,837	64,284,226	29,766,211	106,760,274	47,814,085
Interfund transfers	1,050,831	(872,234)	(178,597)	-	-
Net assets at beginning of year	<u>21,002,014</u>	<u>254,394,357</u>	<u>181,194,224</u>	<u>456,590,595</u>	<u>408,776,510</u>
Net assets at end of year	<u>\$ 34,762,682</u>	<u>\$ 317,806,349</u>	<u>\$ 210,781,838</u>	<u>\$ 563,350,869</u>	<u>\$ 456,590,595</u>

See notes to financial statements.

**COLORADO STATE UNIVERSITY FOUNDATION**

**Statement of Cash Flows  
For the Year Ended June 30, 2017  
(With Summarized Financial Information for June 30, 2016)**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 106,760,274	\$ 47,814,085
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	8,629	9,150
Net unrealized and realized (gain) loss on investments	(51,429,641)	13,728,912
Contributions restricted for investment in endowments	(30,310,292)	(15,905,841)
Contributions of securities for non-endowed funds	(3,616,180)	(21,127,728)
Contributions of life insurance policies	-	(25,067)
Interest and dividends restricted for endowments	(13,857)	(85,868)
Change in cash surrender value of life insurance policies	(45,642)	(15,064)
Change in value of life income agreements	79,808	88,104
Changes in assets and liabilities		
Pledges	(35,989,523)	(20,382,757)
Prepays and other assets	(148,652)	(118,907)
Accounts payable	1,220,394	352,263
Other accrued liabilities	(21,663)	17,258
Deposits held in custody for CSU	<u>563,399</u>	<u>(1,231,730)</u>
	<u>(119,703,220)</u>	<u>(44,697,275)</u>
Net cash (used in) provided by operating activities	<u>(12,942,946)</u>	<u>3,116,810</u>
Cash flows from investing activities		
Payments for the purchase of equipment	(19,335)	(15,440)
Purchases of investments	(287,816,559)	(113,787,461)
Proceeds from sales of investments	<u>275,215,682</u>	<u>98,317,003</u>
Net cash used in investing activities	<u>(12,620,212)</u>	<u>(15,485,898)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowments	29,955,058	12,338,733
Interest and dividends restricted for endowments	13,857	85,868
Payments of annuity obligations	<u>(132,150)</u>	<u>(79,069)</u>
Net cash provided by financing activities	<u>29,836,765</u>	<u>12,345,532</u>
Net increase (decrease) in cash and cash equivalents	4,273,607	(23,556)
Cash and cash equivalents at beginning of year	<u>1,023,427</u>	<u>1,046,983</u>
Cash and cash equivalents at end of year	<u>\$ 5,297,034</u>	<u>\$ 1,023,427</u>

See notes to financial statements.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 1 - Foundation Operations and Significant Accounting Policies**

#### Organization

Colorado State University Foundation (the "Foundation") is a not-for-profit organization incorporated in 1970 to assist in the promotion, development, and enhancement of the facilities and educational programs and opportunities of the faculty, students, and alumni of Colorado State University ("CSU"). This is accomplished through receiving, managing, and investing gifts. Principal and/or income from these gifts are used for charitable, scientific, literary, or educational purposes, which directly or indirectly aid and benefit CSU.

#### Basis of Accounting

Net assets of the Foundation and the changes therein are classified and reported as follows:

Unrestricted amounts are not subject to donor-imposed restrictions.

Temporarily restricted amounts are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted amounts are subject to donor-imposed restrictions requiring them to be maintained permanently by the Foundation.

The governing board of the Foundation has identified certain unrestricted and temporarily restricted net assets as board-designated endowments to be invested for a long-term period. These board-designated endowments are referred to as quasi-endowments within the notes to the financial statements (Notes 7 and 8).

#### Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term money market accounts, and other highly liquid investments with an original maturity of three months or less, except for cash and cash equivalents subject to investment management direction. Due to demands on cash from transfer requests by CSU, at times cash balances in commercial banks exceeded the level of insurance provided by the Federal Deposit Insurance Corporation.



# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 1 - Foundation Operations and Significant Accounting Policies (continued)**

#### Investments

Investments are stated at fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year; investments traded in the over-the-counter market and listed securities for which no sale was reported on the last day are valued at the latest available bid price. Alternative investments are valued at the net asset value ("NAV") provided by the investment manager. This NAV is computed based on dealer quotations on the fair value of the underlying securities, the majority of which are traded on national exchanges. Investments for which there is no active market are recorded at fair value using various valuation techniques. Such techniques include using recent arm's length market transactions; observable valuation measures for comparable companies, adjusted for differences between the investment and the referenced comparable; and discounted cash flow analysis, pending recent transactions and potential initial public offering values.

A payout on endowment funds computed at an annual rate determined by the Foundation's governing board (4.25% and 4.5%, respectively, for the years ended June 30, 2017 and 2016) is transferred to temporarily restricted funds and is available for spending by CSU. All funds are charged an administrative fee computed at an annual rate (1.75% and 2%, respectively, for the years ended June 30, 2017 and 2016). Investment returns (dividends, interest, and realized and unrealized gains and losses, net of management fees) in excess of the payout and administrative fee are generally reported as temporarily restricted funds (Note 8) but are not currently available for spending.

#### Contributions and Promises to Give

Contributions include assets received and unconditional promises to give (pledges receivable). Contributions of securities are recorded at their fair value on the date received. In certain cases, the Foundation may be asked to accept contributions of property (in-kind contributions) on behalf of CSU, and in such cases, the property would be recorded at fair value on the date received. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

The Foundation uses the allowance method to estimate uncollectible pledges receivable. The allowance is based on historic experience and management's analysis of specific promises made. These promises to give are recorded at the net present value of the expected future cash flows discounted using a risk-free interest rate.

#### Life Income Agreements and Life Income Trusts Receivable

The Foundation administers life income agreements such as gift annuities where an income beneficiary is the lifetime recipient of income and the Foundation is the remainder beneficiary. Upon receipt of the gift, a liability is established for the estimated net present value of the lifetime recipient's interest using applicable mortality tables and a discount rate commensurate with the risks involved. A contribution is recognized for the estimated present value of the remainder interest.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 1 - Foundation Operations and Significant Accounting Policies (continued)**

#### Life Income Agreements and Life Income Trusts Receivable (continued)

The Foundation has also been named irrevocable remainder beneficiary for trusts administered by third-party corporate trustees. For these types of arrangements, a receivable and contribution are recorded at the estimated present value of the remainder interest. These life income arrangements are revalued annually to reflect changes in the remainder interest estimates. The Foundation does not permit use of the funds by CSU until the expiration of the lifetime recipient's interest.

#### Property and Equipment

Property and equipment purchased by the Foundation is stated at cost less accumulated depreciation. Donations of property and equipment are recorded at fair value on the date received. Expenses for maintenance, repairs, and minor replacements are charged to operations. The Foundation capitalizes property purchases and significant expenses for major replacements and improvements in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of assets, which range from two to five years.

#### Income Taxes

The Foundation is a not-for-profit entity exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a public charity under Section 509(a)(1). Accordingly, no provision for income taxes is made in these financial statements.

The Foundation applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2017 and 2016.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed in management and general expenses. No interest or penalties have been assessed as of June 30, 2017 and 2016.

#### Use of Estimates in Preparation of the Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses during the reporting period. Significant estimates relate to the collection of pledges receivable, valuation of certain alternative and private equity investments, and obligations under life income agreements. Actual results could differ from those estimates.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 1 - Foundation Operations and Significant Accounting Policies (continued)**

#### Recently Issued Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendment applies to reporting entities that elect to measure the fair value of an investment using the net asset value ("NAV") per share (or its equivalent) practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The amendment is effective for all fiscal years beginning after December 15, 2016.

In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to not-for-profit entities. The amendment reduces the classes of net assets to *net assets with donor restrictions* and *net assets without donor restrictions*; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017 with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented. The Foundation is currently evaluating the impact of the pending adoption of this new standard on the financial statements.

#### Subsequent Events

Management has evaluated subsequent events through the auditors' report date, which is the date the financial statements were available to be issued.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### Note 2 - Investments

Investments consist of various securities carried at fair value as described in Note 1, including the following:

Other/Global Asset Allocation investments include funds which invest in both equities and fixed income.

Alternative investments are comprised of two investment types: hedge funds and private market investments. The goal of hedge fund investments is to achieve returns with a lower correlation to long-only public equity markets. Hedge funds frequently hold both long and short positions. The goal of private market investments is to generate returns in excess of public markets in exchange for restricted liquidity. Private market investments are generally made in the form of equity capital or debt in private companies. The average time to achieve a total commitment draw down is five years for private market investments.

