May happiness and prosperity prevail.
Puisse le bonheur et la prospérité régner.
Mögen Glück und Wohlstand sich durchsetzen.
Possam a Felicidade e a Prosperidade Prevalecer.
如意吉祥．

Tashi Deleg! Good Day! Bonjour!
Guten Tag! Bom Dia! 恭賀新喜!

CALLIGRAPHY AND GREETING FROM
DZONGSAR JAMYANG KYIYNTSE RINPOCHE,
CHAIRMAN OF THE BOARD OF DIRECTORS, KYIYNTSE FOUNDATION
LOSAR 2131
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   b. Khyentse Foundation Investment Guidelines as of September 2003
Dear Friends of Khyentse Foundation,

Khyentse Foundation celebrated its second anniversary by surpassing its 2003 financial goals through the generous support of the worldwide community of friends and students of Khyentse Rinpoche.

With nearly US$2 Million in total donations received by the end of January 2004, the Foundation was able to bring the Endowment Fund for Monastic Education significantly closer to its goal and to start funding several other prioritized projects.

One of the most significant events this year was the strategic planning meeting in June during which Rinpoche, together with the KF Board, clearly defined the core purpose of Khyentse Foundation. Rinpoche spelled out his aspiration for Khyentse Foundation “to establish a system of patronage that supports institutions and individuals engaged in the study and practice of the Buddha’s vision of wisdom and compassion.” He shared his vision that the Foundation should follow in the footsteps of such great patron kings of Buddhism as King Ashoka of India and King Tenpa Tsering of Tibet.

During the past year, the Foundation engaged in the following efforts:

➢ **The Endowment Fund for Monastic Education**

The Endowment Fund for Monastic Education is our top priority project and has received 95% of all donations made to the Foundation. The fund is managed by the KF Investment Committee, a team of investment professionals and advisors appointed by Khyentse Rinpoche.

Thanks to the timely decisions made by the Investment Committee under out-going Chair Jim Nelson in mid-2003, our endowment fund is growing at a healthy rate. With an even mix of bonds and equity, the fund has now grown from a total initial investment of $1.85 Million to $2.05 Million as of January 31, 2004, generating a total return of 11% since its inception. Please see Report from Investment Committee for detailed performance of the fund.

The Foundation will start disbursements to provide for the basic needs of over 100 monks and nuns of Rinpoche’s monastic institutions this coming year. Once the target of $2.8 Million for the Endowment Fund is reached, the Foundation is expected
to support, on an on-going basis, up to seven hundred monks and nuns at the Dzongasar Institutes in Tibet, India and Bhutan, relieving Rinpoche of a great financial responsibility and allowing him to spread the dharma in his own unique way.

➢ **Publications and scholarships**

The Foundation has started to fund publication and scholarship programs on a limited scale. Most notably, the Foundation sponsored the initial printing of Rinpoche’s *Commentary on Chandrakirti’s Madhyamakavatara*. Beautifully printed and bound copies were distributed free of charge, upon request, to students attending the teaching in San Francisco. The text is now available as a pdf file for direct download by students all over the world for the price of asking, and is also being translated into French and Chinese.

The *Commentary on the Madhyamakavatara* is the first example of how valuable texts will be prepared and distributed by the Foundation. The content is based on Rinpoche’s teachings, painstakingly transcribed and edited by his students. These texts are copyrighted to Khyentse Foundation but made available free of charge to all who request for them.

The second text, which will be available soon, is Rinpoche’s *Practice Advice on the Longchen Nyingtik Ngondro*.

In the area of scholarships and financial assistance, the Foundation contributed to the sponsorship of a three-year retreatant, and sponsored twenty others to attend Rinpoche’s Madhyamakavatara teachings. We hope to continue and expand our scholarship program as funding becomes available.

➢ **Support for other institutions and individuals**

One of the Foundation’s guiding principles is to collaborate and network with other institutions and individuals to foster the study and practice of Buddhism. One example is the connection made this year with renowned scholar Gene Smith and his Tibetan Buddhist Resource Centre (TBRC). By cooperating with and utilizing the resources of TBRC, the Foundation has been able to shortcut its plan to restore the Khyentse Library in Dzongasar Monastery in Tibet, as well as to provide texts for the monks and nuns in all of Rinpoche’s institutes. The Foundation is also pleased to support the work of Professor Peter Skilling of the Fragile Palm Leaves Foundation in the preservation of Pali scriptures.

