

Financial statements and report of independent certified public accountants

University of Nevada, Reno Foundation

June 30, 2004

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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, 2004, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2004, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Foundation taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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 is the responsibility of the management of the Foundation. Such information has been subjected to the auditing procedures applied in our audit of the financial statements of the Foundation and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Reno, Nevada
August 13, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2004

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, 2004. 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, 2004. 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, 2004. 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, 2004.

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 net fund 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 \$89.6 million in fiscal year 2004 from \$77.9 million in fiscal year 2003. Unrestricted assets increased significantly from bequests received during the year by \$1.8 million, restricted assets decreased slightly by \$662 thousand and endowed assets increased by \$11 million. Current assets increased by \$19.8 million. The increases were in cash and investments and were a result of increased gift revenue and increases in the market value of investments. Noncurrent liabilities increased by \$1.9 million dollars from several conditional gifts to the Knowledge Center. The following is a comparison of the balance sheet at June 30, 2004 and 2003.

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2004

Balance Sheet - Continued

Balance Sheet

	<u>2004</u>	<u>2003</u>
Assets		
Current assets	\$84,220,308	\$64,371,462
Non-current assets		
Capital assets, net of depreciation	603,298	461,951
Other	<u>4,743,939</u>	<u>13,052,370</u>
Total assets	<u>\$89,567,545</u>	<u>\$77,885,783</u>
Liabilities		
Current liabilities	\$ 991,021	\$ 1,197,446
Non-current liabilities	<u>9,285,606</u>	<u>7,360,581</u>
Total liabilities	<u>\$10,276,627</u>	<u>\$ 8,558,027</u>
Fund net assets		
Investment in capital assets	\$ 603,298	\$ 461,951
Unrestricted	4,048,702	1,467,482
Restricted – expendable	19,031,455	22,376,358
Endowment - nonexpendable	<u>55,607,463</u>	<u>45,021,965</u>
Total fund net assets	<u>\$79,290,918</u>	<u>\$69,327,756</u>
Total liabilities and fund net assets	<u>\$89,567,545</u>	<u>\$77,885,783</u>

Capital Assets, Net

	<u>2004</u>	<u>2003</u>
Land	\$ 81,900	\$ 401,900
Buildings	485,000	35,000
Equipment	105,659	97,548
Software	4,515	18,015
	<u>677,074</u>	<u>552,463</u>
Less accumulated depreciation	<u>(73,776)</u>	<u>(90,512)</u>
Net capital assets	<u>\$ 603,298</u>	<u>\$ 461,951</u>

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2004

Financial Analysis of Fund Net Assets

Fund net assets increased from the prior year by \$10 million. Total net assets were \$79 million at June 30, 2004, of which \$4 million is available for the unrestricted purposes of the Foundation.

Financial Analysis of Fund Net Assets

	<u>2004</u>	<u>2003</u>
Investment in capital assets	\$ 603,298	\$ 461,951
Unrestricted		
Undesignated	682,312	699,700
Quasi Endowment and other	3,366,390	767,782
Restricted		
Expendable	19,031,455	22,376,358
Nonexpendable	<u>55,607,463</u>	<u>45,021,965</u>
Total fund net assets	<u>\$79,290,918</u>	<u>\$69,327,756</u>

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

This statement reflects the effect of operations on 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 \$6.4 million. Donor contributions increased by \$6 million, of which a significant portion was for the Knowledge Center. University support increased from the prior year due to vacant positions being filled. Special event and other income decreased by \$112 thousand.

Expenses include alumni programs, university programs, university scholarships, administrative and fundraising expenses. These expenses increased from the prior year by \$8.8 million. The majority of the increase was for the construction of the Redfield Campus and the Knowledge Center. Additional increases in operating expenses were the result of staffing levels being brought back up to normal levels and increased fundraising activity.