Net investment earnings consist of the following:

	For the Years Ended June 30,	
	<u>2017</u>	<u>2016</u>
Interest, dividends, and other income	\$ 5,848,718	\$ 7,273,027
Net realized gain on investments	53,781,136	10,555,555
Net unrealized loss on investments	(2,351,495)	(24,284,467)
Less: investment management fees	<u>(4,720,071)</u>	<u>(3,590,226)</u>
	52,558,288	(10,046,111)
Less: net investment (income) loss on deposits held in custody for CSU	<u>(1,354,082)</u>	<u>637,265</u>
	<u>\$ 51,204,206</u>	<u>\$ (9,408,846)</u>

The Foundation values its financial assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices are available in active markets for identical investments as of the reporting date.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3: Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 2 - Investments (continued)**

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

As required by GAAP, the Foundation uses net asset value per share or its equivalent ("practical expedient"), such as member units or an ownership interest in partners' capital, to estimate the fair value of an alternative investment and requires additional fair value disclosures of the Foundation's alternative investments. Certain investments that are measured at fair value using the net asset value practical expedient are not classified in the fair value hierarchy. The fair value amounts presented in the following table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The following is a description of valuation methodologies used for assets measured at fair value:

*Cash equivalents, public equities (other than investments in certain entities that calculate NAV per share), fixed income (other than investments in certain entities that calculate NAV per share), other/global asset allocation, short duration, and student-managed investments:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Alternative investments:* Value calculated using the NAV per share of the investments.

There were no changes in the Foundation's valuation techniques during the year.

**COLORADO STATE UNIVERSITY FOUNDATION**

**Notes to Financial Statements**

**Note 2 - Investments (continued)**

The following tables set forth by level, within the fair value hierarchy, the Foundation's investment assets measured on a recurring basis at fair value:

Description	Total June 30, 2017	Fair Value Measurements			Net Asset Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents subject to investment management direction	\$ 1,771,417	\$ 1,771,417	\$ -	\$ -	\$ -
Public equities					
United States	82,839,610	81,780,769	-	-	1,058,841
International	18,146,395	-	-	-	18,146,395
Emerging markets	26,844,156	-	-	-	26,844,156
Global	83,443,171	22,032,229	-	-	61,410,942
Fixed income	100,321,559	72,221,384	-	-	28,100,175
Other/global asset allocation	20,137,764	20,137,764	-	-	-
Alternative investments					
Hedge funds	60,945,698	-	-	-	60,945,698
Private markets	55,740,228	-	-	-	55,740,228
Short duration	41,972,555	41,972,555	-	-	-
Student-managed investments	<u>1,002,520</u>	<u>1,002,520</u>	-	-	-
Balance, June 30, 2017	<u>\$ 493,165,073</u>	<u>\$ 240,918,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 252,246,435</u>

Description	Total June 30, 2016	Fair Value Measurements			Net Asset Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents subject to investment management direction	\$ 7,577,989	\$ 7,577,989	\$ -	\$ -	\$ -
Public equities					
United States	105,631,686	89,542,561	-	-	16,089,125
International	28,761,915	18,763,424	-	-	9,998,491
Emerging markets	29,722,235	-	-	-	29,722,235
Global	37,701,735	-	-	-	37,701,735
Fixed income	31,870,308	31,870,308	-	-	-
Other/global asset allocation	-	-	-	-	-
Alternative investments					
Hedge funds	97,668,700	-	-	-	97,668,700
Private markets	45,679,557	-	-	-	45,679,557
Short duration	39,693,975	39,693,975	-	-	-
Student-managed investments	<u>855,041</u>	<u>855,041</u>	-	-	-
Balance, June 30, 2016	<u>\$ 425,163,141</u>	<u>\$ 188,303,298</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,859,843</u>

