

Financial statements and report of independent certified public accountants

University of Nevada, Reno Foundation

June 30, 2006

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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, 2006, 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 2005 financial statements, and in our report dated August 12, 2005, 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, 2006, 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 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2006

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, 2006. 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 Nevada System of Higher Education (NSHE) 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, 2006. 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, 2006. 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, 2006.

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, prepaid expenses 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 \$120 million in fiscal 2006 from \$101 million in fiscal 2005. Unrestricted assets increased by \$872 thousand, restricted assets increased by \$5.5 million and endowed assets increased by \$13.1 million. Current assets increased by \$20 million. The increases were in cash and investments, offset by a decrease in pledges receivable. Current liabilities increased by \$1.9 million which resulted from an increase in accounts payable to the university for athletic transfers. Fund net assets increased by \$18 million. The following is a comparison of the balance sheet at June 30, 2006 and 2005.

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2006

Balance Sheet - Continued

Balance Sheet

	2006	2005
Assets		
Current assets	\$112,572,228	\$ 92,438,031
Non-current assets		
Capital assets, net of depreciation	155,948	170,255
Other	7,729,206	8,353,179
Total assets	\$120,457,382	\$100,961,465
Liabilities		
Current liabilities	\$ 3,116,778	\$ 1,185,904
Non-current liabilities	1,000,102	1,444,015
Total liabilities	4,116,880	2,629,919
Fund net assets		
Investment in capital assets	155,948	170,255
Unrestricted	5,214,432	4,312,243
Restricted – expendable	30,289,926	26,243,222
Endowment - nonexpendable	80,680,196	67,605,826
Total fund net assets	116,340,502	98,331,546
Total liabilities and fund net assets	\$120,457,382	\$100,961,465

Capital Assets, Net

	2006	2005
Land	\$ 81,900	\$ 81,900
Buildings	35,000	35,000
Equipment	112,142	103,015
Software	-	4,515
	229,042	224,430
Less accumulated depreciation	(73,094)	(54,175)
Net capital assets	\$ 155,948	\$ 170,255

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2006

Financial Analysis of Fund Net Assets

Fund net assets increased from the prior year by \$18 million. Total net assets were \$116 million at June 30, 2006, of which \$5.3 million is available for the unrestricted purposes of the Foundation.

Financial Analysis of Fund Net Assets

	<u>2006</u>	<u>2005</u>
Investment in capital assets	\$ 155,948	\$ 170,255
Unrestricted		
Undesignated	406,255	517,949
Quasi Endowment and other	4,808,177	3,794,294
Restricted		
Expendable	30,289,926	26,243,222
Nonexpendable	<u>80,680,196</u>	<u>67,605,826</u>
Total fund net assets	<u>\$116,340,502</u>	<u>\$98,331,546</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 decreased from the prior year by \$9.5 million. Donor contributions decreased by \$10.7 million, a significant portion of which were gifts received in the previous year for the Knowledge Center. University support increased from the prior year by \$682 thousand from filling vacant positions and operational dollars. Special event and other income increased by \$468 thousand.

Expenses include alumni programs, university programs, university scholarships, administrative and fundraising expenses. These expenses decreased from the prior year by \$7.5 million. The majority of the decrease was from the transfer in the prior year for the construction of the Knowledge Center. Investment income increased by \$221 thousand.

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2006

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:

Operating Results

	<u>2006</u>	<u>2005</u>
Operating support and revenue		
Donor contributions	\$14,068,747	\$24,724,512
University support	1,758,767	1,076,814
Special events and other income	1,119,656	651,677
Total operating support and revenue	<u>16,947,170</u>	<u>26,453,003</u>
Operating expenses		
Program expenses		
Alumni programs	290,946	227,056
University programs	7,728,363	17,150,415
University scholarships	4,356,560	2,823,551
Total program expenses	<u>12,375,869</u>	<u>20,201,022</u>
Administrative and fundraising expenses		
Administrative	834,627	622,878
Fundraising	1,327,040	1,223,002
Total administrative and fundraising Expenses	<u>2,161,667</u>	<u>1,845,880</u>
Total operating expenses	<u>14,537,536</u>	<u>22,046,902</u>
Operating income	2,409,634	4,406,101
Investment income	7,679,678	7,458,323
Additions to permanent and term endowments	<u>7,919,644</u>	<u>7,176,204</u>
Net change in fund net assets	<u>\$18,008,956</u>	<u>\$19,040,628</u>

