



Financial Statements and Report of Independent
Certified Public Accountants

University of Nevada, Reno Foundation

June 30, 2010

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Report of Independent Certified Public Accountants

Board of Trustees
University of Nevada, Reno Foundation

We have audited the accompanying statement of net assets of the University of Nevada, Reno Foundation (a nonprofit organization) (the “Foundation”) as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation’s 2009 financial statements, and in our report dated September 15, 2009, we expressed an unqualified opinion on the respective basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Nevada, Reno Foundation as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2010 on our consideration of the Foundation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The Management's Discussion and Analysis on pages 6 through 10 is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Reno, Nevada
September 14, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2010

This section of the University of Nevada, Reno Foundation's ("the Foundation") annual financial report presents management's discussion and analysis of the financial performance of the Foundation for the fiscal year ended June 30, 2010. This discussion and analysis has been prepared by management along with the accompanying financial statements and footnotes and should be read in conjunction with the accompanying financial statements and footnotes.

Reporting Entity

The University of Nevada, Reno Foundation is a nonprofit corporation whose mission is to facilitate the solicitation and management of gift revenues and endowments on behalf of the University of Nevada (University). The Foundation was established by the Nevada System of Higher Education ("NSHE"), which is the sole owner of the Foundation. Additionally, the appointment to the Foundation Board of Trustees is the responsibility of the NSHE. As such, the Foundation is considered to be a component of both the University and NSHE. Transactions with the University relate primarily to the disbursement of gift funds to the University and receipt of support from the University to fund administrative expenses of the Foundation.

Financial Statements

The basic financial statements of the Foundation are the Statement of Net Assets; Statement of Support and Revenue, Expenses and Changes in Fund Net Assets; and the Statement of Cash Flows. The Statement of Net Assets presents the financial position of the Foundation as of June 30, 2010. The Statement of Support and Revenue, Expenses and Changes in Fund Net Assets summarizes the Foundation's financial activity for the year ended June 30, 2010. The Statement of Cash Flows reflects the effects on cash that result from the Foundation's operating activities, investing activities, and capital and non-capital financing activities for the year ended June 30, 2010. The following schedules are prepared from the Foundation's basic financial statements.

Statement of Net Assets

This statement is presented with three major categories; assets, liabilities and fund net assets. The assets are classified between current and non-current. The current assets include cash and cash equivalents, investments, due from University of Nevada, accounts receivable, prepaid expenses and deposits, accrued interest receivable and the current portion of pledges and notes receivable. The non-current assets include investments, net pledges receivable, notes receivable, real property held for investment, residual interests in irrevocable trusts, other assets and equipment, less accumulated depreciation.

Liabilities are also classified between current and non-current. Current liabilities include the amount due to the University of Nevada and accounts payable. Non-current liabilities consist of unearned revenue.

Total assets increased by \$19.1 million during the year ended June 30, 2010. This increase in total assets is due primarily to a \$2.2 million increase in investments, an \$8.3 million increase in cash, and a \$9.0 million increase in pledge receivables.

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2010

Statement of Net Assets – Continued

The increase in pledges receivable is primarily the result of fundraising activities in connection with the construction of the new William N. Pennington Health Science Building. The Foundation also recognized approximately \$1.2 million in uncollectable pledges in the current year due to the current economic climate. Current liabilities decreased by approximately \$225,000 which was largely due to amounts owed to the University at the end of the year. Fund net assets increased by \$19.5 million for the year ended June 30, 2010. The following is a comparison of the statement of net assets at June 30, 2010 and 2009.

Statements of Net Assets

	2010	2009
Assets		
Current assets	\$105,129,362	\$112,014,023
Non-current assets	43,118,441	17,160,638
Total assets	\$148,247,803	\$129,174,661
Liabilities		
Current liabilities	\$ 3,626,236	\$ 3,851,614
Non-current liabilities	2,267,310	2,418,832
Total liabilities	5,893,546	6,270,446
Net assets		
Invested in capital assets	12,039	17,768
Unrestricted	9,910,537	8,202,345
Restricted – expendable	47,515,686	37,488,599
Endowment – nonexpendable	84,915,995	77,195,503
Total net assets	142,354,257	122,904,215
Total liabilities and net assets	\$148,247,803	\$129,174,661

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2010

Fund Net Assets

Total fund net assets were \$142.4 million at June 30, 2010, of which \$9.9 million is available for the unrestricted purposes of the Foundation. Included in unrestricted net assets are Quasi Endowment and other designated funds of \$6.6 million. The Quasi Endowment, which is not a donor designated endowment, is a board directed endowment which the board has set aside for designated purposes.

Components of Net Assets

	<u>2010</u>	<u>2009</u>
Invested in capital assets	\$ 12,039	\$ 17,768
Unrestricted		
Undesignated	3,290,068	2,899,976
Quasi Endowment and other	6,620,469	5,302,369
Restricted - expendable	47,515,686	37,488,599
Endowment - nonexpendable	<u>84,915,995</u>	<u>77,195,503</u>
Total net assets	<u>\$142,354,257</u>	<u>\$122,904,215</u>

Statement of Support and Revenue, Expenses and Changes in Fund Net Assets

This statement reflects the results of the Foundation's operations on fund net assets for the year ended June 30, 2010. The statement is broken down into three categories: Operating Support and Revenue, Operating Expenses and Investment Income (Loss).