Investment income increased by \$7 million, most of which was a result of increased funds available to invest and 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, 2004

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

The following is a comparison of the operating results for the years ended June 30, 2004 and 2003:

Operating Results

	<u>2004</u>	<u>2003</u>
Operating support and revenue		
Donor contributions	\$15,389,293	\$9,350,550
University support	1,313,144	855,766
Special events and other income	514,616	626,172
Total operating support and revenue	<u>17,217,053</u>	<u>10,832,488</u>
Operating expenses		
Program expenses		
Alumni programs	250,673	214,770
University programs	15,037,923	6,227,154
University scholarships	2,320,658	3,091,669
Total program expenses	<u>17,609,254</u>	<u>9,533,593</u>
Administrative and fundraising expenses		
Administrative	720,016	597,048
Fundraising	1,458,799	864,254
Total administrative and fundraising Expenses	<u>2,178,815</u>	<u>1,461,302</u>
Total operating expenses	<u>19,788,069</u>	<u>10,994,895</u>
Operating loss	(2,571,016)	(162,407)
Investment income	10,037,508	3,058,922
Additions to permanent and term endowments	<u>2,496,670</u>	<u>1,074,484</u>
Net change in fund net assets	<u>\$9,963,162</u>	<u>\$3,970,999</u>

University of Nevada, Reno Foundation

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2004

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, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operating activities	\$ 4,480,774	(\$1,698,510)
Non-capital financing activities	2,106,148	951,450
Capital and related financing activities	(730,473)	1,794,312
Investing activities	(361,182)	(145,084)
NET INCREASE IN CASH	5,495,267	902,168
Cash and cash equivalents, beginning	14,357,785	13,455,617
Cash and cash equivalents, ending	<u>\$19,853,052</u>	<u>\$14,357,785</u>

Long-Term Obligations

At June 30, 2004 the Foundation had long-term obligations of \$1.9 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 H 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 ending June 30, 2004 to June 30, 2003 donor contributions increased by 65%. The majority of this increase was for the Knowledge Center and the unrestricted bequests received during the year. University support increased as a result of filling vacant positions. Investment income increased significantly as a result of the increased contributions. Funds available to invest were significantly higher this year than last, which contributed to the increase in the investment income as well as the equity market turn around.

Organized campaigns are underway for future fundraising projects as well as the conclusion of the fundraising efforts for the Knowledge Center, which should positively increase the gift and pledge revenue for next year.

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, 2004
(With comparative totals as of June 30, 2003)

ASSETS	2004			2003	
	Unrestricted	Restricted	Endowment	Total	Total
CURRENT ASSETS					
Cash and cash equivalents	\$ 935,060	\$ 18,445,589	\$ 472,403	\$ 19,853,052	\$ 14,357,785
Investments	2,893,600	4,900,831	54,759,359	62,553,790	47,918,254
Accounts receivable	191	24,255	-	24,446	116,003
Prepaid expenses and deposits	6,905	-	-	6,905	30,708
Current portion of pledges receivable	-	1,594,082	173,800	1,767,882	1,936,080
Current portion of notes receivable	2,848	11,385	-	14,233	12,632
Total current assets	<u>3,838,604</u>	<u>24,976,142</u>	<u>55,405,562</u>	<u>84,220,308</u>	<u>64,371,462</u>
NON-CURRENT ASSETS					
Pledges receivable	-	3,610,469	211,120	3,821,589	4,269,548
Notes receivable	211,431	75,989	-	287,420	3,101,118
Real property	3,500	515,000	48,400	566,900	436,900
Residual interest-irrevocable trusts	-	262,611	-	262,611	5,341,112
Other	205,985	166,334	-	372,319	340,592
Equipment, at cost, less accumulated depreciation of \$73,776	36,398	-	-	36,398	25,051
Total non-current assets	<u>457,314</u>	<u>4,630,403</u>	<u>259,520</u>	<u>5,347,237</u>	<u>13,514,321</u>
Total assets	<u>\$ 4,295,918</u>	<u>\$ 29,606,545</u>	<u>\$ 55,665,082</u>	<u>\$ 89,567,545</u>	<u>\$ 77,885,783</u>
LIABILITIES AND FUND NET ASSETS					
CURRENT LIABILITIES					
Due to University of Nevada, Reno	\$ 129,222	\$ 472,717	\$ -	\$ 601,939	\$ 516,420
Accounts payable	496	6,082	9,219	15,797	118,636
Current portion of note payable	-	373,285	-	373,285	562,390
Total current liabilities	<u>129,718</u>	<u>852,084</u>	<u>9,219</u>	<u>991,021</u>	<u>1,197,446</u>
NON-CURRENT LIABILITIES					
Note payable	-	1,528,636	-	1,528,636	1,901,921
Unearned revenue	77,600	7,679,370	-	7,756,970	5,458,660
Total non-current liabilities	<u>77,600</u>	<u>9,208,006</u>	<u>-</u>	<u>9,285,606</u>	<u>7,360,581</u>
FUND NET ASSETS					
Investment in capital assets	39,898	515,000	48,400	603,298	461,951
Unrestricted	4,048,702	-	-	4,048,702	1,467,482
Restricted - expendable	-	19,031,455	-	19,031,455	22,376,358
Restricted - nonexpendable	-	-	55,607,463	55,607,463	45,021,965
Total fund net assets	<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>
Total liabilities and fund net assets	<u>\$ 4,295,918</u>	<u>\$ 29,606,545</u>	<u>\$ 55,665,082</u>	<u>\$ 89,567,545</u>	<u>\$ 77,885,783</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, 2004
(With comparative totals for the year ended June 30, 2003)