**COLORADO STATE UNIVERSITY FOUNDATION**

**Notes to Financial Statements**

**Note 2 - Investments (continued)**

**Investments in Certain Entities that Calculate Net Asset Value per Share**

<u>Fund Description</u>	<u>Investment Strategy</u>	<u>June 30, 2017 Fair Value</u>	<u>June 30, 2016 Fair Value</u>	<u>June 30, 2017 Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Emerging market equities	Global opportunities (a)	\$ 26,844,156	\$ 29,722,235	\$ -	Daily, semi-monthly, monthly	5-30 days
Fixed income	Domestic (b)	16,028,239	-	-	Daily	1 day
Fixed income	Emerging markets debt (c)	12,071,936	-	-	Daily	1 day
Global equities	Global (d)	61,410,942	37,701,735	-	Daily, monthly, quarterly	7-30 days
Hedge funds	Equity long/short (e)	26,494,057	25,540,383	-	N/A, annually, quarterly	N/A, 45-60 days
Hedge funds	Multi-strategy (f)	34,451,641	72,128,317	-	N/A, quarterly	45-70 days
International equities	Global opportunities (g)	18,146,395	9,998,491	-	Monthly	30 days
Private markets	Direct lending (h)	8,033,691	-	2,905,038	N/A, Quarterly after 3-year lock-up	N/A, 90 days after 3-year lock-up
Private markets	Distressed debt (i)	6,188,206	5,311,579	7,736,103	N/A	N/A
Private markets	Domestic (j)	15,403,695	13,337,301	14,670,911	N/A	N/A
Private markets	Energy and natural resources (k)	8,018,777	6,543,323	4,602,702	N/A	N/A
Private markets	International (l)	10,973,068	14,798,845	2,534,370	N/A	N/A
Private markets	Multi-strategy (m)	4,747,447	4,364,860	5,000,000	N/A	N/A
Private markets	Venture capital (n)	2,375,344	1,323,649	4,025,502	N/A	N/A
United States equities	Micro-cap (o)	<u>1,058,841</u>	<u>16,089,125</u>	<u>-</u>	Monthly	10 days
Total		<u>\$ 252,246,435</u>	<u>\$ 236,859,843</u>	<u>\$ 41,474,626</u>		

(a) This category includes investments in common stock of international companies, based in emerging markets. The fair values of the investments in this category have been calculated using the NAV per share of the investments.

(b) This category includes investments primarily in TIPS and Treasuries in the United States. The fair values of the investments in this category have been calculated using the NAV per share of the investments.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### Note 2 - Investments (continued)

#### Investments in Certain Entities that Calculate Net Asset Value per Share (continued)

- (c) This category includes investments primarily in debt and currencies in emerging markets. The fair values of the investments in this category have been calculated using the NAV per share of the investments.
- (d) This category includes investments in common stock of international companies, based in and outside the United States. The fair values of the investments in this category have been calculated using the NAV per share of the investments.
- (e) This category includes investments in hedge funds that invest both long and short primarily in domestic common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small- to large-capitalization stocks, and from a net long to a net short position. The fair values of the investments in this category have been calculated using the NAV per share of the investments. Certain investments cannot be redeemed because the investments are part of an illiquid market.
- (f) This category includes investments in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. The hedge funds' composite portfolio for this category includes investments in public equities, treasuries, and fixed income derivatives. The fair values of the investments in this category have been calculated using the NAV per share of the investments. Investments representing an insignificant amount cannot be redeemed because the investments include holdings that are part of an illiquid market.
- (g) This category includes investments in common stock of international companies, based outside the United States. The fair values of the investments in this category have been calculated using the NAV per share of the investments.
- (h) This category includes private market funds invested primarily in senior secured loans, and public and private credit and debt instruments in Western Europe, Asia, and the Pacific Basin. Certain investments cannot be redeemed by the Foundation. Distributions are received through bundled loan repayments and liquidation of the underlying assets of the funds. It is estimated that the underlying assets will be liquidated over the next three to six years. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership in the partners' capital.
- (i) This category includes private market funds invested in distressed mortgage debt instruments such as mortgage-backed securities. These investments cannot be redeemed by the Foundation. Distributions are received through bundled monthly mortgage payments and liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next one to nine years. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership in the partners' capital.



# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 2 - Investments (continued)**

#### **Investments in Certain Entities that Calculate Net Asset Value per Share (continued)**

- (j) This category includes private market funds invested in domestic private companies. These investments cannot be redeemed by the Foundation. Distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next one to eight years. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership in the partners' capital.
- (k) This category includes private market funds invested primarily in domestic energy companies. These investments cannot be redeemed by the Foundation. Distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next one to six years. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership in the partners' capital.
- (l) This category includes private market funds invested, either directly or indirectly, in international companies. These investments cannot be redeemed by the Foundation. Distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next one to six years. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership in the partners' capital.
- (m) This category includes investments in bank loans, private loans, public and private debt securities, foreign currency exchange transactions, credit-linked securities, and derivative transactions. The investments cannot be redeemed by the Foundation. Distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next two to five years. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership in the partners' capital.
- (n) This category includes private market funds invested primarily in early stage domestic private companies. The investments cannot be redeemed by the Foundation. Distributions are received through liquidation of the underlying assets of the fund. It is estimated that the underlying assets will be liquidated over the next seven to ten years. The fair values of the investments in this category have been estimated using the NAV of the Foundation's ownership in the partners' capital.
- (o) This category includes investments in common stock of domestic micro-capitalization companies. The fair values of the investments in this category have been calculated using the NAV per share of the investments.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 3 - Pledges Receivable**

Pledges receivable consist of the following:

	June 30,	
	2017	2016
Receivables due in less than one year	\$ 16,859,398	\$ 14,015,826
Receivables due in one to five years	55,507,738	28,831,983
Receivables due in more than five years	15,337,779	4,498,169
	87,704,915	47,345,978
Less allowance for uncollectible pledges	(2,192,623)	(1,183,649)
Less present value discounting	(4,896,499)	(1,536,059)
	<b>\$ 80,615,793</b>	<b>\$ 44,626,270</b>

Unconditional promises to give (pledges receivable) are from various entities, including foundations, corporations, and individuals. The discount factor utilized in the present value calculation is the five-year U.S. Treasury note rate as of June 30 of the fiscal year in which the commitment is made.

Pledges receivable from two donors at June 30, 2017 represented approximately 50% of net pledges receivable. Pledges receivable from two donors at June 30, 2016 represented approximately 36% of net pledges receivable.

### **Note 4 - Life Income Agreements**

At June 30, 2017 and 2016, total life income agreement assets were \$664,891 and \$680,241, respectively, consisting of charitable gift annuities and charitable remainder trusts. Charitable gift annuity assets of \$640,486 and \$631,102 at June 30, 2017 and 2016, respectively, are included in investments on the accompanying statements of financial position. Charitable remainder trust assets invested with the Foundation total \$24,405 and \$49,139 at June 30, 2017 and 2016, respectively, and are included in other assets on the accompanying statements of financial position.

Future maturities of life income agreements payable are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 113,080
2019	114,511
2020	91,567
2021	77,116
2022	70,191
Thereafter	288,407
	<b>\$ 754,872</b>

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 5 - Property and Equipment**

Property and equipment consists of the following:

	June 30.	
	<u>2017</u>	<u>2016</u>
Property and equipment	\$ 212,140	\$ 237,501
Less accumulated depreciation	<u>(180,650)</u>	<u>(216,717)</u>
	<u>\$ 31,490</u>	<u>\$ 20,784</u>

### **Note 6 - Life Insurance Policies**

The Foundation is the owner and beneficiary of various donated life insurance policies with face values of approximately \$2,829,000, and total cash surrender values of \$690,043 and \$644,401 as of June 30, 2017 and 2016, respectively.

### **Note 7 - Net Assets**

Temporarily restricted net assets, which include income earned on permanently restricted net assets, are available to support CSU by providing funds for student scholarships, capital improvements, research, institutional support, and other educational purposes and activities.

As of June 30, 2017 and 2016, the Foundation's governing board has designated \$30,739,087 and \$21,354,385, respectively, of unrestricted net assets as quasi-endowments (which are reported as unrestricted net assets in Note 8).

In addition, the Foundation's governing board has designated funds that are subject to donors' use restrictions as quasi-endowments. These temporarily restricted quasi-endowment funds totaled \$56,316,634 and \$46,381,198 as of June 30, 2017 and 2016, respectively, and are reported as temporarily restricted net assets in Note 8.