Operating support and revenue include donor contributions, university support, special events and other income. These revenues increased from the prior year by \$4.1 million. Donor contributions increased by \$4.0 million when compared to the prior year. This increase in donor contributions is due primarily to extensive fundraising activities in connection with the construction of the William N. Pennington Health Science Building. University support decreased by 16% due to vacant and eliminated positions and special events and other income increased by 64% due to an increase in souvenir sales and event revenue in the schools and colleges.

Investment income increased by \$34.0 million. The market values of the Foundation's investments rebounded significantly from the prior year. The unrealized gain and loss of investments in fiscal year 2009 went from a \$30 million loss to a \$3.1 million gain.

Operating expenses consist of alumni programs, capital projects, university programs, university scholarships, and administrative and fundraising expenses. Operating expenses decreased by \$3.4 million for the year ended June 30, 2010 when compared to prior year. Expenditures for capital projects accounted for the majority of the decrease in operating expenses. Expenses for alumni programs, administrative expenses and scholarships decreased slightly, while university programs and fundraising expenses increased slightly over the previous year.

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2010

Statement of Support and Revenue, Expenses and Changes in Fund Net Assets - Continued
 The following is a comparison of the results of operations for the years ended June 30:

	<u>Results of Operations</u>	
	<u>2010</u>	<u>2009</u>
Revenues		
Donor contributions	\$21,344,754	\$17,358,635
University support	1,859,528	2,213,239
Special events and other income	1,244,594	758,714
Additions to permanent and term endowments	<u>4,038,356</u>	<u>6,190,141</u>
Total non-investment revenue	<u>28,487,232</u>	<u>26,520,729</u>
Investment income		
Interest and dividend income	1,870,749	2,143,717
Realized gain on sale, net	3,448,843	2,043,378
Unrealized gain (loss)	3,137,285	(29,915,724)
Management fees earned		
Foundation	657,140	907,587
Nevada System of Higher Education	1,541,489	1,464,656
Redemption and consultation fees	<u>(230,749)</u>	<u>(222,735)</u>
Investment income (loss)	<u>10,424,757</u>	<u>(23,579,121)</u>
Total revenues	<u>38,911,989</u>	<u>2,941,608</u>
Expenses		
Alumni programs	224,320	294,188
Capital projects	3,190,869	6,627,705
University programs	10,467,272	10,317,085
University scholarships	2,395,954	2,453,849
Administrative	1,553,137	1,594,233
Fundraising	<u>1,630,395</u>	<u>1,597,984</u>
Total expenses	<u>19,461,947</u>	<u>22,885,044</u>
Net change in fund net assets	<u>\$19,450,042</u>	<u>(\$19,943,436)</u>

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2010

Economic Factors

The Foundation's primary sources of revenue are donor contributions, university support and investment income. Comparing fiscal years ended June 30, 2010 to June 30, 2009, donor contributions increased by 23%. The majority of this increase was due to the fundraising activities and donor contributions for the new William N. Pennington Health Science Building and pledge payments received during fiscal year 2010 for the Davidson Math and Science building. Investment income increased during the current year due primarily to an increase in market value of the Foundation's investments from June 30, 2009 to June 30, 2010 in the amount of \$33.1 million. As stated in last year's financial statements, poor economic conditions had and continue to have an impact on our donor contributions and endowments as well as our investment income for the year ended June 30, 2010. Based on existing economic conditions, the Board of Trustees has prepared the next fiscal year's internal budget based upon conservative estimates of revenues in addition to reducing operating expenses.

Requests for Information

This report is designed to provide a general overview of the University of Nevada, Reno Foundation's finances for all interested parties. For additional information or questions concerning the information contained in this report, please call (775) 784-1587.

BASIC FINANCIAL STATEMENTS

University of Nevada, Reno Foundation
STATEMENT OF NET ASSETS
June 30, 2010
(With comparative totals as of June 30, 2009)