	2004				2003
	Unrestricted	Restricted	Endowment	Total	Total
Operating support and revenue					
Donor contributions	\$ 2,774,797	\$ 12,614,496	\$ -	\$ 15,389,293	\$ 9,350,550
University support	1,313,144	-	-	1,313,144	855,766
Special events and other income	200,972	299,238	14,406	514,616	626,172
Total operating support and revenue	<u>4,288,913</u>	<u>12,913,734</u>	<u>14,406</u>	<u>17,217,053</u>	<u>10,832,488</u>
Operating expenses					
Program expenses					
Alumni programs	250,673	-	-	250,673	214,770
University programs	165,507	14,859,600	12,816	15,037,923	6,227,154
University scholarships	50,000	2,270,658	-	2,320,658	3,091,669
Total program expenses	<u>466,180</u>	<u>17,130,258</u>	<u>12,816</u>	<u>17,609,254</u>	<u>9,533,593</u>
Administrative and fundraising expenses					
Administrative	720,016	-	-	720,016	597,048
Fundraising	1,458,799	-	-	1,458,799	864,254
Total administrative and fundraising expenses	<u>2,178,815</u>	<u>-</u>	<u>-</u>	<u>2,178,815</u>	<u>1,461,302</u>
Total operating expenses	<u>2,644,995</u>	<u>17,130,258</u>	<u>12,816</u>	<u>19,788,069</u>	<u>10,994,895</u>
OPERATING INCOME (LOSS)	<u>1,643,918</u>	<u>(4,216,524)</u>	<u>1,590</u>	<u>(2,571,016)</u>	<u>(162,407)</u>
Investment income	<u>507,964</u>	<u>1,458,598</u>	<u>8,070,946</u>	<u>10,037,508</u>	<u>3,058,922</u>
Additions to permanent and term endowments	<u>-</u>	<u>-</u>	<u>2,496,670</u>	<u>2,496,670</u>	<u>1,074,484</u>
Transfers between funds					
Distribution of expendable endowment	85,934	2,394,886	(2,480,820)	-	-
Other	34,751	(2,531,863)	2,497,112	-	-
Total transfers between funds	<u>120,685</u>	<u>(136,977)</u>	<u>16,292</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND NET ASSETS	<u>2,272,567</u>	<u>(2,894,903)</u>	<u>10,585,498</u>	<u>9,963,162</u>	<u>3,970,999</u>
Fund net assets at beginning of year	<u>1,816,033</u>	<u>22,441,358</u>	<u>45,070,365</u>	<u>69,327,756</u>	<u>65,356,757</u>
Fund net assets at end of year	<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>

