

Financial statements and report of independent certified public accountants

**University of Nevada, Reno Foundation**

June 30, 2005

# CONTENTS

	<b>Page</b>
<b>REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS .....</b>	<b>3</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>5</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance Sheet.....	11
Statement of Support and Revenue, Expenses and Changes in Fund Net Assets .....	12
Statement of Cash Flows.....	13
Notes to Financial Statements .....	15
<b>SUPPLEMENTARY INFORMATION</b>	
Unrestricted Fund - Alumni and University Program Expenses.....	26
Unrestricted Fund - Administrative and Fundraising Expenses .....	27

Accountants and  
Management Consultants  
Grant Thornton LLP  
The US Member Firm of  
Grant Thornton International

P.O. Box 30  
Reno, Nevada 89504  
775-786-1520 Phone  
775-786-7091 Fax



## **Report of Independent Certified Public Accountants**

### **Board of Trustees University of Nevada, Reno Foundation**

We have audited the accompanying balance sheet of the University of Nevada, Reno Foundation (the "Foundation") as of June 30, 2005, and the related statements of support and revenue, expenses and changes in fund net assets, and cash flows for the year then ended. These basic financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2004 financial statements and, in our report dated August 13, 2004, 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 Company'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. An audit also includes assessing the accounting principles used and 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 basic 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, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 9 is not a required part of the basic financial statements but is supplementary 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 supplementary 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 financial statements that comprise the Foundation's basic financial statements. The accompanying supplementary information listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Foundation. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Reno, Nevada  
August 12, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **University of Nevada, Reno Foundation**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended June 30, 2005**

This section of the University of Nevada, Reno Foundation's (Foundation) annual financial report presents our discussion and analysis of the financial performance of the Foundation during the fiscal year ended June 30, 2005. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the 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 for the benefit of the University of Nevada, Reno (University). In this capacity, the Foundation is considered to be a component unit of the University because its Board of Trustees is appointed by the UCCSN Board of Regents. Accordingly, the Foundation is included in the University's financial statements as a discrete component unit. Transactions with the University relate primarily to the disbursement of gift funds and the reimbursement of expenditures.

#### **Financial Analysis**

The basic financial statements of the Foundation are the Balance Sheet; Statement of Support and Revenue, Expenses and Changes in Fund Net Assets; and the Statement of Cash Flows. The Balance Sheet presents the financial position of the Foundation as of June 30, 2005. 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, 2005. 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, 2005.

The following schedules are prepared from the Foundation's basic financial statements.

#### **Balance Sheet**

This statement is presented with three major categories, namely assets, liabilities and fund net assets. The assets are classified between current and non-current assets. The current assets include cash and cash equivalents, investments, accounts receivable and deposits, current portion of pledges and notes receivable. The non-current assets include pledges receivable, notes receivable, residual interests in trusts held for others, and other assets. Capital assets include land, buildings and improvements and equipment, net of depreciation.

Liabilities are also classified between current and non-current classifications. Current liabilities include due to the University, accounts payable and current portion of notes payable. These liabilities represent obligations due within one year. Non-current liabilities include notes payable and unearned revenue.

Total assets increased to \$101 million in fiscal 2005 from \$89.6 million in fiscal year 2004. Unrestricted assets increased by \$308 thousand, restricted assets decreased by \$913 thousand and endowed assets increased by \$12 million. Current assets increased by \$8.2 million. The increases were in investments and pledges receivable, offset by a decrease in cash, and were a result of increased gift revenue and increases in the market value of investments. Noncurrent liabilities decreased by \$7.8 million which resulted from the satisfaction of donor conditions on the Knowledge Center Project. The following is a comparison of the balance sheet at June 30, 2005 and 2004.

**University of Nevada, Reno Foundation**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**For the year ended June 30, 2005**

**Balance Sheet** - Continued

	Balance Sheet	
	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 92,438,031	\$84,220,308
Non-current assets		
Capital assets, net of depreciation	170,255	603,298
Other	<u>8,353,179</u>	<u>4,743,939</u>
Total assets	<u>\$100,961,465</u>	<u>\$89,567,545</u>
Liabilities		
Current liabilities	\$ 1,185,904	\$ 991,021
Non-current liabilities	<u>1,444,015</u>	<u>9,285,606</u>
Total liabilities	<u>2,629,919</u>	<u>10,276,627</u>
Fund net assets		
Investment in capital assets	\$ 170,255	\$ 603,298
Unrestricted	4,312,243	4,048,702
Restricted – expendable	26,243,222	19,031,455
Endowment - nonexpendable	<u>67,605,826</u>	<u>55,607,463</u>
Total fund net assets	<u>98,331,546</u>	<u>79,290,918</u>
Total liabilities and fund net assets	<u>\$100,961,465</u>	<u>\$89,567,545</u>