ASSETS	2010				2009
	Unrestricted	Restricted	Endowment	Total	Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 6,004,928	\$ 3,521,458	\$ 13,474,593	\$ 23,000,979	\$ 14,660,908
Investments	3,357,139	18,697,305	56,651,806	78,706,250	94,073,506
Due from University of Nevada	381,279	70,155	-	451,434	520,852
Accounts receivable	30,040	122,895	-	152,935	-
Prepaid expenses and deposits	33,820	-	-	33,820	31,407
Accrued interest receivable	-	-	135,546	135,546	38,872
Current portion of pledges receivable, net	-	2,636,059	-	2,636,059	2,514,716
Current portion of notes receivable	8,139	-	4,200	12,339	173,762
Total current assets	<u>9,815,345</u>	<u>25,047,872</u>	<u>70,266,145</u>	<u>105,129,362</u>	<u>112,014,023</u>
NON-CURRENT ASSETS					
Investments	-	4,822,450	14,611,757	19,434,207	1,878,256
Pledges receivable, net	-	19,840,506	-	19,840,506	11,009,658
Notes receivable	137,359	500,000	-	637,359	1,002,365
Real property, held for investment	3,500	397,351	45,900	446,751	380,734
Residual interest-irrevocable trusts	-	434,086	1,906,966	2,341,052	2,430,670
Other	181,685	224,842	-	406,527	441,187
Equipment, at cost, less accumulated depreciation of \$12,164	12,039	-	-	12,039	17,768
Total non-current assets	<u>334,583</u>	<u>26,219,235</u>	<u>16,564,623</u>	<u>43,118,441</u>	<u>17,160,638</u>
Total assets	<u>\$ 10,149,928</u>	<u>\$ 51,267,107</u>	<u>\$ 86,830,768</u>	<u>\$ 148,247,803</u>	<u>\$ 129,174,661</u>
LIABILITIES AND FUND NET ASSETS					
CURRENT LIABILITIES					
Due to University of Nevada	\$ 114,515	\$ 3,464,270	\$ -	\$ 3,578,785	\$ 3,784,679
Accounts payable	437	39,207	7,807	47,451	66,935
Total current liabilities	<u>114,952</u>	<u>3,503,477</u>	<u>7,807</u>	<u>3,626,236</u>	<u>3,851,614</u>
NON-CURRENT LIABILITIES					
Unearned revenue	112,400	247,944	1,906,966	2,267,310	2,418,832
Total liabilities	<u>227,352</u>	<u>3,751,421</u>	<u>1,914,773</u>	<u>5,893,546</u>	<u>6,270,446</u>
NET ASSETS					
Investment in capital assets	12,039	-	-	12,039	17,768
Unrestricted	9,910,537	-	-	9,910,537	8,202,345
Restricted - expendable	-	47,515,686	-	47,515,686	37,488,599
Restricted - nonexpendable	-	-	84,915,995	84,915,995	77,195,503
Total fund net assets	<u>9,922,576</u>	<u>47,515,686</u>	<u>84,915,995</u>	<u>142,354,257</u>	<u>122,904,215</u>
Total liabilities and fund net assets	<u>\$ 10,149,928</u>	<u>\$ 51,267,107</u>	<u>\$ 86,830,768</u>	<u>\$ 148,247,803</u>	<u>\$ 129,174,661</u>

The accompanying notes are an integral part of this statement.

University of Nevada, Reno Foundation
**STATEMENT OF SUPPORT AND REVENUE, EXPENSES
AND CHANGES IN FUND NET ASSETS**

Year ended June 30, 2010
(With comparative totals for the year ended June 30, 2009)

	2010			2009	
	Unrestricted	Restricted	Endowment	Total	Total
Operating support and revenue					
Donor contributions	\$ 347,146	\$ 20,997,608	\$ -	\$ 21,344,754	\$ 17,358,635
University support	1,859,528	-	-	1,859,528	2,213,239
Special events and other income	304,170	940,424	-	1,244,594	758,714
Total operating support and revenue	<u>2,510,844</u>	<u>21,938,032</u>	<u>-</u>	<u>24,448,876</u>	<u>20,330,588</u>
Operating expenses					
Program expenses					
Alumni programs	224,320	-	-	224,320	294,188
Capital projects	-	3,190,869	-	3,190,869	6,627,705
University programs	61,417	10,405,855	-	10,467,272	10,317,085
University scholarships	-	2,395,954	-	2,395,954	2,453,849
Total program expenses	<u>285,737</u>	<u>15,992,678</u>	<u>-</u>	<u>16,278,415</u>	<u>19,692,827</u>
Administrative and fundraising expenses					
Administrative	1,553,137	-	-	1,553,137	1,594,233
Fundraising	1,630,395	-	-	1,630,395	1,597,984
Total administrative and fundraising expenses	<u>3,183,532</u>	<u>-</u>	<u>-</u>	<u>3,183,532</u>	<u>3,192,217</u>
Total operating expenses	<u>3,469,269</u>	<u>15,992,678</u>	<u>-</u>	<u>19,461,947</u>	<u>22,885,044</u>
OPERATING INCOME (LOSS)	<u>(958,425)</u>	<u>5,945,354</u>	<u>-</u>	<u>4,986,929</u>	<u>(2,554,456)</u>
Investment income (loss)	<u>2,393,969</u>	<u>801,288</u>	<u>7,229,500</u>	<u>10,424,757</u>	<u>(23,579,121)</u>
Additions to permanent and term endowments	<u>-</u>	<u>-</u>	<u>4,038,356</u>	<u>4,038,356</u>	<u>6,190,141</u>
Transfers between funds					
Distribution of expendable endowment	80,269	3,724,450	(3,804,719)	-	-
Other	186,650	(444,005)	257,355	-	-
Total transfers between funds	<u>266,919</u>	<u>3,280,445</u>	<u>(3,547,364)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND NET ASSETS	<u>1,702,463</u>	<u>10,027,087</u>	<u>7,720,492</u>	<u>19,450,042</u>	<u>(19,943,436)</u>
Fund net assets at beginning of year	<u>8,220,113</u>	<u>37,488,599</u>	<u>77,195,503</u>	<u>122,904,215</u>	<u>142,847,651</u>
Fund net assets at end of year	<u>\$ 9,922,576</u>	<u>\$ 47,515,686</u>	<u>\$ 84,915,995</u>	<u>\$ 142,354,257</u>	<u>\$ 122,904,215</u>

The accompanying notes are an integral part of this statement.