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2006

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:

	<u>2006</u>	<u>2005</u>
Cash provided by (used in):		
Operating activities	\$6,609,426	(\$8,520,036)
Non-capital financing activities	8,075,069	4,238,715
Capital and related financing activities	(743,942)	(520,081)
Investing activities	<u>(5,063,874)</u>	<u>(4,347,036)</u>
Net increase (decrease) in cash	8,876,679	(9,148,438)
Cash and cash equivalents, beginning	<u>10,704,614</u>	<u>19,853,052</u>
Cash and cash equivalents, ending	<u><u>\$19,581,293</u></u>	<u><u>\$10,704,614</u></u>

Long-Term Obligations

At June 30, 2006 the Foundation had long-term obligations of \$879 thousand, 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, 2006 to June 30, 2005, donor contributions decreased by 43%. The majority of this decrease was due to the prior year's recognition of deferred gifts for the Knowledge Center.

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. The Foundation currently has verbal commitments of approximately the \$10 million dollar range.

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, 2006
(With comparative totals as of June 30, 2005)

ASSETS	2006				2005
	Unrestricted	Restricted	Endowment	Total	Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,644,732	\$ 16,818,437	\$ 1,118,124	\$ 19,581,293	\$ 10,704,614
Investments	3,397,910	8,754,434	76,907,711	89,060,055	75,606,536
Accounts receivable	12,266	39,499	-	51,765	25,697
Prepaid expenses and deposits	6,883	-	-	6,883	9,515
Current portion of pledges receivable	-	3,049,227	818,732	3,867,959	6,085,876
Current portion of notes receivable	4,273	-	-	4,273	5,793
Total current assets	5,066,064	28,661,597	78,844,567	112,572,228	92,438,031
NON-CURRENT ASSETS					
Pledges receivable	-	4,977,746	1,847,074	6,824,820	7,483,302
Notes receivable	188,721	-	-	188,721	219,632
Real property	3,500	65,000	48,400	116,900	116,900
Residual interest-irrevocable trusts	-	345,066	-	345,066	274,066
Other	178,685	191,914	-	370,599	376,179
Equipment, at cost, less accumulated depreciation of \$73,094	39,048	-	-	39,048	53,355
Total non-current assets	409,954	5,579,726	1,895,474	7,885,154	8,523,434
Total assets	\$ 5,476,018	\$ 34,241,323	\$ 80,740,041	\$ 120,457,382	\$ 100,961,465
LIABILITIES AND FUND NET ASSETS					
CURRENT LIABILITIES					
Due to University of Nevada, Reno	\$ 158,774	\$ 2,717,945	\$ -	\$ 2,876,719	\$ 767,101
Accounts payable	3,164	7,589	11,445	22,198	18,930
Current portion of note payable	-	217,861	-	217,861	399,873
Total current liabilities	161,938	2,943,395	11,445	3,116,778	1,185,904
NON-CURRENT LIABILITIES					
Note payable	-	660,902	-	660,902	1,128,763
Unearned revenue	57,100	282,100	-	339,200	315,252
Total non-current liabilities	57,100	943,002	-	1,000,102	1,444,015
FUND NET ASSETS					
Investment in capital assets	42,548	65,000	48,400	155,948	170,255
Unrestricted	5,214,432	-	-	5,214,432	4,312,243
Restricted - expendable	-	30,289,926	-	30,289,926	26,243,222
Restricted - nonexpendable	-	-	80,680,196	80,680,196	67,605,826
Total fund net assets	5,256,980	30,354,926	80,728,596	116,340,502	98,331,546
Total liabilities and fund net assets	\$ 5,476,018	\$ 34,241,323	\$ 80,740,041	\$ 120,457,382	\$ 100,961,465