Capital Assets, Net

	<u>2005</u>	<u>2004</u>
Land	\$ 81,900	\$ 81,900
Buildings	35,000	485,000
Equipment	103,015	105,659
Software	<u>4,515</u>	<u>4,515</u>
	224,430	677,074
Less accumulated depreciation	<u>(54,175)</u>	<u>(73,776)</u>
Net capital assets	<u>\$ 170,255</u>	<u>\$ 603,298</u>

**University of Nevada, Reno Foundation**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**For the year ended June 30, 2005**

**Financial Analysis of Fund Net Assets**

Fund net assets increased from the prior year by \$19 million. Total net assets were \$98 million at June 30, 2005, of which \$4.4 million is available for the unrestricted purposes of the Foundation.

Financial Analysis of Fund Net Assets

	<u>2005</u>	<u>2004</u>
Investment in capital assets	\$ 170,255	\$ 603,298
Unrestricted		
Undesignated	517,949	682,312
Quasi Endowment and other	3,794,294	3,366,390
Restricted		
Expendable	26,243,222	19,031,455
Nonexpendable	67,605,826	55,607,463
Total fund net assets	<u>\$98,331,546</u>	<u>\$79,290,918</u>

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

This statement reflects the effect of operations on fund net assets. The statement is broken down into three categories: Operating Support and Revenue, Operating Expenses and Investment Income.

Operating support and revenue include donor contributions, university support and special event and other income. These revenues increased from the prior year by \$9.2 million. Donor contributions increased by \$9.3 million, a significant portion of which was for the Knowledge Center. University support decreased from the prior year by \$236 thousand from unfilled vacant positions. Special event and other income increased by \$137 thousand.

Expenses include alumni programs, university programs, university scholarships, administrative and fundraising expenses. These expenses increased from the prior year by \$2.3 million. The majority of the increase was for the construction of the Knowledge Center. Investment income decreased by \$2.6 million, most of which was a result of the change in market value of the investments.

**University of Nevada, Reno Foundation**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**For the year ended June 30, 2005**

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

The following is a comparison of the operating results for the years ended June 30, 2005 and 2004:

Operating Results

	<u>2005</u>	<u>2004</u>
Operating support and revenue		
Donor contributions	\$24,724,512	\$15,389,293
University support	1,076,814	1,313,144
Special events and other income	651,677	514,616
Total operating support and revenue	<u>26,453,003</u>	<u>17,217,053</u>
Operating expenses		
Program expenses		
Alumni programs	227,056	250,673
University programs	17,150,415	15,037,923
University scholarships	2,823,551	2,320,658
Total program expenses	<u>20,201,022</u>	<u>17,609,254</u>
Administrative and fundraising expenses		
Administrative	622,878	720,016
Fundraising	1,223,002	1,458,799
Total administrative and fundraising Expenses	<u>1,845,880</u>	<u>2,178,815</u>
Total operating expenses	<u>22,046,902</u>	<u>19,788,069</u>
Operating income (loss)	4,406,101	(2,571,016)
Investment income	7,458,323	10,037,508
Additions to permanent and term endowments	7,176,204	2,496,670
Net change in fund net assets	<u>\$19,040,628</u>	<u>\$9,963,162</u>

**University of Nevada, Reno Foundation**

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**For the year ended June 30, 2005**

**Statement of Cash Flows**

This statement is used to determine the Foundation's ability to meet its obligations, and to determine if external financing is needed. It is presented using the direct method with four major classifications: operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

Following is a comparison of cash flows for the years ended June 30, 2005 and 2004:

	2005	2004
Cash provided by (used in):		
Operating activities	\$(8,520,036)	\$ 4,480,774
Non-capital financing activities	4,238,715	2,106,148
Capital and related financing activities	(520,081)	(730,473)
Investing activities	(4,347,036)	(361,182)
NET INCREASE (DECREASE) IN CASH	(9,148,438)	5,495,267
Cash and cash equivalents, beginning	19,853,052	14,357,785
Cash and cash equivalents, ending	\$10,704,614	\$19,853,052

**Long-Term Obligations**

At June 30, 2005 the Foundation had long-term obligations of \$1.5 million, which consists of a note payable to Wells Fargo Bank. The purpose of the note is to assist with the construction costs of the Redfield Campus. Additional information concerning this obligation may be found in Note G of the Notes to the Financial Statements.