University of Nevada, Reno Foundation

STATEMENT OF CASH FLOWS

For the year ended June 30, 2010

(With comparative totals for the year ended June 30, 2009)

	2010				2009
	Unrestricted	Restricted	Endowment	Total	Total
Cash flows from operating activities:					
Donor contributions	\$ 292,294	\$11,272,538	\$ -	\$11,564,832	\$12,176,595
University support	1,847,897	-	-	1,847,897	2,186,895
Special events and other income	304,170	940,424	-	1,244,594	758,714
Cash paid to University	(282,405)	(16,046,820)	-	(16,329,225)	(18,654,211)
Cash paid to employees for services	(2,427,695)	-	-	(2,427,695)	(2,526,453)
Cash paid to suppliers	(769,494)	121	-	(769,373)	(640,095)
Net cash used in operating activities	<u>(1,035,233)</u>	<u>(3,833,737)</u>	<u>-</u>	<u>(4,868,970)</u>	<u>(6,698,555)</u>
Cash flows from non-capital financing activities:					
Additions to permanent and term endowments	-	-	4,375,898	4,375,898	6,059,198
Transfer between funds	266,919	3,280,445	(3,547,364)	-	-
Net cash provided by non-capital financing activities	<u>266,919</u>	<u>3,280,445</u>	<u>828,534</u>	<u>4,375,898</u>	<u>6,059,198</u>
Cash flows from capital and related financing activities:					
Purchase of equipment and additions to real property	<u>(3,067)</u>	<u>(20,117)</u>	<u>-</u>	<u>(23,184)</u>	<u>(9,148)</u>
Net cash used in capital and related financing activities	<u>(3,067)</u>	<u>(20,117)</u>	<u>-</u>	<u>(23,184)</u>	<u>(9,148)</u>
Cash flows from investing activities:					
Investment income	2,178,190	436,693	40,208	2,655,091	4,335,414
Proceeds from sale of investments	29,570,772	103,542	38,581,056	68,255,370	26,771,295
Purchase of investments	(29,259,897)	(4,030,674)	(29,289,992)	(62,580,563)	(35,674,061)
Payments received from notes receivable	25,859	500,000	570	526,429	1,056,778
Issuance of note receivable	-	-	-	-	(2,050,000)
Net cash provided by (used in) investing activities	<u>2,514,924</u>	<u>(2,990,439)</u>	<u>9,331,842</u>	<u>8,856,327</u>	<u>(5,560,574)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,743,543</u>	<u>(3,563,848)</u>	<u>10,160,376</u>	<u>8,340,071</u>	<u>(6,209,079)</u>
Cash and cash equivalents, beginning	<u>4,261,385</u>	<u>7,085,306</u>	<u>3,314,217</u>	<u>14,660,908</u>	<u>20,869,987</u>
Cash and cash equivalents, ending	<u>\$ 6,004,928</u>	<u>\$ 3,521,458</u>	<u>\$13,474,593</u>	<u>\$23,000,979</u>	<u>\$14,660,908</u>

University of Nevada, Reno Foundation
STATEMENT OF CASH FLOWS - CONTINUED

For the year ended June 30, 2010
(With comparative totals for the year ended June 30, 2009)

	2010				2009
	Unrestricted	Restricted	Endowment	Total	Total
Reconciliation of operating income (loss) to net cash used in operating activities:					
Operating income (loss)	\$ (958,425)	\$ 5,945,354	\$ -	\$ 4,986,929	\$ (2,554,456)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:					
Depreciation	8,796	-	-	8,796	12,662
Gifts of stocks and bonds	-	(62,643)	-	(62,643)	(58,004)
Changes in:					
Accounts receivable	(41,671)	(41,846)	-	(83,517)	134,832
Pledges receivable	-	(9,460,226)	-	(9,460,226)	(5,014,921)
Prepaid expenses and deposits	(2,413)	-	-	(2,413)	(22,992)
Other assets	-	(11,240)	-	(11,240)	(11,062)
Due to University of Nevada	-	(195,814)	-	(195,814)	769,210
Accounts payable	(30,120)	11,361	-	(18,759)	35,999
Unearned revenue	(11,400)	(18,683)	-	(30,083)	10,177
Net cash used in operating activities	<u>\$ (1,035,233)</u>	<u>\$ (3,833,737)</u>	<u>\$ -</u>	<u>\$ (4,868,970)</u>	<u>\$ (6,698,555)</u>
Non-cash					
Increase in cash surrender value of life insurance	<u>\$ -</u>	<u>\$ 11,240</u>	<u>\$ -</u>	<u>\$ 11,240</u>	<u>\$ 11,062</u>

The accompanying notes are an integral part of this statement.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Nevada, Reno Foundation (the "Foundation") is a nonprofit corporation. The Foundation's mission is to serve as an innovative, flexible and efficient organization to facilitate the solicitation and management of gifts, grants, bequests and other revenues for the benefit of the University of Nevada or any organizations that are affiliated with the University of Nevada and are exempt from Federal income taxation.

