

University of Nevada, Reno Financial Statements



June 30, 2000

**UNIVERSITY OF NEVADA, RENO
FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEAR ENDED JUNE 30, 2000**

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The University of Nevada, Reno is an Equal Opportunity/Affirmative Action Institution. The university employs only U.S. Citizens and those aliens lawfully authorized to work in the United States.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Regents of the University and
Community College System of Nevada

In our opinion, the accompanying balance sheet and the related statements of changes in fund balances and of current operating funds revenues, expenditures, and other changes present fairly, in all material respects, the financial position of the University of Nevada, Reno (the "University") at June 30, 2000, and the changes in its fund balances and its current operating funds revenues, expenditures and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative totals have been derived from the University's June 30, 1999 financial statements; and in our report dated September 24, 1999, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

September 22, 2000

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UNIVERSITY OF NEVADA, RENO
BALANCE SHEET
JUNE 30, 2000
WITH COMPARATIVE TOTALS FOR 1999

| | CURRENT OPERATING FUNDS | | | | NON-OPERATING FUNDS | | | | TOTALS (MEMORANDUM ONLY) | |
|---|-----------------------------------|---------------------|--------------------------|------------------------|---------------------|---------------------|----------------------|--------------------|-----------------------------|----------------------|
| | GENERAL OPERATING UNRESTRICTED | RESTRICTED | AUXILIARY ENTERPRISES | TOTAL CURRENT FUNDS | STUDENT LOANS | ENDOWMENT | COMBINED PLANT | AGENCY | 2000 | 1999 |
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$16,976,000 | \$ - | \$4,652,000 | \$21,628,000 | \$596,000 | \$4,000 | \$19,890,000 | \$1,773,000 | \$43,891,000 | \$32,645,000 |
| Cash held by State Treasurer | - | - | - | - | - | - | 3,805,000 | - | 3,805,000 | 2,578,000 |
| Investments | 11,770,000 | 2,000 | 3,214,000 | 14,986,000 | 414,000 | 97,331,000 | 7,957,000 | 1,232,000 | 121,920,000 | 125,715,000 |
| Accounts and notes receivable | 3,651,000 | 4,969,000 | 709,000 | 9,329,000 | 115,000 | 3,000 | - | 36,000 | 9,483,000 | 7,201,000 |
| Receivable from the State of Nevada | 38,000 | 3,561,000 | - | 3,599,000 | - | - | 7,346,000 | - | 10,945,000 | 17,924,000 |
| Receivable from U.S. Government | - | 9,464,000 | - | 9,464,000 | - | - | - | - | 9,464,000 | 9,316,000 |
| Loans receivable, less allowance of \$197,000 | - | - | - | - | 5,534,000 | - | - | - | 5,534,000 | 5,292,000 |
| Inventories | 1,273,000 | - | 1,194,000 | 2,467,000 | - | - | - | - | 2,467,000 | 2,071,000 |
| Deferred expenditures and deposits | 1,476,000 | 25,000 | - | 1,501,000 | - | - | 476,000 | - | 1,977,000 | 1,684,000 |
| Due from other funds | 3,921,000 | - | 162,000 | 4,083,000 | 16,000 | - | 89,000 | 2,000 | 4,190,000 | 2,365,000 |