**Economic Factors**

The Foundation's primary sources of revenue are donor contributions, university support and investment income. Comparing fiscal year ended June 30, 2005 to June 30, 2004, donor contributions increased by 60.7%. The majority of this increase was for the Knowledge Center and the additions to the endowments received during the year.

The State of Nevada approved a \$32 million commitment for a new Math and Science building which will require the Foundation to raise \$18 million over the next two years.

**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. Questions concerning the information contained in this report should be addressed to Laurie McLanahan, Treasurer, Mail Stop 162, Reno, Nevada 89557.

## **BASIC FINANCIAL STATEMENTS**

**University of Nevada, Reno Foundation**

**BALANCE SHEET**

**June 30, 2005**

**(With comparative totals as of June 30, 2004)**

ASSETS	2005			Total	2004
	Unrestricted	Restricted	Endowment		Total
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 1,007,429	\$ 9,033,404	\$ 663,781	\$ 10,704,614	\$ 19,853,052
Investments	3,125,183	8,418,891	64,062,462	75,606,536	62,553,790
Accounts receivable	2,000	23,697	-	25,697	24,446
Prepaid expenses and deposits	9,515	-	-	9,515	6,905
Current portion of pledges receivable	-	5,278,977	806,899	6,085,876	1,767,882
Current portion of notes receivable	3,536	2,257	-	5,793	14,233
Total current assets	<u>4,147,663</u>	<u>22,757,226</u>	<u>65,533,142</u>	<u>92,438,031</u>	<u>84,220,308</u>
<b>NON-CURRENT ASSETS</b>					
Pledges receivable	-	5,400,300	2,083,002	7,483,302	3,821,589
Notes receivable	200,469	19,163	-	219,632	287,420
Real property	3,500	65,000	48,400	116,900	566,900
Residual interest-irrevocable trusts	-	274,066	-	274,066	262,611
Other	198,685	177,494	-	376,179	372,319
Equipment, at cost, less accumulated depreciation of \$54,175	53,355	-	-	53,355	36,398
Total non-current assets	<u>456,009</u>	<u>5,936,023</u>	<u>2,131,402</u>	<u>8,523,434</u>	<u>5,347,237</u>
Total assets	<u>\$ 4,603,672</u>	<u>\$ 28,693,249</u>	<u>\$ 67,664,544</u>	<u>\$ 100,961,465</u>	<u>\$ 89,567,545</u>
<b>LIABILITIES AND FUND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Due to University of Nevada, Reno	\$ 126,209	\$ 640,892	\$ -	\$ 767,101	\$ 601,939
Accounts payable	3,465	5,147	10,318	18,930	15,797
Current portion of note payable	-	399,873	-	399,873	373,285
Total current liabilities	<u>129,674</u>	<u>1,045,912</u>	<u>10,318</u>	<u>1,185,904</u>	<u>991,021</u>
<b>NON-CURRENT LIABILITIES</b>					
Note payable	-	1,128,763	-	1,128,763	1,528,636
Unearned revenue	104,900	210,352	-	315,252	7,756,970
Total non-current liabilities	<u>104,900</u>	<u>1,339,115</u>	<u>-</u>	<u>1,444,015</u>	<u>9,285,606</u>
<b>FUND NET ASSETS</b>					
Investment in capital assets	56,855	65,000	48,400	170,255	603,298
Unrestricted	4,312,243	-	-	4,312,243	4,048,702
Restricted - expendable	-	26,243,222	-	26,243,222	19,031,455
Restricted - nonexpendable	-	-	67,605,826	67,605,826	55,607,463
Total fund net assets	<u>4,369,098</u>	<u>26,308,222</u>	<u>67,654,226</u>	<u>98,331,546</u>	<u>79,290,918</u>
Total liabilities and fund net assets	<u>\$ 4,603,672</u>	<u>\$ 28,693,249</u>	<u>\$ 67,664,544</u>	<u>\$ 100,961,465</u>	<u>\$ 89,567,545</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, 2005**  
**(With comparative totals for the year ended June 30, 2004)**