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, 2004
(With comparative totals for the year ended June 30, 2003)

	2004			2003	
	Unrestricted	Restricted	Endowment	Total	Total
Cash flows from operating activities:					
Donor contributions	\$ 1,848,033	\$ 15,159,958	\$ -	\$ 17,007,991	\$ 7,691,201
University support	1,312,951	84,796	-	1,397,747	855,766
Special events and other income	200,972	299,238	14,406	514,616	626,172
Cash paid to University	(391,132)	(11,997,953)	(12,816)	(12,401,901)	(9,490,463)
Cash paid to employees for services	(1,680,097)	-	-	(1,680,097)	(1,094,580)
Cash paid to suppliers	(110,911)	(247,736)	1,065	(357,582)	(286,606)
Net cash provided by (used in) operating activities	<u>1,179,816</u>	<u>3,298,303</u>	<u>2,655</u>	<u>4,480,774</u>	<u>(1,698,510)</u>
Cash flows from non-capital financing activities:					
Additions to permanent and term endowments	-	-	2,106,148	2,106,148	951,450
Transfer between funds	120,685	(136,977)	16,292	-	-
Net cash provided by (used in) non-capital financing activities	<u>120,685</u>	<u>(136,977)</u>	<u>2,122,440</u>	<u>2,106,148</u>	<u>951,450</u>
Cash flows from capital and related financing activities:					
Purchase of equipment	(23,086)	-	-	(23,086)	(2,403)
Repayment of debt	-	(562,390)	-	(562,390)	(437,723)
Issuance of debt	-	-	-	-	2,415,833
Interest paid on notes payable	-	(144,997)	-	(144,997)	(181,395)
Net cash provided by (used in) capital and related financing activities	<u>(23,086)</u>	<u>(707,387)</u>	<u>-</u>	<u>(730,473)</u>	<u>1,794,312</u>
Cash flows from investing activities:					
Interest and dividends on investments	421,883	243,005	883,422	1,548,310	1,875,609
Proceeds from sale of investments	7,852	13,285,379	2,544,490	15,837,721	4,646,533
Proceeds from sale of real estate	77,889	-	-	77,889	17,997
Purchase of investments	(2,150,529)	(13,282,939)	(5,423,731)	(20,857,199)	(6,695,484)
Payments received from notes receivable	5,721	3,026,376	-	3,032,097	10,261
Net cash provided by (used in) investing activities	<u>(1,637,184)</u>	<u>3,271,821</u>	<u>(1,995,819)</u>	<u>(361,182)</u>	<u>(145,084)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(359,769)</u>	<u>5,725,760</u>	<u>129,276</u>	<u>5,495,267</u>	<u>902,168</u>
Cash and cash equivalents, beginning	<u>1,294,829</u>	<u>12,719,829</u>	<u>343,127</u>	<u>14,357,785</u>	<u>13,455,617</u>
Cash and cash equivalents, ending	<u>\$ 935,060</u>	<u>\$ 18,445,589</u>	<u>\$ 472,403</u>	<u>\$ 19,853,052</u>	<u>\$ 14,357,785</u>

University of Nevada, Reno Foundation
STATEMENT OF CASH FLOWS - CONTINUED
For the year ended June 30, 2004
(With comparative totals for the year ended June 30, 2003)