| Property, buildings and equipment - (less accumulated depreciation - \$167,443,000) | - | - | - | - | - | - | 282,401,000 | - | 282,401,000 | 258,103,000 |
| Total | \$39,105,000 | \$18,021,000 | \$9,931,000 | \$67,057,000 | \$6,675,000 | \$97,338,000 | \$321,964,000 | \$3,043,000 | \$496,077,000 | \$464,894,000 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | |
| LIABILITIES: | | | | | | | | | | |
| Accounts payable | \$3,555,000 | \$2,066,000 | \$657,000 | \$6,278,000 | \$1,000 | \$ - | \$3,916,000 | \$16,000 | \$10,211,000 | \$6,566,000 |
| Accrued payroll and related liabilities | 3,551,000 | 1,322,000 | 157,000 | 5,030,000 | - | - | - | 121,000 | 5,151,000 | 5,049,000 |
| Compensated absences | 10,066,000 | - | 520,000 | 10,586,000 | - | - | - | - | 10,586,000 | 10,040,000 |
| Deferred revenue | 5,008,000 | - | 1,126,000 | 6,134,000 | - | - | - | - | 6,134,000 | 5,894,000 |
| Due to other funds | - | 4,190,000 | - | 4,190,000 | - | - | - | - | 4,190,000 | 2,365,000 |
| Long term debt | - | - | - | - | - | - | 44,133,000 | - | 44,133,000 | 24,359,000 |
| Obligation under capital lease | - | - | - | - | - | - | 26,543,000 | - | 26,543,000 | 27,049,000 |
| Accrued interest payable | - | - | - | - | - | - | 1,111,000 | - | 1,111,000 | 774,000 |
| Funds held in trust for others | - | - | - | - | - | - | - | 2,906,000 | 2,906,000 | 2,102,000 |
| Unemployment insurance and state industrial insurance | 1,628,000 | - | 47,000 | 1,675,000 | - | - | - | - | 1,675,000 | 1,079,000 |
| FUND BALANCES | 15,297,000 | 10,443,000 | 7,424,000 | 33,164,000 | 6,674,000 | 97,338,000 | 246,261,000 | - | 383,437,000 | 379,617,000 |
| Total | \$39,105,000 | \$18,021,000 | \$9,931,000 | \$67,057,000 | \$6,675,000 | \$97,338,000 | \$321,964,000 | \$3,043,000 | \$496,077,000 | \$464,894,000 |
| FUND BALANCES CONSIST OF: | | | | | | | | | | |
| Restricted: | | | | | | | | | | |
| U.S. Government grants refundable | \$ - | \$ - | \$ - | \$ - | \$4,461,000 | \$ - | \$ - | \$ - | \$4,461,000 | \$4,303,000 |
| Unexpended plant | - | - | - | - | - | - | 32,684,000 | - | 32,684,000 | 43,320,000 |
| Retirement of indebtedness | - | - | - | - | - | - | 1,375,000 | - | 1,375,000 | 1,287,000 |
| Investment in plant | - | - | - | - | - | - | 212,202,000 | - | 212,202,000 | 206,901,000 |
| Endowments | - | - | - | - | - | 81,096,000 | - | - | 81,096,000 | 74,257,000 |
| Living trusts | - | - | - | - | - | 4,934,000 | - | - | 4,934,000 | 4,963,000 |
| General | - | 10,443,000 | - | 10,443,000 | 2,213,000 | - | - | - | 12,656,000 | 12,020,000 |
| Designated: | | | | | | | | | | |
| Funds functioning as endowment | - | - | - | - | - | 11,308,000 | - | - | 11,308,000 | 10,532,000 |
| Outstanding purchase orders | 404,000 | - | - | 404,000 | - | - | - | - | 404,000 | 379,000 |
| Unrestricted | 14,893,000 | - | 7,424,000 | 22,317,000 | - | - | - | - | 22,317,000 | 21,655,000 |
| Total | \$15,297,000 | \$10,443,000 | \$7,424,000 | \$33,164,000 | \$6,674,000 | \$97,338,000 | \$246,261,000 | \$ - | \$383,437,000 | \$379,617,000 |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF NEVADA, RENO
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