	<b>2005</b>			<b>2004</b>	
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Endowment</b>	<b>Total</b>	<b>Total</b>
<b>Operating support and revenue</b>					
Donor contributions	\$ 409,838	\$ 24,314,674	\$ -	\$ 24,724,512	\$ 15,389,293
University support	1,076,814	-	-	1,076,814	1,313,144
Special events and other income	184,189	466,492	996	651,677	514,616
Total operating support and revenue	<u>1,670,841</u>	<u>24,781,166</u>	<u>996</u>	<u>26,453,003</u>	<u>17,217,053</u>
<b>Operating expenses</b>					
Program expenses					
Alumni programs	227,056	-	-	227,056	250,673
University programs	128,634	17,021,781	-	17,150,415	15,037,923
University scholarships	80,000	2,743,551	-	2,823,551	2,320,658
Total program expenses	<u>435,690</u>	<u>19,765,332</u>	<u>-</u>	<u>20,201,022</u>	<u>17,609,254</u>
Administrative and fundraising expenses					
Administrative	622,878	-	-	622,878	720,016
Fundraising	1,223,002	-	-	1,223,002	1,458,799
Total administrative and fundraising expenses	<u>1,845,880</u>	<u>-</u>	<u>-</u>	<u>1,845,880</u>	<u>2,178,815</u>
Total operating expenses	<u>2,281,570</u>	<u>19,765,332</u>	<u>-</u>	<u>22,046,902</u>	<u>19,788,069</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(610,729)</u>	<u>5,015,834</u>	<u>996</u>	<u>4,406,101</u>	<u>(2,571,016)</u>
<b>Investment income</b>	<u>663,273</u>	<u>469,696</u>	<u>6,325,354</u>	<u>7,458,323</u>	<u>10,037,508</u>
<b>Additions to permanent and term endowments</b>	<u>-</u>	<u>-</u>	<u>7,176,204</u>	<u>7,176,204</u>	<u>2,496,670</u>
<b>Transfers between funds</b>					
Distribution of expendable endowment	195,190	2,068,035	(2,263,225)	-	-
Other	32,764	(791,798)	759,034	-	-
Total transfers between funds	<u>227,954</u>	<u>1,276,237</u>	<u>(1,504,191)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND NET ASSETS</b>	<u>280,498</u>	<u>6,761,767</u>	<u>11,998,363</u>	<u>19,040,628</u>	<u>9,963,162</u>
<b>Fund net assets at beginning of year</b>	<u>4,088,600</u>	<u>19,546,455</u>	<u>55,655,863</u>	<u>79,290,918</u>	<u>69,327,756</u>
<b>Fund net assets at end of year</b>	<u>\$ 4,369,098</u>	<u>\$ 26,308,222</u>	<u>\$ 67,654,226</u>	<u>\$ 98,331,546</u>	<u>\$ 79,290,918</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, 2005**  
**(With comparative totals for the year ended June 30, 2004)**

	<b>2005</b>			<b>2004</b>	
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Endowment</b>	<b>Total</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>					
Donor contributions	\$ 437,626	\$ 11,005,972	\$ -	\$ 11,443,598	\$ 17,007,991
University support	1,075,005	-	-	1,075,005	1,397,747
Special events and other income	184,189	466,492	996	651,677	514,616
Cash paid to University	(438,703)	(19,407,892)	-	(19,846,595)	(12,401,901)
Cash paid to employees for services	(1,447,607)	-	-	(1,447,607)	(1,680,097)
Cash paid to suppliers	(384,820)	(12,393)	1,099	(396,114)	(357,582)
Net cash provided by (used in) operating activities	<u>(574,310)</u>	<u>(7,947,821)</u>	<u>2,095</u>	<u>(8,520,036)</u>	<u>4,480,774</u>
<b>Cash flows from non-capital financing activities:</b>					
Additions to permanent and term endowments	-	-	4,238,715	4,238,715	2,106,148
Transfer between funds	227,954	1,276,237	(1,504,191)	-	-
Net cash provided by non-capital financing activities	<u>227,954</u>	<u>1,276,237</u>	<u>2,734,524</u>	<u>4,238,715</u>	<u>2,106,148</u>
<b>Cash flows from capital and related financing activities:</b>					
Purchase of equipment	(30,051)	-	-	(30,051)	(23,086)
Repayment of debt	-	(373,286)	-	(373,286)	(562,390)
Interest paid on notes payable	-	(116,744)	-	(116,744)	(144,997)
Net cash used in capital and related financing activities	<u>(30,051)</u>	<u>(490,030)</u>	<u>-</u>	<u>(520,081)</u>	<u>(730,473)</u>
<b>Cash flows from investing activities:</b>					
Interest and dividends on investments	486,389	396,807	1,752,538	2,635,734	1,548,310
Proceeds from sale of investments	7,948	303,059	1,915,490	2,226,497	15,837,721
Proceeds from sale of real estate	-	430,137	-	430,137	77,889
Purchase of investments	(55,835)	(3,446,528)	(6,213,269)	(9,715,632)	(20,857,199)
Payments received from notes receivable	10,274	65,954	-	76,228	3,032,097
Net cash provided by (used in) investing activities	<u>448,776</u>	<u>(2,250,571)</u>	<u>(2,545,241)</u>	<u>(4,347,036)</u>	<u>(361,182)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	72,369	(9,412,185)	191,378	(9,148,438)	5,495,267
<b>Cash and cash equivalents, beginning</b>	<u>935,060</u>	<u>18,445,589</u>	<u>472,403</u>	<u>19,853,052</u>	<u>14,357,785</u>
<b>Cash and cash equivalents, ending</b>	<u>\$ 1,007,429</u>	<u>\$ 9,033,404</u>	<u>\$ 663,781</u>	<u>\$ 10,704,614</u>	<u>\$ 19,853,052</u>