	2004				2003
	Unrestricted	Restricted	Endowment	Total	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 1,643,918	\$ (4,216,524)	\$ 1,590	\$ (2,571,016)	\$ (162,407)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	11,739	-	-	11,739	25,464
Interest on notes payable	-	144,997	-	144,997	181,395
Gifts of stocks and bonds	(422,947)	(613,583)	-	(1,036,530)	(61,396)
Gifts of real property	-	(450,000)	-	(450,000)	-
Changes in:					
Accounts receivable	6,761	84,796	-	91,557	(107,571)
Accrued interest	-	-	-	-	5,133
Pledges receivable	4,910	933,549	-	938,459	(1,301,199)
Prepaid expenses and deposits	19,803	4,000	-	23,803	(4,239)
Residual interest - irrevocable trust	442,794	4,635,707	-	5,078,501	143,117
Other assets	(11,829)	(19,897)	-	(31,726)	-
Due to University of Nevada, Reno	(54,174)	10,472	-	(43,702)	(263,802)
Accounts payable	21,583	3,734	1,065	26,382	20,813
Unearned revenue	(482,742)	2,781,052	-	2,298,310	(173,818)
Net cash provided by (used in) operating activities	<u>\$ 1,179,816</u>	<u>\$ 3,298,303</u>	<u>\$ 2,655</u>	<u>\$ 4,480,774</u>	<u>\$ (1,698,510)</u>
Non-cash					
Increase in cash surrender value of life insurance	<u>\$ -</u>	<u>\$ 12,398</u>	<u>\$ -</u>	<u>\$ 12,398</u>	<u>\$ 9,422</u>
Sale of property for note receivable	<u>\$ 220,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 220,000</u>	<u>\$ -</u>
Gifts of stocks and bonds to endowment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,220</u>	<u>\$ 68,220</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF 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.

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. The following summary of significant accounting policies is presented to assist the reader in evaluating the Foundation's financial statements.

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, 2004

NOTE A - SUMMARY OF 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. 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, 2004, 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.

The Foundation's cash and cash equivalents are categorized by the level of custodial credit risk assumed by the Foundation and are defined as follows:

- Category 1: Insured or collateralized with securities held by the entity or by its agent in the Foundation's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Foundation's name.
- Category 3: Uncollateralized.

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.

The Foundation's investments, other than open-end mutual funds, are categorized by the level of custodial credit risk assumed by the Foundation and are defined as follows:

- Category 1: Investments that are insured or registered or for which securities are held by the Foundation or its agent in the Foundation's name.
- Category 2: Uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Foundation's name.
- Category 3: Uninsured and unregistered investments for which the securities are held by the counter party, or by the counter party's trust department or agent, but not in the Foundation's name.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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.

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 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, 2003 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, 2004 and 2003 amounted to \$13,851 and \$5,345, respectively.

11. New Accounting Pronouncements

In May 2002, the Governmental Accounting Standards Board issued GASB Statement No. 39, *Determining whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14) effective for financial statements with periods beginning after June 15, 2003. Adoption of this pronouncement does not impact the Foundation's financial statements; rather, 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.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

11. New Accounting Pronouncements - Continued

In March 2003, the Governmental Accounting Standards Board issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3) effective for financial statements with periods beginning after June 15, 2004. We are currently evaluating the impact of the adoption of this pronouncement, but do not expect the impact to be material to the Foundation's financial statements.

NOTE B - CASH AND INVESTMENTS

All cash deposits are primarily on deposit with two financial institutions and several investment companies and are carried at fair value at \$19,853,052, of which \$1,290,276 is insured by the F.D.I.C. The remaining balance is uncollateralized and is a category 3 level of risk, based on risk categories established by the Governmental Accounting Standards Board.

Investments consist primarily of open-end mutual funds through a single custodian. Debt and equity securities other than open-end mutual funds are uncollateralized and are a category 3 level of risk, based on risk categories established by the Governmental Accounting Standards Board.

Cash and cash equivalents at June 30, consists of:

	2004	2003
Cash	\$ 882,845	\$ 596,718
Money Funds	8,484	303,285
Common Fund Short-term Investments	9,850,049	9,244,797
Certificates of Deposit	980,000	460,000
Treasury Bills	8,131,674	3,752,985
	<u>\$19,853,052</u>	<u>\$14,357,785</u>