| | CURRENT OPERATING FUNDS | | | | | NON-OPERATING FUNDS | | | | | TOTAL |
|---|-------------------------|-------------------|--------------------|--------------------|-----------------|---------------------|-------------------|----------------------------|-------------------|-------------------|--------------------|
| | GENERAL OPERATING | | AUXILIARY | TOTAL | STUDENT | UNEXPENDED | PLANT | INVESTMENT | COMBINED | | |
| | UNRESTRICTED | RESTRICTED | ENTERPRISES | CURRENT FUNDS | LOANS | ENDOWMENT | PLANT | RETIREMENT OF INDEBTEDNESS | IN PLANT | PLANT | |
| REVENUES AND OTHER ADDITIONS | | | | | | | | | | | |
| Current fund revenues | \$182,374,000 | \$97,805,000 | \$24,665,000 | \$304,844,000 | \$- | \$- | \$- | \$- | \$- | \$- | \$304,844,000 |
| State appropriations- restricted | - | - | - | - | - | - | 16,000 | - | - | 16,000 | 16,000 |
| Federal grants and contracts - restricted | - | - | - | - | 45,000 | - | 2,000 | - | - | 2,000 | 47,000 |
| Private gifts, grants and contracts - restricted | - | - | - | - | - | 658,000 | 1,007,000 | - | 14,000 | 1,021,000 | 1,679,000 |
| Investment income - restricted | - | - | - | - | 75,000 | 13,000 | 835,000 | 93,000 | - | 928,000 | 1,016,000 |
| Interest on loans receivable | - | - | - | - | 111,000 | - | - | - | - | - | 111,000 |
| Student fees | - | - | - | - | - | - | 2,052,000 | - | - | 2,052,000 | 2,052,000 |
| Retirement of indebtedness | - | - | - | - | - | - | - | - | 2,779,000 | 2,779,000 | 2,779,000 |
| Net increase in fair value of investments | - | - | - | - | - | 6,904,000 | - | - | - | - | 6,904,000 |
| Expended for plant facilities, including \$8,721,000 charged to current funds' expenditures | - | - | - | - | - | - | - | - | 41,280,000 | 41,280,000 | 41,280,000 |
| Proceeds from issuance of long-term debt | - | - | - | - | - | - | 21,768,000 | - | - | 21,768,000 | 21,768,000 |
| Transfers from System Administration | 6,943,000 | - | - | 6,943,000 | - | - | - | - | - | - | 6,943,000 |
| Other sources | - | - | - | - | 20,000 | - | 2,532,000 | - | - | 2,532,000 | 2,552,000 |
| Total Revenues and Other Additions | 189,317,000 | 97,805,000 | 24,665,000 | 311,787,000 | 251,000 | 7,575,000 | 28,212,000 | 93,000 | 44,073,000 | 72,378,000 | 391,991,000 |
| EXPENDITURES AND OTHER DEDUCTIONS | | | | | | | | | | | |
| Educational and general expenditures | 182,817,000 | 88,467,000 | - | 271,284,000 | - | - | - | - | - | - | 271,284,000 |
| Auxiliary enterprise expenditures | - | - | 22,693,000 | 22,693,000 | - | - | - | - | - | - | 22,693,000 |
| Indirect costs recovered | - | 8,333,000 | - | 8,333,000 | - | - | - | - | - | - | 8,333,000 |
| Loan administration and collection costs | - | - | - | - | - | - | - | - | - | - | - |
| Loan cancellations, write-offs and provision for bad debts | - | - | - | - | (40,000) | - | - | - | - | - | (40,000) |
| Expended for plant facilities, including noncapitalized expenditures of \$5,183,000 | - | - | - | - | - | - | 37,742,000 | - | - | 37,742,000 | 37,742,000 |
| Retirement of indebtedness | - | - | - | - | - | - | - | 2,779,000 | - | 2,779,000 | 2,779,000 |
| Interest on indebtedness | - | - | - | - | - | - | - | 4,465,000 | - | 4,465,000 | 4,465,000 |
| Depreciation | - | - | - | - | - | - | - | - | 16,442,000 | 16,442,000 | 16,442,000 |
| Disposal of plant assets | - | - | - | - | - | - | - | - | 550,000 | 550,000 | 550,000 |
| State appropriations refunded | 56,000 | - | - | 56,000 | - | - | - | - | - | - | 56,000 |
| Proceeds from issuance of long-term debt | - | - | - | - | - | - | - | - | 21,768,000 | 21,768,000 | 21,768,000 |
| Other deductions | - | - | - | - | - | - | 2,087,000 | - | 12,000 | 2,099,000 | 2,099,000 |
| Total Expenditures and Other Deductions | 182,873,000 | 96,800,000 | 22,693,000 | 302,366,000 | (40,000) | - | 39,829,000 | 7,244,000 | 38,772,000 | 85,845,000 | 388,171,000 |
| TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS) | | | | | | | | | | | |
| Mandatory transfers: | | | | | | | | | | | |
| Principal and interest | (4,312,000) | (107,000) | (1,353,000) | (5,772,000) | - | - | (1,467,000) | 7,239,000 | - | 5,772,000 | - |
| Student loan matching | (13,000) | - | - | (13,000) | 13,000 | - | - | - | - | - | - |
| Net transfers (voluntary) | 185,000 | (382,000) | (2,236,000) | (2,433,000) | (26,000) | 11,000 | 2,448,000 | - | - | 2,448,000 | - |
| Total Transfers | (4,140,000) | (489,000) | (3,589,000) | (8,218,000) | (13,000) | 11,000 | 981,000 | 7,239,000 | - | 8,220,000 | - |
| Net increase (decrease) for the year | 2,304,000 | 516,000 | (1,617,000) | 1,203,000 | 278,000 | 7,586,000 | (10,636,000) | 88,000 | 5,301,000 | (5,247,000) | 3,820,000 |
| FUND BALANCES, July 1, 1999 | 12,993,000 | 9,927,000 | 9,041,000 | 31,961,000 | 6,396,000 | 89,752,000 | 43,320,000 | 1,287,000 | 206,901,000 | 251,508,000 | 379,617,000 |
| FUND BALANCES, June 30, 2000 | \$15,297,000 | \$10,443,000 | \$7,424,000 | \$33,164,000 | \$6,674,000 | \$97,338,000 | \$32,684,000 | \$1,375,000 | \$212,202,000 | \$246,261,000 | \$383,437,000 |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF NEVADA, RENO
STATEMENT OF CURRENT OPERATING FUNDS REVENUES, EXPENDITURES
AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2000
WITH COMPARATIVE TOTALS FOR 1999