**University of Nevada, Reno Foundation**  
**STATEMENT OF CASH FLOWS - CONTINUED**  
**For the year ended June 30, 2005**  
**(With comparative totals for the year ended June 30, 2004)**

	<b>2005</b>			<b>Total</b>	<b>2004</b>
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Endowment</b>		<b>Total</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ (610,729)	\$ 5,015,834	\$ 996	\$ 4,406,101	\$ (2,571,016)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	13,094	-	-	13,094	11,739
Interest on notes payable	-	116,744	-	116,744	144,997
Gifts of stocks and bonds	(6,812)	(281,838)	-	(288,650)	(1,036,530)
Gifts of real property	-	-	-	-	(450,000)
Changes in:					
Accounts receivable	(1,809)	558	-	(1,251)	91,557
Pledges receivable	-	(5,474,726)	-	(5,474,726)	938,459
Prepaid expenses and deposits	(2,610)	-	-	(2,610)	23,803
Residual interest - irrevocable trust	-	(11,455)	-	(11,455)	5,078,501
Other assets	7,300	(11,160)	-	(3,860)	(31,726)
Due to University of Nevada, Reno	(3,013)	168,175	-	165,162	(43,702)
Accounts payable	2,969	(935)	1,099	3,133	26,382
Unearned revenue	27,300	(7,469,018)	-	(7,441,718)	2,298,310
Net cash provided by (used in) operating activities	<u>\$ (574,310)</u>	<u>\$ (7,947,821)</u>	<u>\$ 2,095</u>	<u>\$ (8,520,036)</u>	<u>\$ 4,480,774</u>
<b>Non-cash</b>					
Increase in cash surrender value of life insurance	<u>\$ -</u>	<u>\$ 11,160</u>	<u>\$ -</u>	<u>\$ 11,160</u>	<u>\$ 12,398</u>
Sale of property for note receivable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 220,000</u>
Gifts of stocks and bonds	<u>\$ 6,812</u>	<u>\$ 281,838</u>	<u>\$ 432,508</u>	<u>\$ 721,158</u>	<u>\$ 1,104,750</u>

The accompanying notes are an integral part of this statement.

## University of Nevada, Reno Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005

#### 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, Reno or any organizations that are affiliated with the University of Nevada, Reno and are exempt from Federal income taxation.

The Foundation is considered a component unit and will be included in the basic financial statements of the University and Community College System of Nevada and the separate financial statements of the University of Nevada, Reno.

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. The Foundation previously implemented GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Foundation also applies FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

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.

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.

Because Endowment investment funds include funds derived originally from permanently restricted gifts, the management of these funds is subject to Nevada law (NRS 164.500). The Board has interpreted state law as allowing it to use any of the investment returns as is prudent considering the Foundation's long and short-term needs, expected total return on its investments, price level trends and general economic conditions.

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**1. Financial Reporting** - Continued

In accordance with this interpretation, the Foundation has adopted an investment policy that establishes an annual spendable objective, which is to provide funds for operating and capital expenditures, and is calculated as 5% of the average market value of assets over the 12-quarter period ending on June 30. Earnings in excess of 5% 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, 2005, the Foundation has calculated the current spending objective and has distributed all expendable endowment funds accordingly. The distribution is presented as a transfer between funds - distribution of expendable endowment 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 the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions 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.

**4. Investments**

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.

**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 financial statements.

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**7. Donated Assets and Services**

Donated assets are reflected as contributions in the accompanying statements at their estimated value at date of receipt. No amounts have been reflected in the statements for donated services, 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 organization'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.

**9. Comparative Information**

The basic financial statements and these 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, 2004 from which the summarized information was derived.