The Foundation is considered to be a component unit and will be included in the basic financial statements of the Nevada System of Higher Education.

A summary of the Foundation's significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. Financial Reporting

The financial statements of the Foundation have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20 requires the Foundation to apply all applicable GASB pronouncements and, unless they conflict with or contradict GASB pronouncements, all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989. As permitted by the Statement, the Foundation has elected not to apply FASB pronouncements issued after that date.

Since the Foundation's funds are considered to be enterprise funds for financial reporting purposes, the Foundation follows the accrual basis of accounting, wherein revenues are recorded as earned and expenses are recorded as incurred.

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, its accounts are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund. Accordingly, all financial transactions have been recorded and reported by fund group as follows:

Unrestricted Fund - Represents funds that are not restricted and are available for the general operations and programs of the Foundation.

Restricted Fund - Represents funds that are restricted by the donor and may only be utilized in accordance with purposes established by such donors. These funds are primarily restricted for scholarships, capital projects and University programs.

Endowment Fund - Represents funds that are subject to restrictions of gift instruments requiring that the principal be invested and only the income be utilized for their established purposes. Endowments are primarily restricted for scholarships and University programs.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. **Financial Reporting** – Continued

Because Endowment investment funds include funds derived originally from permanently restricted gifts, the management of these funds is subject to Nevada law (NRS 164.640), The Uniform Prudent Management of Institutional Funds. The Board of Trustees has a separate Investment Committee that reviews the performance and makes recommendations on the investments.

The Foundation has adopted an investment policy that establishes an annual spendable objective, which is to provide funds for operating and capital expenses, and is calculated as 6% of the average market value of assets over the 12-quarter period ending on September 30th of each previous year. Earnings in excess of 6% are reinvested into the corpus. The spending objective is to be met through the use of interest, dividends, and, to the extent appropriate, accumulated capital gains and corpus. As of June 30, 2010, the Foundation has calculated the current spending objective and has distributed all expendable endowment funds accordingly. The Foundation's policy is to withhold distributions on endowments that are 10% or more under their historic gift value. The expendable endowment is presented as a transfer between funds on the Statement of Support and Revenue, Expenses and Changes in Fund Net Assets.

2. **Recognition of Support and Revenue**

Donations, gifts and pledges received are recognized as income when all eligibility requirements are met, provided that the promise is verifiable, the resources are measurable and the collection is probable. Pledges receivable are recorded at net present value using the appropriate discount rate. Pledges are examined on an annual basis to determine their collectibility based upon the Foundation's collection history; an allowance is recorded for amounts where collection is uncertain. Donations, gifts and pledges received are recorded as unrestricted, restricted or endowed support depending on the existence and/or nature of any donor restrictions.

3. **Cash and Cash Equivalents**

The Foundation considers all highly liquid short-term interest bearing investments purchased with an original maturity of three months or less and money market funds to be cash equivalents. Cash from all accounts are pooled for investment purposes.

4. **Investments**

Investments in equity and debt securities with readily determinable fair values are stated at fair value. In such cases, fair value is determined based on quoted market prices. Investments in the Commonfund that do not have readily available market values are stated at fair value as reported by the Foundation's Investment Manager. These investments include a diverse range of investment vehicles, including private equity, real estate and commodity funds. The valuation of these investments is based on the most recent value provided by the Investment Manager, usually with a June 30 "as of" date. To evaluate the overall reasonableness of the valuation and resulting carrying value, management obtains and considers the audited financial statements of such investments. Management believes this method provides a reasonable estimate of fair value. However, the recorded value may differ from the market value had a readily available market existed for such investments, and those differences could be material.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4. **Investments** - Continued

Investments are stated at fair value, and realized and unrealized gains and losses are reflected in the Statement of Support and Revenue, Expenses and Changes in Fund Net Assets. The cost of investments sold is based on the average cost and/or first-in, first-out basis of all the shares of each investment held at the time of sale. Dividend and interest income are recognized when earned.

5. **Depreciation**

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis.

6. **Income Taxes**

The Foundation is a nonprofit corporation, exempt from income tax under Internal Revenue Code Section 501(c)(3), qualified for the charitable contribution deduction. Accordingly, no liability for Federal income taxes has been provided in the Foundation's financial statements.