These collaborative and networking efforts will continue and spread from text conservation to Buddhist education, publication and other related areas.

**Momentum Building**

It has indeed been a year of exciting developments and momentum building for the Foundation:

➢ **International Network**

One of the strengths of the Foundation is the fact that we are supported by an international sangha. With representation in eleven countries around the world, the Foundation is poised to become a meaningful patron of Buddhism.
Improved Communication
During the year, the Foundation concentrated its efforts on strengthening communication within the KF community through publishing and expanding its quarterly KF Communiqué, designing a more informative and interactive website, updating the database, and networking with our country representatives.

Fund raising as an on-going campaign
In 2003, the Foundation was supported by over three hundred donors from eighteen countries. Many of our donors have developed creative ways to support the Foundation, from auctioning paintings and donating jewelry to publishing books and offering private club memberships. Among other initiatives, the Foundation was able to start a Regular Donations Matching Funds program, thanks to the generous commitment by a group of anonymous sponsors. More than fifty donors participate in this Matching Program which now generates over US$10,000 each month.

Project Developments
In addition to publications and text preservation, many of the Foundation projects are flourishing. Siddhartha’s School for Children, a pilot project in Australia, is paving the way for future education projects. A grants committee chaired by Dr. Sydney Jay was formed and has worked hard throughout the year to explore potential sources of funding. Research is also well underway to help guide the selection of an institution for the Endowed Chair for Buddhist Studies.

The Foundation depends entirely on the generosity of private and individual donors to fund all its projects and activities. In spite of the growing complexity of its operations, we continue to rely solely on the volunteer input of supporters all over the world. As a volunteer organization, we are able to keep our operating costs to an absolute minimum, so that maximum benefit can go towards the people and projects that the Foundation seeks to support.

Last year, we compiled an Acknowledgment List thanking all the individuals whose valuable assistance to the Foundation was greatly appreciated. This year it is almost impossible to do so as the number of persons who have contributed time, effort, and energy, not to mention the generosity of our donors, has grown so dramatically that we could only send a big cumulative THANK YOU to all of you who helped to bring the Foundation to where it is now.

On behalf of the Khyentse Foundation team, donors and volunteers, I would like to express our gratitude to Dzongsar Khyentse Rinpoche, whose all-encompassing vision, which is truly without boundaries of country, race and individual differences, continues unceasingly to inspire and guide us all.

May your continued support enable Khyentse Foundation to become the patron of Buddhism that it aspires to be!

In the Dharma,

Cangioli Che
Executive Director, Khyentse Foundation
KHYENTSE FOUNDATION
SUMMARIZED AUDITED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2003

ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$191,312</td>
</tr>
<tr>
<td>Investments</td>
<td>1,273,532</td>
</tr>
<tr>
<td>Pledges receivable, net of allowance for unfulfilled pledges and discounts to present value</td>
<td>653,375</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>7,432</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>2,125,651</strong></td>
</tr>
</tbody>
</table>

LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities and unrestricted net assets</td>
<td>1,472,276</td>
</tr>
<tr>
<td>Temporarily restricted net assets</td>
<td>653,375</td>
</tr>
<tr>
<td><strong>Total Liabilities and net assets</strong></td>
<td><strong>$2,125,651</strong></td>
</tr>
</tbody>
</table>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2003

Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$2,760,227</td>
</tr>
<tr>
<td>Less discount on long-term receivables</td>
<td>(576,895)</td>
</tr>
<tr>
<td>Less receivables reserve expenses</td>
<td>(925,359)</td>
</tr>
<tr>
<td><strong>Net contributions</strong></td>
<td><strong>1,257,973</strong></td>
</tr>
<tr>
<td>In-kind donations</td>
<td>10,420</td>
</tr>
<tr>
<td>Unrealized gain on investments</td>
<td>34,330</td>
</tr>
<tr>
<td>Interest</td>
<td>43,412</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>(203,694)</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>1,346,135</strong></td>
</tr>
</tbody>
</table>

Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarships</td>
<td>4,500</td>
</tr>
<tr>
<td>Publication support</td>
<td>4,330</td>
</tr>
<tr>
<td>Professional services</td>
<td>7,055</td>
</tr>
<tr>
<td>Office supplies and services/printing</td>
<td>2,474</td>
</tr>
<tr>
<td>Postage and delivery</td>
<td>1,342</td>
</tr>
<tr>
<td>Meeting/miscellaneous expense</td>
<td>4,701</td>
</tr>
<tr>
<td>Travel</td>
<td>2,236</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>5,767</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>32,405</strong></td>
</tr>
</tbody>
</table>

Change in net assets                                        | 1,313,730  |
Net assets – beginning of year                               | 811,921    |
**Net assets – end of year**                                 | **$2,125,651**|

A full set of the Audited Financial Statements is available upon request.
The Khyentse Foundation Endowment Fund for Monastic Education reached another milestone in early 2004, attaining over $2 million in value after starting 2003 with just over $1 million. This growth represents both new and recurring donation inflows as well as investment returns.

In mid-2003, the Foundation’s Investment Committee made a tactical change to its asset allocation, moving from 100% investment in fixed income to a more balanced mix of 50% fixed income and 50% equities. The Committee felt that this move was appropriate in order to take advantage of capital market fundamentals that had turned decidedly positive for stocks. The combined effects of the US Federal Reserve’s continued bias toward a low interest rate environment, further improvement in earnings results, tax law changes, and the end of formal military operations in Iraq led to a significant rise in the equity markets.

In order to achieve the desired asset mix, the Committee liquidated a portion of the fixed income portfolio and re-invested these funds in equities. The decision was also made to direct all new donation inflows to the Fund’s equity investment account until the desired balance was reached (within an overall investment guideline of maximum 50% exposure to equities).

A few investment highlights for the past year are outlined as follows:

**FIXED INCOME**
- The fixed income portfolio was comprised of corporate bonds (57%), agency bonds (35%), and US treasury notes (8.5%), with a weighted average rating of AA and an average current yield of 3.86%. The average maturity on the portfolio is just over 3 years. Maintaining a relatively short maturity to the portfolio will help mitigate the impact of interest rates should they start to rise over the coming year.
- The average annualized return since inception in July 2002 on the fixed income portfolio (including cash balances) was 5.54%.

**EQUITIES**
- The equity portfolio was comprised of three mutual funds (percent allocation at yearend 2003): a stock fund (50%), an international stock fund (25%), and a balanced fund investing in both stocks and bonds (25%). Across all three funds, the larger sector exposures were Consumer Discretionary, Financials, Information Technology, Materials, and Healthcare.
- Based on net asset value data, returns for the stock, international and balanced funds, from the date of the Foundation’s initial investment in late August 2003 through yearend 2003, were 12%, 20%, and 8% respectively.
OVERALL PERFORMANCE

• The aggregate investment portfolio now comprises a mix of 50% fixed income and 50% equities.
• The cumulative capital invested since the Endowment Fund’s launch in July 2002 totaled US$1,854,000 as of January 31, 2004, originating primarily from donations received. The market value of these investments as of January 31, 2004 was US$2,054,312. This represents growth in endowment assets above and beyond principal invested of nearly 11%, a conservative figure in light of the fact that funds were invested periodically as donations were received during this period.

The Committee anticipates maintaining a balanced asset mix of both stocks and bonds for the foreseeable future. The group’s strategy will continue to reflect a conservative yet responsive approach to managing the Endowment Fund, based on the Investment Guidelines approved by the Khyentse Foundation Board, a copy of which is available upon request.

On behalf of Khyentse Foundation, the Investment Committee would like to thank the contribution and co-operation of outgoing Chairman Mr. James Nelson, whose advice, foresight and knowledge have benefited us all.

Prepared and submitted by KF Investment Committee:

Isabel Pedrosa (Chair)
Amelia Chow
Valerie Chou
Marco Noailles

With the assistance of:
Maryanne Chase

February 8, 2004
KHYENTSE FOUNDATION TEAM
February 2004

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Dzongsar Jamyang Khyentse Rinpoche

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Marco Noailles, Treasurer

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Portland, Oregon, USA
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