**10. Advertising**

The Foundation expenses the costs of all advertising and promotions as they are incurred. Total advertising expenses for the periods ended June 30, 2005 and 2004 amounted to \$8,057 and \$13,851, respectively.

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE B - CASH AND INVESTMENTS**

Cash and cash equivalents at June 30, consists of:

	<u>2005</u>	<u>2004</u>
Cash	\$ 1,010,731	\$ 882,845
Money Funds	1,534,299	8,484
Commonfund Short-term Investments	3,474,676	9,850,049
Certificates of Deposit	190,000	980,000
Treasury Bills	4,494,908	8,131,674
	<u>\$10,704,614</u>	<u>\$19,853,052</u>

The fair value of investments at June 30, are as follows:

	<u>2005</u>	<u>2004</u>
Equity Investments	\$ 277,236	\$ -
Commonfund Bond	16,259,070	14,055,752
Commonfund Global Bond	670,648	637,898
Commonfund Equity	45,811,009	39,264,588
Commonfund International Equity	1,363,218	1,230,195
Commonfund Emerging Markets	1,419,366	1,079,657
Commonfund Capital Partners	411,075	166,791
Commonfund Real Estate Securities	775,928	574,334
Commonfund Realty Investors	1,907,832	1,803,499
Certificates of Deposit	2,183,996	2,149,293
U.S. Government Securities	4,527,158	1,591,783
	<u>\$75,606,536</u>	<u>\$62,553,790</u>

At June 30, 2005, the Foundation investments had the following maturities:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Equity investments	\$ 277,236	\$ 277,236	\$ -	\$ -
Open ended mutual funds	68,618,146	68,618,146	-	-
Certificates of deposit	2,183,996	890,859	1,197,222	95,915
U.S. Government securities	4,527,158	3,533,621	495,097	498,440
	<u>\$75,606,536</u>	<u>\$73,319,862</u>	<u>\$1,692,319</u>	<u>\$594,355</u>

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE B - CASH AND INVESTMENTS - Continued**

The Foundation's investment policy allows for investments of money market funds, certificates of deposit, commercial paper (rated P-1 and/or A-1 or better up to 10% maximum of the total cash balance), United States treasury bills or notes, mortgage backed securities, or internal loans to the University of Nevada, Reno (secured by a promissory note, with appropriate interest). Investments outside of the Commonfund are staggered in 30, 60 and 90 day investments. All investments in excess of the 90 day limit are approved individually. Justification for the time period of the investment would be that our liquid cash needs didn't exceed \$10 million and the rate of return justifies the investment.

Investments are recorded in the following funds at June 30:

	<u>2005</u>	<u>2004</u>
Unrestricted Fund	\$ 3,125,183	\$ 2,893,600
Restricted Fund	8,418,891	4,900,831
Endowment Fund	64,062,462	54,759,359
	<u>\$75,606,536</u>	<u>\$62,553,790</u>

The cumulative net appreciation of investments at June 30 is as follows:

	<u>2005</u>	<u>2004</u>
Unrestricted Fund	\$ 245,337	\$ 68,590
Restricted Fund	185,350	93,935
Endowment Fund	17,576,195	13,924,762
	<u>\$18,006,882</u>	<u>\$14,087,287</u>

**Investment Risk Factors**

There are many factors that can affect the value of investments. Some, such as custodial credit risk and concentrations of credit risk may affect fixed income securities, which are particularly sensitive to credit risks and changes in interest rates.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government'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, 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 one hundred 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.

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE B - CASH AND INVESTMENTS - Continued**

**Credit Risk**

Fixed income securities are subject to credit risk, which is the chance an issuer or other counterparty to an investment will not fulfill its obligations. It is the policy of the Foundation to manage its credit risk by limiting its fixed income securities to obligations of the U.S. Government, which are not considered to have credit risk, and to pooled fixed income funds with the Commonfund. The Commonfund is unrated by recognized 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 current policy limits U.S. Treasury instruments and certificates of deposit to no more than 90 days out unless the rate justifies the return and the current cash needs permit.

**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 may not be returned to it. 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, 2005, the Foundation's bank balance was \$9,735,725. Of this balance \$5,198,212 was covered by depository insurance and/or collateralized and \$2,804,090 was held in an open ended mutual fund, which is not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

**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.

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**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 will be recognized when the Foundation receives its residual interest in the trusts. Interest payments are made to beneficiaries 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 market value. Unearned revenue at June 30 is comprised of:

	<u>2005</u>	<u>2004</u>
Knowledge Center	\$ -	\$7,416,759
Residual Interest in Trust	200,602	262,611
Annual Banquet	<u>114,650</u>	<u>77,600</u>
	<u>\$315,252</u>	<u>\$7,756,970</u>

Contributions received from donors for construction of the Knowledge Center were conditional upon the approval of the State Public Works Board to begin construction. Approval was obtained during the current year, and the contribution revenue was thus recognized.