| | TOTALS | | | |
|--|--------------------------|-------------------|--------------|--------------|
| | (MEMORANDUM ONLY) | | | |
| | UNRESTRICTED | RESTRICTED | 2000 | 1999 |
| REVENUES | | | | |
| Tuition and fees | \$39,364,000 | \$- | \$39,364,000 | \$36,265,000 |
| State appropriations | 111,729,000 | - | 111,729,000 | 109,420,000 |
| Federal grants and contracts | 7,095,000 | 51,629,000 | 58,724,000 | 53,774,000 |
| State grants and contracts | 230,000 | 4,948,000 | 5,178,000 | 4,530,000 |
| Local grants and contracts | 155,000 | 9,367,000 | 9,522,000 | 8,246,000 |
| Private gifts, grants, and contracts | 4,204,000 | 16,978,000 | 21,182,000 | 18,424,000 |
| Net decrease in fair value of investments | (592,000) | - | (592,000) | (743,000) |
| Endowment income | 91,000 | 2,861,000 | 2,952,000 | 2,028,000 |
| Investment income | 2,369,000 | - | 2,369,000 | 1,941,000 |
| Sales and services of educational departments | 19,330,000 | 2,589,000 | 21,919,000 | 18,125,000 |
| Sales and services of auxiliary enterprises | 22,245,000 | - | 22,245,000 | 19,382,000 |
| Other sources | 819,000 | 95,000 | 914,000 | 764,000 |
| Total Revenues | 207,039,000 | 88,467,000 | 295,506,000 | 272,156,000 |
| EXPENDITURES AND MANDATORY TRANSFERS | | | | |
| Educational and general: | | | | |
| Instruction | 84,988,000 | 22,062,000 | 107,050,000 | 100,414,000 |
| Research | 11,131,000 | 28,339,000 | 39,470,000 | 37,476,000 |
| Public service | 9,908,000 | 28,542,000 | 38,450,000 | 35,982,000 |
| Academic support | 21,832,000 | 1,768,000 | 23,600,000 | 22,450,000 |
| Institutional support | 17,856,000 | 935,000 | 18,791,000 | 17,816,000 |
| Student services | 15,856,000 | 243,000 | 16,099,000 | 15,275,000 |
| Operation and maintenance of plant | 16,694,000 | 3,000 | 16,697,000 | 16,956,000 |
| Scholarships and fellowships | 4,552,000 | 6,575,000 | 11,127,000 | 10,291,000 |
| Total Educational and General Expenditures | 182,817,000 | 88,467,000 | 271,284,000 | 256,660,000 |
| Auxiliary Enterprises: | | | | |
| Expenditures for food, housing, and other auxiliary services | 22,693,000 | - | 22,693,000 | 19,958,000 |
| Mandatory transfers: | | | | |
| Principal and interest | 5,665,000 | 107,000 | 5,772,000 | 2,570,000 |
| Student loan matching | 13,000 | - | 13,000 | 17,000 |
| Total Expenditures and Mandatory Transfers | 211,188,000 | 88,574,000 | 299,762,000 | 279,205,000 |
| OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS) | | | | |
| Voluntary transfers, net | (2,051,000) | (382,000) | (2,433,000) | 207,000 |
| State appropriations refunded | (56,000) | - | (56,000) | (79,000) |
| Transfers from System Administration | 6,943,000 | - | 6,943,000 | 6,512,000 |
| Excess of restricted receipts over transfers to revenue | - | 1,005,000 | 1,005,000 | 2,220,000 |
| Total Other Transfers and Additions (Deductions) | 4,836,000 | 623,000 | 5,459,000 | 8,860,000 |
| Net Increases in Fund Balances | \$687,000 | \$516,000 | \$1,203,000 | \$1,811,000 |