7. **Donated Assets and Services**

Donated assets are reflected as contributions in the accompanying statements at their estimated fair market value at the date of receipt. No amount for donated services has been reflected in the Foundation's financial statements, since no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers have donated significant amounts of their time to the Foundation's program services and its fundraising efforts.

8. **Use of Estimates**

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates made by management include the amount of pledges receivable, the amount of expendable endowment income, and the fair value of investments.

9. **Comparative Information**

The basic financial statements and the notes to the financial statements include certain prior-year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's basic financial statements for the year ended June 30, 2009 from which the summarized information was derived.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE B - CASH AND INVESTMENTS

Cash and cash equivalents consist of the following as of June 30:

	2010	2009
Cash	\$ 2,279,151	\$ 351,320
Money market funds	1,461,923	304,440
Commingled funds	18,829,208	13,405,185
Certificates of deposit	331,102	-
Treasury bills and notes	99,595	599,963
	\$23,000,979	\$14,660,908

The fair value of investments consists of the following as of June 30:

	2010	2009
Equity Investments	\$ 479,782	\$ 390,036
Bonds	16,874,480	-
Commingled Funds	65,345,255	85,679,014
Certificates of Deposit	4,392,426	4,895,427
U.S. Government Securities	11,048,514	4,987,285
	\$98,140,457	\$95,951,762

At June 30, 2010, the Foundation's investments had the following maturities:

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 – 5	6 – 10	11 – 38
Equity investments	\$ 479,782	\$ 479,782	\$ -	\$ -	\$ -
Bonds	16,874,480	-	4,254,269	3,891,266	8,728,945
Commingled funds	65,345,255	65,345,255	-	-	-
Certificates of deposit	4,392,426	1,832,699	2,559,727	-	-
U.S. Government securities	11,048,514	11,048,514	-	-	-
	\$98,140,457	\$78,706,250	\$6,813,996	\$3,891,266	\$8,728,945

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE B - CASH AND INVESTMENTS - Continued

The Foundation's investment policy for operating cash and cash equivalents is to exercise sufficient due diligence to minimize investing cash and cash equivalents in instruments that will lack liquidity. The Foundation, through its Investment Managers, considers the operating funds to be two discrete pools of funds: a short term pool and an intermediate term pool. The short term pool shall be funded in an amount sufficient to meet the expected daily cash requirements of the Foundation. The goals of the investments are to maintain the principal in the account while maximizing the return on the investments. The short term pool is staggered in 30, 60 and 90 day investments. Appropriate types of investments are money market funds, certificates of deposit, commercial paper, U.S. Treasury bills and notes, mortgage backed securities (U.S. Government) and internal loans to the University of Nevada, Reno secured by a promissory note with an appropriate interest rate. The intermediate term pool is invested in fixed income securities generally having an average maturity of three years or less in order to take advantage of higher yields.

It is the policy of the investment program to invest according to an asset allocation strategy that is designed to meet the goals of the Endowment Investment Objective. The strategy will be based on a number of factors, including:

- The projected spending needs;
- The maintenance of sufficient liquidity to meet spending payments;
- Historical and expected long-term capital market risk and return behaviors;
- The relationship between current and projected assets of the Endowment and its spending requirements.

This policy provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Endowment consistent with market conditions. Asset allocation modeling identifies asset classes the Endowment will use and the percentage each class represents in the total fund. Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur.

Investment Program Strategy

As a result of the above process, the Board has adopted the following asset allocation targets and ranges, exclusive of amounts transferred to the Endowment's operating account:

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE B - CASH AND INVESTMENTS - Continued

Asset Allocation Targets and Ranges

Target Asset Mix Table 1

	Min Wt.	Target Wt.	Max Wt.
Equities	32.7%	37.7%	42.7%
US Equities	21.4%	26.4%	31.4%
International Equities	6.3%	11.3%	16.3%
Fixed Income	20%	25%	30%
Core US Fixed Income	12%	15%	18%
High Yield Fixed Income	5%	10%	15%
Real Estate	5%	10%	15%
Private Markets	5%	10%	15%
Alternative Debt	5%	10%	15%
Inflation Linked Asset Class	4.3%	7.3%	10.3%

Investments are recorded in the following funds at June 30:

	2010	2009
Unrestricted Fund	\$ 3,357,139	\$ 3,418,718
Restricted Fund	23,519,755	19,197,206
Endowment Fund	71,263,563	73,335,838
	<u>\$98,140,457</u>	<u>\$95,951,762</u>

The cumulative net appreciation (depreciation) (costs in excess of or below fair market value) of investments is as follows for the years ended June 30:

	2010	2009
Unrestricted Fund	(\$233,126)	(\$1,191,760)
Restricted Fund	329,137	(989,369)
Endowment Fund	3,041,274	(27,734,595)
	<u>\$3,137,285</u>	<u>(\$29,915,724)</u>

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE B - CASH AND INVESTMENTS - Continued

Investment Risk Factors

There are many factors that can affect the fair value of investments. Some factors, such as credit risk and concentrations of credit risk may affect fixed income securities, which are particularly sensitive to credit risks and changes in interest rates. The Investment Committee of the Foundation has policies regarding acceptable levels of risk. The Committee meets quarterly to review the investments. Significant amounts of the Foundation's investments are held with the Commonfund which also has policies regarding acceptable levels of risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The Foundation restricts investment of cash and cash equivalents and investments to financial institutions with high credit standing and the Commonfund, which is a nonprofit membership corporation operated by and for its member colleges, universities and independent schools. The Foundation currently purchases certificates of deposit of less than two hundred fifty thousand dollars per bank or institution. Commercial paper is limited to a maximum of 10% of the total cash available. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents and investments.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the rating as of year end of each investment type.