### **Note 8 - Endowments**

The Foundation's endowment at June 30, 2017 consists of 1,365 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Foundation's governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### Note 8 - Endowments (continued)

#### Interpretation of Relevant Law

The Foundation's governing board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), adopted by the state of Colorado in 2008, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor-gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (2,155,911)	\$ 81,854,801	\$ 210,781,838	\$ 290,480,728
Donor-restricted quasi-endowments	-	56,316,634	-	56,316,634
Board-designated quasi-endowments	<u>30,739,087</u>	<u>-</u>	<u>-</u>	<u>30,739,087</u>
	<u>\$ 28,583,176</u>	<u>\$ 138,171,435</u>	<u>\$ 210,781,838</u>	<u>\$ 377,536,449</u>

**COLORADO STATE UNIVERSITY FOUNDATION**

**Notes to Financial Statements**

**Note 8 - Endowments (continued)**

**Changes in Endowment Net Assets for the Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, July 1, 2016	\$ 15,548,371	\$ 110,523,985	\$ 181,194,224	\$ 307,266,580
Contributions	-	2,536,018	30,310,292	32,846,310
Transfers to board-designated/ donor-restricted endowments	-	6,520,256	5,340	6,525,596
Investment return	18,566,875	20,011,909	13,857	38,592,641
Amounts appropriated for expenditure	(9,182,173)	2,378,975	-	(6,803,198)
Recovery of prior year investment losses in excess of gift value	3,650,103	(3,650,103)	-	-
Other changes	<u>-</u>	<u>(149,605)</u>	<u>(741,875)</u>	<u>(891,480)</u>
Balance, June 30, 2017	<u>\$ 28,583,176</u>	<u>\$ 138,171,435</u>	<u>\$ 210,781,838</u>	<u>\$ 377,536,449</u>

**Endowment Net Asset Composition by Type of Fund as of June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (5,806,014)	\$ 64,142,787	\$ 181,194,224	\$ 239,530,997
Donor-restricted quasi- endowments	-	46,381,198	-	46,381,198
Board-designated quasi- endowments	<u>21,354,385</u>	<u>-</u>	<u>-</u>	<u>21,354,385</u>
	<u>\$ 15,548,371</u>	<u>\$ 110,523,985</u>	<u>\$ 181,194,224</u>	<u>\$ 307,266,580</u>

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### Note 8 - Endowments (continued)

#### Changes in Endowment Net Assets for the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, July 1, 2015	\$ 26,568,060	\$ 99,239,432	\$ 165,762,637	\$ 291,570,129
Contributions	-	8,568,856	15,905,841	24,474,697
Transfers to board-designated/ donor-restricted endowments	-	10,205,633	(4,790)	10,200,843
Investment return	3,159,735	(24,955,659)	85,868	(21,710,056)
Amounts appropriated for expenditure	(9,676,147)	687,877	(379)	(8,988,649)
Investment losses in excess of gift value	(4,503,277)	4,503,277	-	-
Other changes	-	12,274,569	(554,953)	11,719,616
Balance, June 30, 2016	<u>\$ 15,548,371</u>	<u>\$ 110,523,985</u>	<u>\$ 181,194,224</u>	<u>\$ 307,266,580</u>

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$2,155,911 and \$5,806,014 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Foundation's governing board.

#### Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for donor-specified periods as well as board-designated funds.

Under this policy, as approved annually by the Foundation's governing board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% to 10% annually. Actual returns in any given year may vary from this amount.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 8 - Endowments (continued)**

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). With consultation from its investment consultant, the Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Foundation's governing board meets at least quarterly and more often, if needed, to discuss investment matters to ensure the best possible return, consistent with the preservation of principal, is achieved.

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year a percentage of its endowment fund's average balance approved annually by the governing board (the payout rate was 4.25% and 4.50% for the years ended June 30, 2017 and 2016, respectively). All funds are assessed an administrative fee at an annual rate approved by the governing board (the administrative fee was 1.75% and 2.00% for the years ended June 30, 2017 and 2016, respectively). In establishing its spending policy, the Foundation considered the long-term expected return on its endowment, recognizing any given year may experience favorable or unfavorable market conditions. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 0.5% to 3.5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term with respect to the prevailing rate of inflation as well as to provide additional real growth through new gifts and investment returns.

### **Note 9 - Related Party Transactions**

#### Colorado State University ("CSU")

In consideration for receiving, managing, and investing gifts on behalf of CSU, the Foundation charges an administrative fee. Total administrative fees of approximately \$7,013,000 and \$7,480,000 were charged for the years ended June 30, 2017 and 2016, respectively, representing 1.75% and 2%, respectively, of total invested assets. Any excess fee collected over the Foundation's budget is allocated to a quasi-endowment for the benefit of CSU. Distributions from the quasi-endowment were approximately \$7,804,000 and \$6,839,000 for the years ended June 30, 2017 and 2016, respectively.