UNIVERSITY OF NEVADA, RENO

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements include the accounts of all University of Nevada, Reno ("the university") operations. The university is one of eight divisions or campuses of the University and Community College System of Nevada (the "system") which also includes:

- University of Nevada, Las Vegas
- Community College of Southern Nevada
- Truckee Meadows Community College
- Western Nevada Community College
- Great Basin College
- Desert Research Institute
- University and Community College System of Nevada Administration

The system is an agency of the State of Nevada and the university receives significant support from, and has significant assets held by, the State, as set forth in the accompanying financial statements. Not included in the financial statements of the university are organizations consisting of various alumni groups, fund raising foundations and athletic booster organizations. These organizations are nonprofit corporations controlled by separate Boards of Directors whose goals are to support various activities of the university. They receive funds primarily through donations and dues, and contribute funds to the various campuses for student scholarships, general academic support and program support to intercollegiate athletics. These organizations contributed a total of approximately \$10,626,000 to the university during the year ended June 30, 2000.

The university is not a separate legal entity; it is a campus of the system and is governed by the system's Board of Regents. Certain administrative expenditures of the system are not charged or allocated to the university because they are not directly related to the university's operations.

The accompanying financial statements present combined totals for memorandum purposes as is common for entities of this type. Principles of consolidation, including but not limited to, interfund eliminations, have not been applied to these totals.

The financial statements include certain prior-year summarized comparative information in total, but, not by fund group. 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 university's financial statements for the year ended June 30, 1999 from which the summarized comparative information was derived.

The significant accounting policies followed by the university are described below to enhance the usefulness of the financial statements to the reader.