	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Not Rated</u>
Equity investments	\$ -	\$ -	\$ -	\$ -	\$ 479,782
Bonds	4,751,553	924,954	2,659,390	2,121,480	6,417,103
Commingled funds	-	-	-	-	65,345,255
Certificates of deposit	-	-	-	-	4,392,426
U.S. Government securities	-	-	-	-	11,048,514
	<u>\$4,751,553</u>	<u>\$924,954</u>	<u>\$2,659,390</u>	<u>\$2,121,480</u>	<u>\$87,683,080</u>

Fixed income securities to obligations of the U.S. Government are not considered to have credit risk. In addition, investments held by the Commonfund are not rated by statistical rating organizations.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's investment policy limits the maturities of U.S. Treasury instruments and certificates of deposit to no more than 90 days unless the rate justifies the return and the current liquidity requirements are met.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE B - CASH AND INVESTMENTS – Continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Foreign investments are managed by the Commonfund who has policies in place to address foreign currency risk.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Foundation's deposits exceed FDIC limits and as a result may not be insured and returned to the Foundation. All cash deposits are primarily on deposit with two financial institutions and several investment companies. The Foundation does not have a deposit policy for custodial credit risk. As of June 30, 2010, the Foundation's bank balances totaled \$22,807,335. Of this balance, \$1,530,486 was covered by depository insurance and/or collateralized and \$18,643,017 is held by the Commonfund Government Securities Fund and subject to their investment policies. The remaining \$2,633,832 was subject to custodial credit risk and as a result was uninsured and uncollateralized at June 30, 2010.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments consist primarily of open-end mutual funds through a single custodian. Debt and equity securities other than open-end mutual funds are uncollateralized.

NOTE C - UNEARNED REVENUE

Unearned revenue primarily represents assets held in irrevocable trusts of which the Foundation is the residual beneficiary. The support and revenue from these irrevocable trusts will be recognized when the Foundation receives its residual interest in the trusts. Distributions to beneficiaries of these irrevocable trusts are made based on rates set forth in the trust documents. Upon death of the income beneficiaries, the trusts will be distributed, and the Foundation will receive its residual interest in the trusts. The assets held in the irrevocable trusts are recorded at fair value. Unearned revenue is comprised of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Residual Interest in Trust	\$2,154,910	\$2,295,032
Royalties and Special Events	112,400	123,800
	<u>\$2,267,310</u>	<u>\$2,418,832</u>

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE D - RELATED PARTY TRANSACTIONS

The University of Nevada provided the Foundation with administrative and support services for the years ended June 30, 2010 and 2009 in the amounts of \$1,859,528 and \$2,213,239, respectively. The Foundation expended \$16,054,095 and \$19,398,639 for capital projects, programs and scholarships for the University of Nevada for the years ended June 30, 2010 and 2009, respectively. Amounts due to the University of Nevada at June 30, 2010 and 2009 are \$3,578,785 and \$3,784,679, respectively.

The Foundation received \$1,541,489 and \$1,464,656 from the Nevada System of Higher Education during the years ended June 30, 2010 and 2009, respectively, for the management fees related to endowments held on the Foundation's behalf. These amounts are included in investment income on the Statement of Support and Revenue, Expenses and Changes in Net Assets.

The Foundation loaned the University of Nevada \$2,050,000 in 2009 to complete the auditorium for the Davidson Math and Science Center. The Foundation received payments of \$500,000 and \$1,050,000 plus interest during the years ended June 30, 2010 and 2009, respectively. The promissory note is secured by pledge payments from donors and carries interest at 1% in excess of the Commonfund money market rate.

NOTE E - PLEDGES RECEIVABLE

Pledges receivable are recorded as revenue at the pledge date. The net present value is calculated based upon the pledge date, the Internal Revenue Service Applicable Federal Rates (AFR) and the pledge payment schedule. The AFR currently varies from 2.0% to 6.2% depending on the term or duration of the pledge. Pledges receivable consist of the following as of June 30:

	2010	2009
Athletics	\$ 1,257,500	\$ 233,000
College of Liberal Arts	10,000	115,000
College of Business	36,800	43,467
College of Education	401,500	389,438
College of Engineering	35,000	482,327
College of Science	1,139,282	2,010,494
Library	28,000	650,457
Scholarships	175,018	300,373
School of Journalism	8,472,845	601,681
School of Medicine	17,073,661	14,082,826
	28,629,606	18,909,063
Present value discount	(4,971,212)	(4,674,244)
Net pledges receivable	23,658,394	14,234,819
Less: Current maturities	(2,636,059)	(2,514,716)
Less: Allowance for uncollectable pledges	(1,181,829)	(710,445)
	\$19,840,506	\$11,009,658