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

	2004	2003
Equity Investments	\$ -	\$ 8,274
Commonfund Bond	14,055,752	12,426,974
Commonfund Global Bond	637,898	617,156
Commonfund Equity	39,264,588	28,638,910
Commonfund International Equity	1,230,195	980,909
Commonfund Emerging Markets	1,079,657	826,198
Commonfund Capital Partners	166,791	80,021
Commonfund Real Estate Securities	574,334	444,147
Commonfund Realty Investors	1,803,499	1,595,200
Certificates of Deposit	2,149,293	1,370,942
U.S. Government Securities	1,591,783	929,523
	<u>\$62,553,790</u>	<u>\$47,918,254</u>

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE B - CASH AND INVESTMENTS - Continued

Investments are recorded in the following funds at June 30:

	2004	2003
Unrestricted Fund	\$ 2,893,600	\$ 219,784
Restricted Fund	4,900,831	3,074,096
Endowment Fund	54,759,359	44,624,374
	\$62,553,790	\$47,918,254

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

	2004	2003
Unrestricted Fund	\$ 68,590	\$ (2,925)
Restricted Fund	93,935	(5,497)
Endowment Fund	13,924,762	7,578,540
	\$14,087,287	\$7,570,118

NOTE C - UNEARNED REVENUE

Unearned revenue primarily represents contributions received from donors which are being held for the construction of the Knowledge Center. The gifts are conditional upon the approval of the State Public Works Board to begin the construction of the building. The remaining balance in unearned revenue consists of 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:

	2004	2003
Knowledge Center	\$7,416,759	\$ -
Residual Interest in Trust	262,611	5,341,110
Annual Banquet	77,600	117,550
	\$7,756,970	\$5,458,660

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE D - RELATED PARTY TRANSACTIONS

The University of Nevada, Reno provided the Foundation with administrative and support services for the years ended June 30, 2004 and 2003 in the amounts of \$1,313,144 and \$855,766, respectively. The Foundation expended \$17,358,581 and \$9,318,823 for programs and scholarships of the University of Nevada, Reno for the years ended June 30, 2004 and 2003. Amounts due to the University of Nevada, Reno at June 30, 2004 and 2003 are \$601,939 and \$516,420, respectively.

The University of Nevada, Reno had signed a \$3,000,000 uncollateralized promissory note dated January 12, 2000 to the Foundation for temporary funds to construct new student services facilities. The note was paid in full on March 31, 2004. During the year ended June 30, 2004, the Foundation earned and received \$135,000 in interest related to the promissory note.

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, 2004 and 2003 consist of the following:

	2004	2003
College of Agriculture, Biotech	\$ 95,000	\$ 75,000
College of Education	45,000	31,000
College of Engineering	1,405,100	1,411,425
College of Science	1,662,600	2,083,120
Library	566,111	-
Redfield Campus	2,001,000	2,502,000
School of Journalism	4,000	-
School of Medicine	47,250	234,400
Scholarships	187,500	375,000
Other	62,500	105,000
	6,076,061	6,816,945
Present value discount	(486,590)	(611,317)
Net pledges receivable	5,589,471	6,205,628
Less: Current maturities	1,767,882	1,936,080
	\$3,821,589	\$4,269,548

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE F - NOTES RECEIVABLE

Notes receivable as of June 30 consist of the following:

	2004	2003
Installment note receivable, secured by a first deed of trust, monthly payments of \$1,391, including interest at 6.5%, maturing November 2008.	\$214,279	\$ -
Uncollateralized promissory note, interest only payments, due quarterly at 6.5%.	-	3,000,000
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	73,394
Installment note receivable, secured by a first deed of trust, monthly payments of \$343, including interest at 10%, maturing March 2012.	22,643	23,981
Installment note secured by a first deed of trust, monthly payments of \$209, including interest at 7%.	-	16,375
	301,653	3,113,750
Less current maturities	14,233	12,632
	\$287,420	\$3,101,118

NOTE G - CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents and investments. The Foundation restricts investment of cash and cash equivalents and investments to financial institutions with high credit standing and The Common Fund, a nonprofit membership corporation operated by and for its member colleges, universities and independent schools. 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.