**NOTE D - RELATED PARTY TRANSACTIONS**

The University of Nevada, Reno provided the Foundation with administrative and support services for the years ended June 30, 2005 and 2004 in the amounts of \$1,076,814 and \$1,313,144, respectively. The Foundation expended \$19,973,966 and \$17,358,581 for programs and scholarships of the University of Nevada, Reno for the years ended June 30, 2005 and 2004. Amounts due to the University of Nevada, Reno at June 30, 2005 and 2004 are \$767,101 and \$601,939, respectively.

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE E - PLEDGES RECEIVABLE**

Pledges receivable are recorded as revenue at the pledge date and adjusted to present value based upon collection date in the accompanying financial statements. Pledges receivable at June 30, 2005 and 2004 consist of the following:

	2005	2004
	<u>                    </u>	<u>                    </u>
Athletics	\$ 2,000,000	\$ -
College of Liberal Arts	55,000	-
College of Agriculture, Biotech	62,000	95,000
College of Business	967,331	-
College of Education	188,150	45,000
College of Engineering	1,189,975	1,405,100
College of Human & Community Science	145,000	-
College of Science	1,093,000	1,662,600
Library	7,164,800	566,111
Redfield Campus	1,500,000	2,001,000
School of Journalism	300,000	4,000
School of Medicine	12,600	47,250
Scholarships	84,100	187,500
Other	38,750	62,500
	<u>14,800,706</u>	<u>6,076,061</u>
Present value discount	(1,231,528)	(486,590)
Net pledges receivable	<u>13,569,178</u>	<u>5,589,471</u>
Less: Current maturities	<u>6,085,876</u>	<u>1,767,882</u>
	<u><u>\$ 7,483,302</u></u>	<u><u>\$ 3,821,589</u></u>

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE F - NOTES RECEIVABLE**

Notes receivable as of June 30 consist of the following:

	<u>2005</u>	<u>2004</u>
Installment note receivable, secured by a first deed of trust, monthly payments of \$1,391, including interest at 6.5%, maturing November 2008.	\$204,005	\$214,279
Installment note receivable, secured by a first deed of trust, monthly payments of \$1,220, including interest at 8.5%, maturing December 2009.	-	64,731
Installment note receivable, secured by a first deed of trust, monthly payments of \$343, including interest at 10%, maturing March 2012.	<u>21,420</u>	<u>22,643</u>
	225,425	301,653
Less current maturities	<u>5,793</u>	<u>14,233</u>
	<u><u>\$219,632</u></u>	<u><u>\$287,420</u></u>

**NOTE G - NOTE PAYABLE**

On May 17, 2002, the Foundation consummated a Promissory Note with Wells Fargo Bank to assist the University of Nevada, Reno with construction costs associated with the Redfield Campus. The loan is for \$2,415,833, with interest calculated at a rate of .75% below the Prime Rate in effect from time to time. Principal and interest shall be payable on the 15<sup>th</sup> day of each January and July in installments of \$250,000 each, with all remaining unpaid principal and interest payable in full on July 15, 2008. Outstanding pledges of \$1,500,000 from the Nell J. Redfield Foundation act as security for the loan, and the loan is also guaranteed by the Nell J. Redfield Foundation. The outstanding balance of the note at June 30, 2005 and 2004 was \$1,528,636 and \$1,901,921, respectively.

As a means of managing its borrowing costs, the Foundation entered into an interest rate swap in connection with its \$2.4 million promissory note. The intention of the swap was to effectively change the Foundation's variable rate on the note to a synthetic fixed rate of 6.95%.

The promissory note and the related swap agreement mature on July 15, 2008, and the swap's notional amount of approximately \$2.4 million matches the \$2.4 million variable-rate promissory note. The swap was entered at the same time the note was issued (May 2002). Starting in fiscal year 2003, the notional value of the swap and the principal amount of the associated debt will decline as principal amounts are paid. Under the swap, the Foundation pays the counterparty a fixed payment of 6.95% and receives a variable payment computed as the counterparty's prime rate minus 0.75%. The promissory note bears interest at the counterparty's prime lending rate minus 0.75%.

