



**Financial Statements
and
Independent Auditors' Report
June 30, 2016**



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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 15, 2016
Denver, Colorado

COLORADO STATE UNIVERSITY FOUNDATION

Statement of Financial Position

June 30, 2016

(With Summarized Financial Information for June 30, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>	<u>2015</u>
Assets					
Cash and cash equivalents	\$ 260,137	\$ 667,734	\$ 95,556	\$ 1,023,427	\$ 1,046,983
Investments	21,351,815	217,776,719	186,034,607	425,163,141	398,726,759
Pledges receivable, net	-	38,611,613	6,014,657	44,626,270	24,243,513
Property and equipment, net of accumulated depreciation	20,784	-	-	20,784	14,494
Cash surrender value of life insurance policies	-	15,178	629,223	644,401	604,270
Prepays and other assets	<u>222,572</u>	<u>113,443</u>	<u>28,878</u>	<u>364,893</u>	<u>245,986</u>
Total assets	<u>\$ 21,855,308</u>	<u>\$257,184,687</u>	<u>\$192,802,921</u>	<u>\$471,842,916</u>	<u>\$424,882,005</u>
Liabilities and Net Assets					
Liabilities					
Accounts payable (primarily to CSU)	\$ 247,384	\$ 1,012,620	\$ -	\$ 1,260,004	\$ 907,741
Other accrued liabilities	176,010	-	-	176,010	158,752
Life income agreements	429,900	111,005	266,309	807,214	798,179
Deposits held in custody for CSU	<u>-</u>	<u>1,666,705</u>	<u>11,342,388</u>	<u>13,009,093</u>	<u>14,240,823</u>
Total liabilities	<u>853,294</u>	<u>2,790,330</u>	<u>11,608,697</u>	<u>15,252,321</u>	<u>16,105,495</u>
Net assets					
Unrestricted					
Undesignated	5,453,643	-	-	5,453,643	6,438,523
Board-designated	21,354,385	-	-	21,354,385	27,870,797
Endowment investment losses in excess of gift value	<u>(5,806,014)</u>	<u>-</u>	<u>-</u>	<u>(5,806,014)</u>	<u>(1,302,737)</u>
Total unrestricted net assets	21,002,014	-	-	21,002,014	33,006,583
Temporarily restricted	-	254,394,357	-	254,394,357	210,007,290
Permanently restricted	<u>-</u>	<u>-</u>	<u>181,194,224</u>	<u>181,194,224</u>	<u>165,762,637</u>
Total net assets	<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>
Total liabilities and net assets	<u>\$ 21,855,308</u>	<u>\$257,184,687</u>	<u>\$192,802,921</u>	<u>\$471,842,916</u>	<u>\$424,882,005</u>

See notes to financial statements.