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2010

NOTE F - NOTES RECEIVABLE

Notes receivable consist of the following as of June 30:

	2010	2009
Installment note receivable requiring monthly payments of principal and interest of \$1,391 and secured by a first deed of trust. The original note had a balloon payment due on November 7, 2008. The Foundation extended the note and reduced the interest rate on the note from 6.5% to 6%. The note now matures on November 7, 2011.	\$145,498	\$ 171,357
Note receivable from the University of Nevada with the principal balance reduced by receipt of pledge payments due on the Davidson Math and Science Center, including interest at 1% in excess of the Commonfund money market rate. The note matures on June 30, 2016.	500,000	1,000,000
Installment note receivable requiring monthly payments of principal and interest of \$190 and secured by a first deed of trust. The note bears interest at a rate of 6% per annum and matures in June 2011.	4,200	4,770
Less current maturities	649,698 <u>(12,339)</u>	1,176,127 <u>(173,762)</u>
	\$637,359	\$1,002,365

SUPPLEMENTAL INFORMATION

University of Nevada, Reno Foundation

UNRESTRICTED FUND
ALUMNI AND UNIVERSITY PROGRAM EXPENSES

Year ended June 30, 2010
(With comparative totals for the year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
Alumni programs		
Alumni College	\$ 7,128	\$ 6,869
Homecoming	58,634	59,875
Membership Fund	16,096	44,243
Miscellaneous	222	16,586
Outreach	85,942	100,660
Pack Tracks	-	16,604
Student Support	28,027	29,679
Staff and Office Expense	28,271	19,672
	<u>224,320</u>	<u>294,188</u>
Total alumni programs		
University programs		
Faculty and Staff Enrichment	53,917	58,590
Tibbitts Memorial Distinguished Teacher Award	7,500	7,500
	<u>61,417</u>	<u>66,090</u>
Total university programs		
	<u>\$ 285,737</u>	<u>\$ 360,278</u>
Total alumni and university program expenses		

University of Nevada, Reno Foundation
UNRESTRICTED FUND
ADMINISTRATIVE AND FUNDRAISING EXPENSES

Year ended June 30, 2010
(With comparative totals for the year ended June 30, 2009)

	2010			2009
	Administrative	Fundraising	Total	Total
Payroll and related expenses				
Salaries and wages	\$ 859,329	\$ 1,092,613	\$ 1,951,942	\$ 1,965,187
Fringe benefits	183,911	291,842	475,753	561,266
	<u>1,043,240</u>	<u>1,384,455</u>	<u>2,427,695</u>	<u>2,526,453</u>
Operating				
Accounting fees	57,529	-	57,529	51,460
Advertising	1,145	8,262	9,407	10,106
Appreciation, gifts and sponsorships	8,262	754	9,016	5,409
Books, periodicals and subscriptions	2,692	6,242	8,934	10,551
Contract services	13,255	61,115	74,370	54,730
Depreciation expense	7,204	-	7,204	7,015
Dues and memberships	1,084	1,120	2,204	4,550
Equipment maintenance expense	65,546	23,071	88,617	63,081
Insurance, taxes and licenses	13,412	-	13,412	12,980
Legal fees	11,366	-	11,366	21,294
Meeting and hosting expense	22,962	5,727	28,689	27,444
Office expense	39,647	8,853	48,500	30,130
Photography	4,315	8,773	13,088	18,780
Postage and freight	50,286	4,621	54,907	57,729
Printing and duplicating	160,124	12,816	172,940	190,914
Recruitment costs	6,606	-	6,606	-
Special event and meeting supplies	3,247	56,905	60,152	42,919
Telephone	14,533	9,351	23,884	23,360
Training and registration fees	5,652	3,313	8,965	5,631
Travel expense	21,030	35,017	56,047	27,681
	<u>509,897</u>	<u>245,940</u>	<u>755,837</u>	<u>665,764</u>
Total administrative and fundraising expenses	<u>\$ 1,553,137</u>	<u>\$ 1,630,395</u>	<u>\$ 3,183,532</u>	<u>\$ 3,192,217</u>

COMPLIANCE SECTION

Report of Independent Certified Public Accountants on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
University of Nevada, Reno Foundation

We have audited the financial statements of University of Nevada, Reno Foundation (the "Foundation") as of and for the year ended June 30, 2010, and have issued our report thereon dated September 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion.

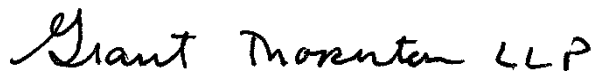
A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Foundation's internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Trustee, others within the Foundation and is not intended to be and should not be used by anyone other than these specified parties.



Reno, Nevada
September 14, 2010