**University of Nevada, Reno Foundation**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2005**

**NOTE G - NOTE PAYABLE - Continued**

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$25,257 as of June 30, 2005. The swap's fair value represents the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

As of June 30, 2005, the Foundation was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Foundation would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA- by Standard & Poor's as of June 30, 2005.

The Foundation or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract or if the related promissory note is repaid. If the swap is terminated, the variable-rate promissory note would no longer carry a synthetic rate. Also, at the time of termination of the swap, the defaulting party shall pay on demand to the non-defaulting party an amount equal to the Termination Amount, computed as the average of the respective one-time all-in fees of each of the three leading commercial banks or investment banking firms, selected in good faith by the non-defaulting party.

Principal maturities on the above note are due as follows:

Years ending June 30,	
2006	\$ 399,873
2007	428,354
2008	458,863
2009	<u>241,546</u>
	<u>\$1,528,636</u>

**SUPPLEMENTARY INFORMATION**

**University of Nevada, Reno Foundation**  
**UNRESTRICTED FUND**  
**ALUMNI AND UNIVERSITY PROGRAM EXPENSES**  
**Year ended June 30, 2005**  
**(With comparative totals for the year ended June 30, 2004)**

	<u>2005</u>	<u>2004</u>
<b>Alumni programs</b>		
Alumni College	\$ 15,645	\$ 17,720
Alumni Council	8,398	14,478
Band	-	196
Executive Committee	658	1,269
Golden Reunion	11,360	4,222
Homecoming	47,908	54,455
Membership Fund	50,179	62,738
Miscellaneous	-	1,299
Outreach	23,968	34,184
Pack Tracks	10,225	4,360
Pre-game Events	15,320	9,030
Senior Scholar Dinner	6,989	7,858
Staff and Office Expense	30,124	31,079
Student Support	3,202	4,908
Summer Events	3,080	2,877
Total alumni programs	<u>227,056</u>	<u>250,673</u>
<b>University programs</b>		
Faculty Enrichment	30,884	82,973
Silver & Blue Magazine	90,250	75,034
Tibbitts Memorial Distinguished Teacher Award	7,500	7,500
Total university programs	<u>128,634</u>	<u>165,507</u>
<b>University scholarships</b>		
University scholarships	<u>80,000</u>	<u>50,000</u>
Total alumni and university program expenses	<u>\$ 435,690</u>	<u>\$ 466,180</u>

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

**Year ended June 30, 2005**  
**(With comparative totals for the year ended June 30, 2004)**

	<b>2005</b>			<b>2004</b>
	<b>Administrative</b>	<b>Fundraising</b>	<b>Total</b>	<b>Total</b>
<b>Payroll and related expenses</b>				
Salaries and wages	\$ 298,557	\$ 855,633	\$ 1,154,190	\$ 1,357,611
Fringe benefits	97,582	195,835	293,417	322,486
	<u>396,139</u>	<u>1,051,468</u>	<u>1,447,607</u>	<u>1,680,097</u>
<b>Operating</b>				
Accounting fees	35,866	-	35,866	54,199
Advertising	2,559	5,498	8,057	13,851
Appreciation, gifts and sponsorships	1,422	1,898	3,320	12,060
Books, periodicals and subscriptions	5,825	1,506	7,331	4,021
Contract services	12,234	36,862	49,096	58,532
Depreciation expense	13,094	-	13,094	11,739
Dues and memberships	3,015	1,245	4,260	5,400
Equipment maintenance expense	18,215	13,730	31,945	30,195
Insurance, taxes and licenses	10,354	-	10,354	10,091
Legal fees	8,233	5,870	14,103	6,878
Meeting and hosting expense	23,552	9,691	33,243	61,500
Office expense	28,715	12,043	40,758	57,039
Photography	221	6,156	6,377	1,623
Postage and freight	10,384	5,893	16,277	23,721
Printing and duplicating	22,053	17,027	39,080	66,836
Real estate appraisal fees	-	-	-	700
Recruitment costs	3,963	-	3,963	-
Special event and meeting supplies	4,236	31,172	35,408	28,323
Telephone	4,340	7,255	11,595	10,994
Training and registration fees	5,913	5,761	11,674	10,480
Travel expense	12,545	9,927	22,472	30,536
	<u>226,739</u>	<u>171,534</u>	<u>398,273</u>	<u>498,718</u>
Total administrative and fundraising expenses	<u>\$ 622,878</u>	<u>\$ 1,223,002</u>	<u>\$ 1,845,880</u>	<u>\$ 2,178,815</u>