COLORADO STATE UNIVERSITY FOUNDATION

**Statement of Activities
For the Year Ended June 30, 2016
(With Summarized Financial Information for June 30, 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				2016	2015
Support and revenue					
Contributions	\$ 273,911	\$ 81,299,350	\$ 15,905,841	\$ 97,479,102	\$ 70,804,963
Net investment (loss) income	(1,121,217)	(8,373,497)	85,868	(9,408,846)	7,083,604
Actuarial change in value of life income agreements	(21,036)	(18,845)	(43,800)	(83,681)	(88,029)
Other revenue	144	12,501,201	19,517	12,520,862	292,903
Net assets released from restrictions - satisfaction of program restrictions	<u>40,473,373</u>	<u>(40,472,994)</u>	<u>(379)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>39,605,175</u>	<u>44,935,215</u>	<u>15,967,047</u>	<u>100,507,437</u>	<u>78,093,441</u>
Expenses and distributions					
Program services					
CSU College of -					
Agricultural Sciences	3,980,817	-	-	3,980,817	6,147,399
Health & Human Sciences	3,717,306	-	-	3,717,306	7,117,426
Business	1,621,965	-	-	1,621,965	2,304,120
Engineering	3,838,367	-	-	3,838,367	5,706,158
Liberal Arts	1,936,958	-	-	1,936,958	1,272,377
Natural Resources - Warner	2,513,579	-	-	2,513,579	2,325,930
Natural Sciences	2,068,500	-	-	2,068,500	1,440,999
Veterinary Medicine and Biomedical Sciences	10,009,113	-	-	10,009,113	8,015,276
Athletics	2,940,452	-	-	2,940,452	3,182,674
Central Development	7,480,070	-	-	7,480,070	7,269,838
Other CSU programs	<u>7,488,188</u>	<u>-</u>	<u>-</u>	<u>7,488,188</u>	<u>7,032,822</u>
Total program services	47,595,315	-	-	47,595,315	51,815,019
Support services					
Management and general	<u>3,171,463</u>	<u>-</u>	<u>-</u>	<u>3,171,463</u>	<u>2,797,317</u>
Total expenses and distributions	<u>50,766,778</u>	<u>-</u>	<u>-</u>	<u>50,766,778</u>	<u>54,612,336</u>
Change in allowance for uncollectible pledges	<u>-</u>	<u>1,397,644</u>	<u>528,930</u>	<u>1,926,574</u>	<u>385,509</u>
Change in net assets	(11,161,603)	43,537,571	15,438,117	47,814,085	23,095,596
Interfund transfers	(842,966)	849,496	(6,530)	-	-
Net assets at beginning of year	<u>33,006,583</u>	<u>210,007,290</u>	<u>165,762,637</u>	<u>408,776,510</u>	<u>385,680,914</u>
Net assets at end 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>

See notes to financial statements.

COLORADO STATE UNIVERSITY FOUNDATION

Statement of Cash Flows

	For the Years Ended June 30.	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 47,814,085	\$ 23,095,596
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	9,150	5,236
Net unrealized and realized loss (gain) on investments	13,728,912	(4,880,849)
Contributions restricted for investment in endowments	(15,905,841)	(8,008,733)
Contributions of securities for non-endowed funds	(21,127,728)	(12,212,710)
Contributions of life insurance policies	(25,067)	-
Interest and dividends restricted for endowments	(85,868)	(71,140)
Change in cash surrender value of life insurance policies	(15,064)	(36,030)
Change in value of life income agreements	88,104	87,229
Changes in assets and liabilities		
Pledges	(20,382,757)	859,726
Prepays and other assets	(118,907)	(67,851)
Accounts payable	352,263	89,976
Other accrued liabilities	17,258	10,139
Deposits held in custody for CSU	<u>(1,231,730)</u>	<u>(735,354)</u>
	<u>(44,697,275)</u>	<u>(24,960,361)</u>
Net cash provided by (used in) operating activities	<u>3,116,810</u>	<u>(1,864,765)</u>
Cash flows from investing activities		
Payments for the purchase of equipment	(15,440)	(13,021)
Purchases of investments	(113,787,461)	(43,082,057)
Proceeds from sales of investments	<u>98,317,003</u>	<u>37,655,971</u>
Net cash used in investing activities	<u>(15,485,898)</u>	<u>(5,439,107)</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowments	12,338,733	7,472,104
Interest and dividends restricted for endowments	85,868	71,140
Payments of annuity obligations	<u>(79,069)</u>	<u>(79,634)</u>
Net cash provided by financing activities	<u>12,345,532</u>	<u>7,463,610</u>
Net (decrease) increase in cash and cash equivalents	(23,556)	159,738
Cash and cash equivalents at beginning of year	<u>1,046,983</u>	<u>887,245</u>
Cash and cash equivalents at end of year	<u>\$ 1,023,427</u>	<u>\$ 1,046,983</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, 2015, 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 (4.5% for the years ended June 30, 2016 and 2015) 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 (2.0% for the years ended June 30, 2016 and 2015). 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, 2016 and 2015.

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, 2016 and 2015.

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.

Subsequent Events

Management has evaluated subsequent events through the auditors' report date, which is the date the financial statements were available for issuance, noting no events requiring disclosure.

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:

Alternative investments are comprised of two investment types: absolute return and long/short hedged equity investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short hedged equity investments is to outperform the S&P 500 Index over the long term with less volatility.