CSU provided office space and various services to the Foundation at no charge. During the year ended June 30, 2016, the Foundation paid \$615,300 to CSU for gift processing services, including donor and gift reporting and administration. For the year ended June 30, 2017, the Foundation was no longer directly charged for these services as a result of the reduction in the administrative fee paid to the Foundation by CSU.

# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 9 - Related Party Transactions (continued)**

#### Colorado State University ("CSU") (continued)

During the year ended June 30, 2014, the Foundation entered into an agreement to provide CSU with a \$15,000,000 line-of-credit. The line-of-credit accrues interest at the prime rate plus 1.0%; however, the interest rate shall not be less than 2.5% or more than 6.0%. The line-of-credit agreement terminates on June 30, 2018, but can be renewed for up to two additional five-year terms based on approval by the Foundation's Board of Directors. As of and during the year ended June 30, 2017, no amounts were drawn by CSU on the line-of-credit. Subsequent to June 30, 2017, at the request of CSU, the line-of-credit was reduced to \$5,000,000 and the term was extended to expire on June 30, 2022.

Many departments of CSU depend on gift revenues managed by the Foundation to supplement their budgets. Funds are transferred to CSU upon request by authorized personnel and expended in accordance with Colorado State University System fiscal rules and donor restrictions. Substantially all other Foundation expenses relate to the Foundation's operations.

The Foundation has been designated by the Board of Governors of the Colorado State University System as the official repository for all gifts of cash, securities, and other assets given to CSU or to the Board of Governors of the Colorado State University System for the use and benefit of CSU, other than those required by law to be kept by CSU. Endowments and the related expendable funds of CSU are held by the Foundation for investment safekeeping. These funds amounted to \$13,572,492 and \$13,009,093 as of June 30, 2017 and 2016, respectively, and are reported as deposits held in custody for CSU in the accompanying statement of financial position. Amounts are classified in accordance with restrictions related to CSU and do not have an impact on the net assets of the Foundation.

#### Colorado State University Research Foundation ("CSURF")

The President of the Foundation serves in the same capacity for CSURF. CSURF is a private, not-for-profit organization that aids and assists the two universities (Colorado State University and Colorado State University-Pueblo) governed by the Board of Governors of the Colorado State University System in their research and educational efforts.

The Foundation transferred approximately \$1,000 and \$68,000 of cash to CSURF during the years ended June 30, 2017 and 2016, respectively, for the construction costs of the Energy Innovation Center in the Powerhouse Energy Institute.

During the year ended June 30, 2016, CSURF sold an interest in property it held on behalf of CSU. Net sale proceeds of approximately \$12,290,000 were transferred to the Foundation, to be held on behalf of CSU, and is included in other revenue in the statement of activities.



# COLORADO STATE UNIVERSITY FOUNDATION

## Notes to Financial Statements

### **Note 10 - Retirement Plan**

After one year of service at the Foundation, all employees who work at least 1,000 hours per year are eligible for participation in the defined contribution retirement plan. The Foundation contributes 8.0% of employee-based compensation up to the Social Security earnings base plus 13.7% over the Social Security earnings base. Retirement plan contributions for the years ended June 30, 2017 and 2016 were approximately \$79,000 and \$98,000, respectively. Plan assets are not reflected in these financial statements.

**SUPPLEMENTARY INFORMATION**

**COLORADO STATE UNIVERSITY FOUNDATION**

**Schedule of Management and General Expenses**

	For the Years Ended	
	June 30,	
	<u>2017</u>	<u>2016</u>
Personnel costs	\$ 1,366,713	\$ 1,422,121
Professional services and consulting	351,569	403,280
Legislative relations	324,418	353,951
Interest and service charges	142,925	134,244
Accounting and legal fees	97,177	103,642
Equipment maintenance	49,437	30,349
Miscellaneous expense	38,192	6,647
Supplies and equipment	17,795	17,347
Staff development and travel	16,190	24,852
Insurance and bonding	13,248	13,351
Postage, freight, and delivery	11,115	11,070
Depreciation	8,629	9,150
Permits and licenses	4,959	3,612
Lease and rent	4,363	4,731
Special events and stewardship	3,830	2,464
Meals and entertainment	3,269	4,178
Printing and copying	3,170	7,164
Telecommunications	2,638	2,401
Board expenses	1,617	1,609
Gift processing services - related party	-	615,300
	<u>\$ 2,461,254</u>	<u>\$ 3,171,463</u>