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, 2006
(With comparative totals for the year ended June 30, 2005)

	2006			2005	
	Unrestricted	Restricted	Endowment	Total	Total
Operating support and revenue					
Donor contributions	\$ 598,220	\$ 13,470,527	\$ -	\$ 14,068,747	\$ 24,724,512
University support	1,758,767	-	-	1,758,767	1,076,814
Special events and other income	117,552	997,105	4,999	1,119,656	651,677
Total operating support and revenue	<u>2,474,539</u>	<u>14,467,632</u>	<u>4,999</u>	<u>16,947,170</u>	<u>26,453,003</u>
Operating expenses					
Program expenses					
Alumni programs	290,946	-	-	290,946	227,056
University programs	193,622	7,534,741	-	7,728,363	17,150,415
University scholarships	74,950	4,281,610	-	4,356,560	2,823,551
Total program expenses	<u>559,518</u>	<u>11,816,351</u>	<u>-</u>	<u>12,375,869</u>	<u>20,201,022</u>
Administrative and fundraising expenses					
Administrative	834,627	-	-	834,627	622,878
Fundraising	1,327,040	-	-	1,327,040	1,223,002
Total administrative and fundraising expenses	<u>2,161,667</u>	<u>-</u>	<u>-</u>	<u>2,161,667</u>	<u>1,845,880</u>
Total operating expenses	<u>2,721,185</u>	<u>11,816,351</u>	<u>-</u>	<u>14,537,536</u>	<u>22,046,902</u>
OPERATING INCOME (LOSS)	<u>(246,646)</u>	<u>2,651,281</u>	<u>4,999</u>	<u>2,409,634</u>	<u>4,406,101</u>
Investment income	<u>937,001</u>	<u>184,154</u>	<u>6,558,523</u>	<u>7,679,678</u>	<u>7,458,323</u>
Additions to permanent and term endowments	<u>-</u>	<u>-</u>	<u>7,919,644</u>	<u>7,919,644</u>	<u>7,176,204</u>
Transfers between funds					
Distribution of expendable endowment	199,570	2,436,993	(2,636,563)	-	-
Other	(2,043)	(1,225,724)	1,227,767	-	-
Total transfers between funds	<u>197,527</u>	<u>1,211,269</u>	<u>(1,408,796)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND NET ASSETS	<u>887,882</u>	<u>4,046,704</u>	<u>13,074,370</u>	<u>18,008,956</u>	<u>19,040,628</u>
Fund net assets at beginning of year	<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>
Fund net assets at end of year	<u>\$ 5,256,980</u>	<u>\$ 30,354,926</u>	<u>\$ 80,728,596</u>	<u>\$ 116,340,502</u>	<u>\$ 98,331,546</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, 2006
(With comparative totals for the year ended June 30, 2005)