FUND ACCOUNTING

In order to ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains its accounting records in accordance with the principles of "Fund Accounting." These principles require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for the resources. Accounts are separately maintained for each fund. However, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the system's Board of Regents. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the system's Board of Regents retains full control to use in achieving any of its institutional purposes.

All realized and unrealized gains and losses arising from the sale, collection, change in market value or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

ACCRUAL BASIS OF ACCOUNTING

The financial statements have been prepared on the accrual basis, in accordance with principles outlined in the American Institute of Certified Public Accountants' Audit Guide, "Audits of Colleges and Universities," and the National Association of College and University Business Officers' publication, "College and University Business Administration: Administrative Service." The statement of current operating funds revenues, expenditures and other changes is a statement of financial activities of current operating funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

STATE FUNDING

The Nevada State Legislature appropriates funds to all State agencies, including the university in biennial budget sessions. The university recognizes revenue from State appropriations on the effective date of such appropriations, which can result in the recognition of revenue in fiscal years prior to the fiscal year in which the related expenditures occur. State appropriations for the university for the fiscal years ending June 30, 2000 and 2001 include certain appropriations which were effective as of June 30, 1999. Accordingly, during the fiscal year ended June 30, 1999, the university recognized state appropriation revenue of \$38,284,000 in the unexpended plant fund. Expenditures for the fiscal year ended June 30, 2000 include \$14,969,000, \$8,021,000, and \$25,000 in the unexpended plant fund which were funded by state appropriations recognized as revenue by the university in the fiscal years ended June 30, 1999, June 30, 1997, and June 30, 1995, respectively.

Nevada State law provides that a portion of total estate tax revenues collected by the State are appropriated for the system's permanent endowment. Subject to legislative approval, and the maintenance of a minimum estate tax endowment fund balance, as defined by Nevada State law, the system may obtain a release of the permanent endowment restriction from the State for these funds. During the year ended June 30, 2000, the Legislature approved the release of estate tax endowment funds for certain unrestricted expenditures. The university's share of such amounts released from restriction for the year ended June 30, 2000 was \$6,167,000 and is included in Transfers from System Administration in the financial statements.

PROPERTY, BUILDINGS AND EQUIPMENT

To the extent current operating funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal acquisition and/or replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and for equipment renewal and replacement; and (3) as voluntary transfers for all other cases.

Property, buildings and equipment are stated at cost at the date of acquisition or fair market value at date of donation in the case of gifts, less accumulated depreciation, computed on a straight-line basis over the following estimated useful lives:

| | |
|-------------------------|---------------|
| Buildings | 40 years |
| Land Improvements | 15 years |
| Machinery and Equipment | 5 to 10 years |
| Library Books | 5 years |

SUMMER SESSION ACTIVITIES

Revenues and expenditures resulting from summer sessions are reported within the fiscal year in which the total summer sessions program is predominantly conducted. Accordingly, only the revenues and expenditures of the 1999 summer sessions are included in the statement of current operating funds revenues, expenditures and other changes. Receipts and disbursements related to the 2000 summer sessions are reflected in the financial statements as deferred items.

GRANTS-IN-AID

Tuition and fees revenue include grants-in-aid charged to scholarships and fellowships and grants-in-aid for faculty and staff benefits charged to the appropriate expenditure programs to which the applicable personnel relate. Grants-in-aid for fiscal 2000 totaled \$2,253,000.

INVENTORIES

Inventories consist primarily of bookstore and agricultural inventories and are stated at either cost or lower of estimated cost or market. Cost is defined as average cost, except in certain instances where the first-in, first-out method is used.

OUTSTANDING PURCHASE ORDERS

The revenue from state appropriations from the State of Nevada for the fiscal year includes outstanding purchase orders at year end up to the amount of appropriations authorized. The amount of these outstanding purchase orders at year end are reflected as a reserve of the fund balance on the balance sheet. The expenditures to be incurred for these outstanding purchase orders are not reflected in the statement of current operating funds revenues, expenditures and other changes or the statement of changes in fund balances.