Other investments are comprised of natural resources and private equity investments. The goal of investments in natural resources is to provide an inflation hedge. The goal of private equity investments is to generate returns in excess of public markets in exchange for restricted liquidity. Natural resources and private equity investments tend to have a lower correlation to general market volatility than listed securities. Private equity investments are generally made in the form of equity capital in unquoted companies with development opportunities. The fund manager attempts to add significant value to these companies via active management and financial structure. Investments in natural resource-related areas may include energy (alternative, oil, gas, and coal), timber, and mining. The average time to achieve a total committed target allocation is five years for other investments.

Net investment earnings consist of the following:

	For the Years Ended June 30,	
	<u>2016</u>	<u>2015</u>
Interest, dividends, and other income	\$ 7,273,027	\$ 5,534,972
Net realized gain on investments	10,555,555	27,548,781
Net unrealized loss on investments	(24,284,467)	(22,667,932)
Less: investment management fees	<u>(3,590,226)</u>	<u>(3,360,640)</u>
	(10,046,111)	7,055,181
Less: net investment loss on deposits held in custody for CSU	<u>637,265</u>	<u>28,423</u>
	<u>\$ (9,408,846)</u>	<u>\$ 7,083,604</u>

COLORADO STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Note 2 - Investments (continued)

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.

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.

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

Cash equivalents, equities (other than investments in certain entities that calculate NAV per share), fixed income, 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	Fair Value June 30, 2016	Fair Value Measurements at Reporting Date Using		
		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	\$ -	\$ -
Equities				
Large-cap	69,415,547	69,415,547	-	-
International	58,484,150	18,763,424	39,720,726	-
Global	37,701,735	-	37,701,735	-
Micro-cap	16,089,125	-	16,089,125	-
Small/mid-cap	20,127,014	20,127,014	-	-
Fixed income	31,870,308	31,870,308	-	-
Alternative investments				
Hedged equities	25,540,383	-	13,462,386	12,077,997
Absolute return	72,128,317	-	72,088,416	39,901
Private equity	41,314,697	-	-	41,314,697
Fixed income	4,364,860	-	-	4,364,860
Short duration	39,693,975	39,693,975	-	-
Student-managed investments	855,041	855,041	-	-
Balance, June 30, 2016	\$ 425,163,141	\$ 188,303,298	\$ 179,062,388	\$ 57,797,455

Description	Fair Value June 30, 2015	Fair Value Measurements at Reporting Date Using		
		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	\$ 1,700,282	\$ 1,700,282	\$ -	\$ -
Equities				
Large-cap	70,361,801	70,361,801	-	-
International	61,975,163	20,557,120	41,418,043	-
Global	35,755,093	-	35,755,093	-
Micro-cap	17,073,442	-	17,073,442	-
Small/mid-cap	12,041,690	12,041,690	-	-
Fixed income	17,242,691	17,242,691	-	-
Alternative investments				
Hedged equities	24,911,987	-	13,465,022	11,446,965
Absolute return	82,880,210	-	82,838,186	42,024
Private equity	49,041,196	-	-	49,041,196
Fixed income	4,960,380	-	-	4,960,380
Short duration	19,870,210	19,870,210	-	-
Student-managed investments	912,614	912,614	-	-
Balance, June 30, 2015	\$ 398,726,759	\$ 142,686,408	\$ 190,549,786	\$ 65,490,565

COLORADO STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Note 2 - Investments (continued)

Level 3 Changes

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Year Ended June 30, 2016

Balance, June 30, 2015	\$ 65,490,565
Total losses included in changes in net assets (net investment income)	(2,420,204)
Purchases	8,783,560
Distributions	<u>(14,056,466)</u>
Balance, June 30, 2016	<u>\$ 57,797,455</u>

Included in the change in net assets (net investment income) for the year ended June 30, 2016 are net unrealized losses of \$7,059,728 attributable to Level 3 investments held at June 30, 2016.

Year Ended June 30, 2015

Balance, June 30, 2014	\$ 66,986,988
Total gains included in changes in net assets (net investment income)	1,369,783
Purchases	8,980,186
Distributions	<u>(11,846,392)</u>
Balance, June 30, 2015	<u>\$ 65,490,565</u>

Included in the change in net assets (net investment income) for the year ended June 30, 2015 are net unrealized losses of \$3,691,416 attributable to Level 3 investments held at June 30, 2015.