	2006				2005
	Unrestricted	Restricted	Endowment	Total	Total
Cash flows from operating activities:					
Donor contributions	\$ 560,870	\$ 15,409,809	\$ -	\$ 15,970,679	\$ 11,443,598
University support	1,746,536	-	-	1,746,536	1,075,005
Special events and other income	117,552	997,105	4,999	1,119,656	651,677
Cash paid to University	(526,953)	(9,501,160)	-	(10,028,113)	(19,846,595)
Cash paid to employees for services	(1,660,589)	-	-	(1,660,589)	(1,447,607)
Cash paid to suppliers	(471,313)	(68,557)	1,127	(538,743)	(396,114)
Net cash provided by (used in) operating activities	<u>(233,897)</u>	<u>6,837,197</u>	<u>6,126</u>	<u>6,609,426</u>	<u>(8,520,036)</u>
Cash flows from non-capital financing activities:					
Additions to permanent and term endowments	-	-	8,075,069	8,075,069	4,238,715
Transfer between funds	197,527	1,211,269	(1,408,796)	-	-
Net cash provided by non-capital financing activities	<u>197,527</u>	<u>1,211,269</u>	<u>6,666,273</u>	<u>8,075,069</u>	<u>4,238,715</u>
Cash flows from capital and related financing activities:					
Purchase of equipment	(7,015)	-	-	(7,015)	(30,051)
Repayment of debt	-	(649,875)	-	(649,875)	(373,286)
Interest paid on notes payable	-	(87,052)	-	(87,052)	(116,744)
Net cash used in capital and related financing activities	<u>(7,015)</u>	<u>(736,927)</u>	<u>-</u>	<u>(743,942)</u>	<u>(520,081)</u>
Cash flows from investing activities:					
Interest and dividends on investments	765,492	135,146	1,436,582	2,337,220	2,635,734
Proceeds from sale of investments	3,022	1,043,931	4,582,187	5,629,140	2,226,497
Proceeds from sale of real estate	-	-	-	-	430,137
Purchase of investments	(98,837)	(727,003)	(12,236,825)	(13,062,665)	(9,715,632)
Payments received from notes receivable	11,011	21,420	-	32,431	76,228
Net cash provided by (used in) investing activities	<u>680,688</u>	<u>473,494</u>	<u>(6,218,056)</u>	<u>(5,063,874)</u>	<u>(4,347,036)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	637,303	7,785,033	454,343	8,876,679	(9,148,438)
Cash and cash equivalents, beginning	1,007,429	9,033,404	663,781	10,704,614	19,853,052
Cash and cash equivalents, ending	<u>\$ 1,644,732</u>	<u>\$ 16,818,437</u>	<u>\$ 1,118,124</u>	<u>\$ 19,581,293</u>	<u>\$ 10,704,614</u>

University of Nevada, Reno Foundation
STATEMENT OF CASH FLOWS - CONTINUED
For the year ended June 30, 2006
(With comparative totals for the year ended June 30, 2005)

	2006				2005
	Unrestricted	Restricted	Endowment	Total	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (246,646)	\$ 2,651,281	\$ 4,999	\$ 2,409,634	\$ 4,406,101
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	21,322	-	-	21,322	13,094
Interest on notes payable	-	87,052	-	87,052	116,744
Gifts of stocks and bonds	(5,403)	(603,461)	-	(608,864)	(288,650)
Changes in:					
Accounts receivable	(10,266)	(15,802)	-	(26,068)	(1,251)
Pledges receivable	-	2,652,304	-	2,652,304	(5,474,726)
Prepaid expenses and deposits	2,632	-	-	2,632	(2,610)
Residual interest - irrevocable trust	-	(71,000)	-	(71,000)	(11,455)
Other assets	20,000	(14,420)	-	5,580	(3,860)
Due to University of Nevada, Reno	32,565	2,077,053	-	2,109,618	165,162
Accounts payable	(301)	2,442	1,127	3,268	3,133
Unearned revenue	(47,800)	71,748	-	23,948	(7,441,718)
Net cash provided by (used in) operating activities	<u>\$ (233,897)</u>	<u>\$ 6,837,197</u>	<u>\$ 6,126</u>	<u>\$ 6,609,426</u>	<u>\$ (8,520,036)</u>
Non-cash					
Increase in cash surrender value of life insurance	<u>\$ -</u>	<u>\$ 14,420</u>	<u>\$ -</u>	<u>\$ 14,420</u>	<u>\$ 11,160</u>
Gifts of stocks and bonds	<u>\$ 5,403</u>	<u>\$ 603,464</u>	<u>\$ 68,670</u>	<u>\$ 677,537</u>	<u>\$ 721,158</u>

The accompanying notes are an integral part of this statement.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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 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. 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 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, 2006

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, 2006, 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, 2006

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. Significant accounting estimates made by management include the amount of pledges receivable and the amount of expendable endowment income.