NOTE H - NOTE PAYABLE

On August 7, 2001, the Foundation consummated a Promissory Note with Sun West Bank to assist the University of Nevada, Reno with construction costs associated with the Pennington Medical School Library. The loan was paid in full in October of 2003.

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 \$2,000,000 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, 2004 and 2003 was \$1,901,921 and \$2,250,387, respectively.

University of Nevada, Reno Foundation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2004

NOTE H - NOTE PAYABLE - Continued

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%.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$61,020 as of June 30, 2004. 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, 2004, 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, 2004.

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,	
2005	\$ 373,285
2006	399,873
2007	428,354
2008	458,863
2009	<u>241,546</u>
	<u>\$1,901,921</u>

SUPPLEMENTARY INFORMATION

University of Nevada, Reno Foundation

**UNRESTRICTED FUND
ALUMNI AND UNIVERSITY PROGRAM EXPENSES**

**Year ended June 30, 2004
(With comparative totals for the year ended June 30, 2003)**

	2004	2003
Alumni programs		
Alumni College	\$ 17,720	\$ 8,941
Alumni Council	14,478	6,207
Awards Programs	-	43,031
Band	196	-
Chapter Development	-	19,767
Executive Committee	1,269	1,761
Golden Reunion	4,222	8,119
Homecoming	54,455	25,608
Membership Fund	62,738	46,249
Miscellaneous	1,299	256
Outreach	34,184	-
Pack Tracks	4,360	3,830
Pre-game Events	9,030	18,759
Senior Scholar Dinner	7,858	10,665
Staff and Office Expense	31,079	20,041
Student Support	4,908	-
Summer Events	2,877	1,536
Total alumni programs	250,673	214,770
University programs		
Faculty Enrichment	47,272	38,686
Foundation Professors	28,231	59,927
Honor Court	7,470	7,170
Silver & Blue Magazine	75,034	122,578
Tibbitts Memorial Distinguished Teacher Award	7,500	8,500
Total university programs	165,507	236,861
University scholarships		
University scholarships	50,000	25,000
Total alumni and university program expenses	\$ 466,180	\$ 476,631

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

Year ended June 30, 2004
(With comparative totals for the year ended June 30, 2003)

	<u>2004</u>			<u>2003</u>
	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Total</u>
Payroll and related expenses				
Salaries and wages	\$ 313,619	\$ 1,043,992	\$ 1,357,611	\$ 879,705
Fringe benefits	102,918	219,568	322,486	214,875
	<u>416,537</u>	<u>1,263,560</u>	<u>1,680,097</u>	<u>1,094,580</u>
Operating				
Accounting fees	54,199	-	54,199	20,615
Advertising	2,923	10,928	13,851	5,345
Appreciation, gifts and sponsorships	5,531	6,529	12,060	9,247
Books, periodicals and subscriptions	3,315	706	4,021	4,964
Contract services	9,178	49,354	58,532	39,174
Depreciation expense	11,739	-	11,739	25,464
Dues and memberships	4,110	1,290	5,400	8,441
Equipment maintenance expense	28,790	1,405	30,195	31,301
Insurance, taxes and licenses	10,091	-	10,091	10,778
Legal fees	6,878	-	6,878	3,013
Meeting and hosting expense	33,433	28,067	61,500	27,543
Office expense	46,978	10,061	57,039	38,252
Photography	1,185	438	1,623	2,333
Postage and freight	13,489	10,232	23,721	25,074
Printing and duplicating	30,788	36,048	66,836	36,162
Real estate appraisal fees	700	-	700	3,750
Special event and meeting supplies	3,798	24,525	28,323	32,947
Telephone	5,598	5,396	10,994	9,595
Training and registration fees	8,276	2,204	10,480	7,551
Travel expense	22,480	8,056	30,536	25,173
	<u>303,479</u>	<u>195,239</u>	<u>498,718</u>	<u>366,722</u>
Total administrative and fundraising expenses	<u>\$ 720,016</u>	<u>\$ 1,458,799</u>	<u>\$ 2,178,815</u>	<u>\$ 1,461,302</u>