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, 2016 Fair Value</u>	<u>June 30, 2015 Fair Value</u>	<u>June 30, 2016 Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Absolute Return	Multi-strategy (a)	\$ 72,128,317	\$ 82,880,210	\$ -	Monthly, quarterly, annually	15-65 days
Fixed Income Alternative	Multi-strategy (b)	4,364,860	4,960,380	15,000,000	N/A	N/A
Hedged Equity	Equity Long/Short (c)	25,540,383	24,911,987	-	Monthly, quarterly, annually	30-60 days
International Equity	Global Opportunities (d)	39,720,726	41,418,043	-	Daily, monthly, quarterly	14-60 days
Global Equity	Global (e)	37,701,735	35,755,093	-	Quarterly	30 days
Micro-Cap Equity	Domestic (f)	16,089,125	17,073,442	-	Monthly	10 days
Private Equity	Distressed Debt (g)	5,311,579	4,540,767	9,079,087	N/A	N/A
Private Equity	Domestic (h)	13,337,301	16,504,138	17,921,161	N/A	N/A
Private Equity	Energy and Natural Resources (i)	6,543,323	7,107,486	8,038,193	N/A	N/A
Private Equity	International (j)	14,798,845	20,055,858	3,658,847	N/A	N/A
Private Equity	Venture Capital (k)	<u>1,323,649</u>	<u>832,947</u>	<u>4,994,023</u>	N/A	N/A
Total		<u>\$ 236,859,843</u>	<u>\$ 256,040,351</u>	<u>\$ 58,691,311</u>		

COLORADO STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Note 2 - Investments (continued)

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

- (a) This category includes investments in absolute return funds that pursue multiple strategies to diversify risk and reduce volatility. The absolute return 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.
- (b) 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 three 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.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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.
- (g) This category includes private equity 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 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.

COLORADO STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Note 2 - Investments (continued)

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

- (h) This category includes private equity 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 four 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 equity 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 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.
- (j) This category includes private equity 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 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.
- (k) This category includes private equity 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.

Note 3 - Pledges Receivable

Pledges receivable consist of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Receivables due in less than one year	\$ 14,015,826	\$ 9,246,671
Receivables due in one to five years	28,831,983	16,274,726
Receivables due in more than five years	<u>4,498,169</u>	<u>305,000</u>
	47,345,978	25,826,397
Less allowance for uncollectible pledges	(1,183,649)	(645,660)
Less present value discounting	<u>(1,536,059)</u>	<u>(937,224)</u>
	<u>\$ 44,626,270</u>	<u>\$ 24,243,513</u>

COLORADO STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Note 3 - Pledges Receivable (continued)

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, 2016 represented approximately 36% of net pledges receivable. Pledges receivable from two donors at June 30, 2015 represented approximately 41% of net pledges receivable.

Note 4 - Life Income Agreements

At June 30, 2016 and 2015, total life income agreement assets were \$680,241 and \$694,665, respectively, consisting of charitable gift annuities and charitable remainder trusts. Charitable gift annuity assets of \$631,102 and \$633,694 at June 30, 2016 and 2015, respectively, are included in investments on the accompanying statements of financial position. Charitable remainder trust assets invested with the Foundation total \$49,139 and \$60,971 at June 30, 2016 and 2015, respectively, and are included in other assets on the accompanying statements of financial position.

Future maturities of life income agreements payable are as follows:

Year Ending June 30,

2017	\$	121,102
2018		122,077
2019		95,428
2020		79,397
2021		72,263
Thereafter		<u>316,947</u>
	\$	<u>807,214</u>

Note 5 - Property and Equipment

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 237,501	\$ 223,735
Less accumulated depreciation	<u>(216,717)</u>	<u>(209,241)</u>
	<u>\$ 20,784</u>	<u>\$ 14,494</u>

COLORADO STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

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 \$2,418,000, and total cash surrender values of \$644,401 and \$604,270 as of June 30, 2016 and 2015, 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, 2016 and 2015, the Foundation's governing board has designated \$21,354,385 and \$27,870,797, 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 \$46,381,198 and \$31,729,595 as of June 30, 2016 and 2015, respectively, and are reported as temporarily restricted net assets in Note 8.