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, 2005 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, 2006 and 2005 amounted to \$853 and \$8,057, respectively.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE B - CASH AND INVESTMENTS

Cash and cash equivalents at June 30, consists of:

	2006	2005
Cash	\$ 965,698	\$ 1,010,731
Money Funds	53,750	1,534,299
Commonfund Short-term Investments	17,669,341	3,474,676
Certificates of Deposit	390,000	190,000
Treasury Bills & Notes	502,504	4,494,908
	\$19,581,293	\$10,704,614

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

	2006	2005
Equity Investments	\$ 357,200	\$ 277,236
Commonfund Bond	15,926,881	16,259,070
Commonfund Global Bond	650,634	670,648
Commonfund Equity	59,183,072	45,811,009
Commonfund International Equity	1,079,463	1,363,218
Commonfund Emerging Markets	1,814,307	1,419,366
Commonfund Capital Partners	843,705	411,075
Commonfund Real Estate Securities	953,280	775,928
Commonfund Realty Investors	2,095,956	1,907,832
Certificates of Deposit	1,422,673	2,183,996
U.S. Government Securities	4,732,884	4,527,158
	\$89,060,055	\$75,606,536

At June 30, 2006, the Foundation investments had the following maturities:

	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 – 5	6 – 10
Equity investments	\$ 357,200	\$ 357,200	\$ -	\$ -
Open ended mutual funds	82,547,298	82,547,298	-	-
Certificates of deposit	1,422,673	1,330,998	-	91,675
U.S. Government securities	4,732,884	4,248,664	484,220	-
	\$89,060,055	\$88,484,160	\$484,220	\$91,675

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE B - CASH AND INVESTMENTS - Continued

The Foundation's investment policy for cash and cash equivalents 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:

	2006	2005
Unrestricted Fund	\$ 3,397,910	\$ 3,125,183
Restricted Fund	8,754,434	8,418,891
Endowment Fund	76,907,711	64,062,462
	\$89,060,055	\$75,606,536

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

	2006	2005
Unrestricted Fund	\$ 416,906	\$ 245,337
Restricted Fund	245,536	185,350
Endowment Fund	21,053,182	17,576,195
	\$21,715,624	\$18,006,882

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, 2006

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, 2006, the Foundation's bank balance was \$18,285,536. Of this balance \$1,144,486 was covered by depository insurance and/or collateralized.

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, 2006

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>2006</u>	<u>2005</u>
Residual Interest in Trust	\$ 57,100	\$200,602
Annual Banquet	<u>282,100</u>	<u>114,650</u>
	<u>\$339,200</u>	<u>\$315,252</u>

NOTE D - RELATED PARTY TRANSACTIONS

The University of Nevada, Reno provided the Foundation with administrative and support services for the years ended June 30, 2006 and 2005 in the amounts of \$1,758,767 and \$1,076,814, respectively. The Foundation expended \$12,084,923 and \$19,973,966 for programs and scholarships of the University of Nevada, Reno for the years ended June 30, 2006 and 2005. Amounts due to the University of Nevada, Reno at June 30, 2006 and 2005 are \$2,876,719 and \$767,101, respectively.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

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 consist of the following:

	2006	2005
Athletics	\$ 2,264,500	\$ 2,000,000
College of Liberal Arts	624,000	55,000
College of Agriculture, Biotech	190,000	62,000
College of Business	477,666	967,331
College of Education	327,000	188,150
College of Engineering	298,143	1,189,975
College of Human & Community Science	61,960	145,000
College of Science	642,500	1,093,000
Library	3,697,364	7,164,800
Redfield Campus	750,000	1,500,000
School of Journalism	337,000	300,000
School of Medicine	2,011,700	12,600
Scholarships	-	84,100
Other	275,000	38,750
	11,956,833	14,800,706
Present value discount	(1,264,054)	(1,231,528)
Net pledges receivable	10,692,779	13,569,178
Less: Current maturities	(3,867,959)	(6,085,876)
	\$ 6,824,820	\$ 7,483,302

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE F - NOTES RECEIVABLE

Notes receivable as of June 30 consist of the following:

	2006	2005
Installment note receivable, secured by a first deed of trust, monthly payments of \$1,391, including interest at 6.5%, maturing November 2008.	\$192,994	\$204,005
Installment note receivable, secured by a first deed of trust, monthly payments of \$343, including interest at 10%, maturing March 2012.	-	21,420
	192,994	225,425
Less current maturities	(4,273)	(5,793)
	\$188,721	\$219,632

The second receivable above was paid off early in February 2006.