Note 8 - Endowments

The Foundation's endowment at June 30, 2016 consists of 1,303 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, 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	-	<u>12,274,569</u>	<u>(554,953)</u>	<u>11,719,616</u>
Balance, June 30, 2016	<u>\$ 15,548,371</u>	<u>\$ 110,523,985</u>	<u>\$ 181,194,224</u>	<u>\$ 307,266,580</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ (1,302,737)	\$ 67,509,837	\$ 165,762,637	\$ 231,969,737
Donor-restricted quasi- endowments	-	31,729,595	-	31,729,595
Board-designated quasi- endowments	<u>27,870,797</u>	<u>-</u>	<u>-</u>	<u>27,870,797</u>
	<u>\$ 26,568,060</u>	<u>\$ 99,239,432</u>	<u>\$ 165,762,637</u>	<u>\$ 291,570,129</u>

COLORADO STATE UNIVERSITY FOUNDATION

Notes to Financial Statements

Note 8 - Endowments (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, July 1, 2014	\$ 30,819,522	\$ 108,462,689	\$ 157,822,461	\$ 297,104,672
Contributions	-	62,535	8,008,733	8,071,268
Transfers to board-designated/ donor-restricted endowments	-	2,151,696	(140,658)	2,011,038
Investment return	6,954,005	(12,178,201)	71,140	(5,153,056)
Amounts appropriated for expenditure	(10,505,745)	-	(2,088)	(10,507,833)
Recovery of investment losses in excess of gift value	(699,722)	699,722	-	-
Other changes	-	40,991	3,049	44,040
Balance, June 30, 2015	<u>\$ 26,568,060</u>	<u>\$ 99,239,432</u>	<u>\$ 165,762,637</u>	<u>\$ 291,570,129</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 \$5,806,014 and \$1,302,737 as of June 30, 2016 and 2015, 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 4.5% for the years ended June 30, 2016 and 2015). All funds are assessed an administrative fee at an annual rate approved by the governing board (the administrative fee was 2.0% for the years ended June 30, 2016 and 2015). 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 \$7,480,000 and \$7,511,000 were charged for the years ended June 30, 2016 and 2015, respectively, representing 2% 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 \$6,839,000 and \$6,599,000 for the years ended June 30, 2016 and 2015, respectively.

CSU provided office space and various services to the Foundation at no charge. The Foundation paid \$615,300 and \$546,100 to CSU during the years ended June 30, 2016 and 2015, respectively, for gift processing services, including donor and gift reporting and administration.

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, 2016, no amounts were drawn by CSU on the line-of-credit.

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 \$13,009,093 and \$14,240,823 as of June 30, 2016 and 2015, 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 \$68,000 and \$32,000 of cash to CSURF during the years ended June 30, 2016 and 2015, 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, 2016 and 2015 were approximately \$98,000 and \$92,000, 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>2016</u>	<u>2015</u>
Personnel costs	\$ 1,422,121	\$ 1,342,337
Gift processing services - related party	615,300	546,100
Professional services and consulting	403,280	260,000
Legislative relations	353,951	338,336
Interest and service charges	134,244	96,194
Accounting and legal fees	103,642	72,635
Equipment maintenance	30,349	26,837
Staff development and travel	24,852	14,955
Supplies and equipment	17,347	16,667
Insurance and bonding	13,351	13,190
Postage, freight, and delivery	11,070	10,201
Depreciation	9,150	5,236
Printing and copying	7,164	4,838
Miscellaneous expense	6,647	32,606
Lease and rent	4,731	4,346
Meals and entertainment	4,178	3,257
Permits and licenses	3,612	3,579
Special events and stewardship	2,464	2,538
Telecommunications	2,401	2,284
Board expenses	<u>1,609</u>	<u>1,181</u>
	<u>\$ 3,171,463</u>	<u>\$ 2,797,317</u>