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 15th 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 \$750,000 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, 2006 and 2005 was \$878,763 and \$1,528,636, 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, 2006

NOTE G - NOTE PAYABLE - Continued

Until fiscal year 2006, interest rates had declined since execution of the swap, and the swap had a negative fair value. During fiscal year 2006, the prime interest rate exceeded that of the rate at execution of the swap. The swap has a positive fair value of approximately \$6,000 as of June 30, 2006. 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, 2006, the Foundation was not exposed to credit risk because the swap had a positive fair value. The swap counterparty was rated AA- by Standard & Poor's as of June 30, 2006.

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,	
2007	\$217,861
2008	458,863
2009	<u>202,039</u>
	<u>\$878,763</u>

SUPPLEMENTARY INFORMATION

University of Nevada, Reno Foundation
UNRESTRICTED FUND
ALUMNI AND UNIVERSITY PROGRAM EXPENSES
Year ended June 30, 2006
(With comparative totals for the year ended June 30, 2005)

	<u>2006</u>	<u>2005</u>
Alumni programs		
Alumni College	\$ 2,977	\$ 15,645
Alumni Council	8,340	8,398
Band	286	-
Executive Committee	3,583	658
Golden Reunion	7,193	11,360
Homecoming	39,487	47,908
Membership Fund	56,782	50,179
Miscellaneous	27,058	-
Outreach	48,558	23,968
Pack Tracks	9,742	10,225
Pre-game Events	28,935	15,320
Senior Scholar Dinner	7,677	6,989
Staff and Office Expense	36,290	30,124
Student Support	10,120	3,202
Summer Events	3,918	3,080
Total alumni programs	<u>290,946</u>	<u>227,056</u>
University programs		
Faculty & Staff Enrichment	47,876	30,884
Silver & Blue Magazine	138,246	90,250
Tibbitts Memorial Distinguished Teacher Award	<u>7,500</u>	<u>7,500</u>
Total university programs	<u>193,622</u>	<u>128,634</u>
University scholarships		
University scholarships	<u>74,950</u>	<u>80,000</u>
Total alumni and university program expenses	<u><u>\$ 559,518</u></u>	<u><u>\$ 435,690</u></u>

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

Year ended June 30, 2006
(With comparative totals for the year ended June 30, 2005)

	2006			2005
	Administrative	Fundraising	Total	Total
Payroll and related expenses				
Salaries and wages	\$ 373,765	\$ 927,042	\$ 1,300,807	\$ 1,154,190
Fringe benefits	159,853	199,929	359,782	293,417
	<u>533,618</u>	<u>1,126,971</u>	<u>1,660,589</u>	<u>1,447,607</u>
Operating				
Accounting fees	31,810	150	31,960	35,866
Advertising	473	380	853	8,057
Appreciation, gifts and sponsorships	16,295	2,792	19,087	3,320
Books, periodicals and subscriptions	1,623	24,636	26,259	7,331
Contract services	5,508	50,735	56,243	49,096
Depreciation expense	20,869	453	21,322	13,094
Dues and memberships	5,941	800	6,741	4,260
Equipment maintenance expense	40,455	1,640	42,095	31,945
Insurance, taxes and licenses	10,063	-	10,063	10,354
Legal fees	16,445	2,594	19,039	14,103
Meeting and hosting expense	26,475	7,884	34,359	33,243
Office expense	26,240	9,552	35,792	40,758
Photography	128	12,921	13,049	6,377
Postage and freight	16,322	5,451	21,773	16,277
Printing and duplicating	21,650	25,813	47,463	39,080
Recruitment costs	20,061	-	20,061	3,963
Special event and meeting supplies	8,434	36,478	44,912	35,408
Telephone	6,098	8,313	14,411	11,595
Training and registration fees	12,463	4,808	17,271	11,674
Travel expense	13,656	4,669	18,325	22,472
	<u>301,009</u>	<u>200,069</u>	<u>501,078</u>	<u>398,273</u>
Total administrative and fundraising expenses	<u>\$ 834,627</u>	<u>\$ 1,327,040</u>	<u>\$ 2,161,667</u>	<u>\$ 1,845,880</u>