INTERFUND BORROWINGS

All interfund borrowings are payable within one year without interest, with the exception of loans from unexpended plant funds, which carry terms up to five years.

DESCRIPTION OF FUNDS

The current operating funds are used primarily to account for transactions which are expended in performing the primary and support objectives of the university, i.e., instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships and auxiliary activities.

Current operating funds consist of the following:

1. **Unrestricted Funds** are used to account for transactions related to the university's State-appropriated budget as approved by the Board of Regents of the system and for transactions related to the university's summer sessions program, the recovery of indirect costs of sponsored research programs, and the use of unrestricted gifts and grants.

2. **Restricted Funds** are used to account for current resources expended for operating purposes but restricted by donors or other agencies as to the specific purpose for which they may be expended. Restricted current operating funds are reported as revenues and expenditures when expended for current operating purposes.

3. **Auxiliary Enterprise Funds** are used to account for transactions of substantially self-supporting activities that primarily perform a service to students, faculty and staff. The general public may incidentally be serviced by some auxiliary enterprises. Auxiliary enterprises include, but are not limited to, student housing, bookstores, food service and special events centers.

Non-operating funds consist of the following:

1. **Student Loan Funds** are used to account for lending activity, primarily to students, utilizing resources designated for that purpose.

2. **Endowment Funds** are subject to the restrictions of donor gift instruments requiring that the principal be invested in perpetuity and that only the income be utilized. Term endowment funds provide that upon the passage of a stated period of time or the occurrence of a particular event all or part of the principal may be expended. Funds functioning as endowment have been established from restricted and unrestricted gifts by the Board of Regents of the system for the same purpose as endowment funds. Any portion of funds functioning as endowment may be expended within the restriction, if any, of the original gift.

3. **Plant Funds** are used to account for the transactions relating to investment in university properties. They include (1) Unexpended Plant Funds, (2) Retirement of Indebtedness Funds, and (3) Investment in Plant Funds. The Unexpended Plant Fund is comprised of amounts which have been appropriated or designated for land, improvements, buildings and equipment. Retirement of Indebtedness Funds include bond sinking funds to provide for payment of principal, interest, building maintenance and equipment repair and replacement reserves, primarily pursuant to terms of bond indentures. Investment in Plant fund balance represents the excess of the accumulated cost of physical properties over related liabilities and accumulated depreciation.

4. **Agency Funds** are used to account for assets held by the university as custodian or fiscal agent for others. Consequently, the transactions of these funds do not affect the statement of changes in fund balances.

NOTE 2 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at June 30, 2000 are stated at cost, which approximates market. Substantially all of the university's cash and cash equivalents are pooled with those of other campuses and divisions of the system, and consist primarily of deposits in money market funds, which are not federally insured.

NOTE 3 - INVESTMENTS:

Investments are stated at fair value. Net increase (decrease) in the fair value of investments which consist of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the Statement of Changes in Fund Balances and in the Statement of Current Operating Funds Revenues, Expenditures and Other Changes. Fair value of investments is determined from quoted market prices, quotes obtained from brokers or reference to other publicly available market information.

Substantially all of the university's investments are pooled with those of the other campuses and divisions of the system. At June 30, 2000, the system's investment pool was comprised of mutual funds (69%), bonds (3%), stocks (12%), and other investments (16%). Mutual funds consist of investments in shares of mutual funds with seven separate fund managers. Investments held by the various mutual funds, in the approximate proportion of the system's ownership of such mutual funds, are summarized as follows: stocks (47%), U.S. Government bonds (26%), corporate bonds (4%), international securities (20%), and cash and equivalents (3%).

The Board of Regents has established an investment income distribution policy for pooled investments, which serves to mitigate earnings fluctuations at the campus level from year to year. In previous years, the university's investment income excluded earnings retained at the system. In accordance with this policy, during the year ended June 30, 2000, System Administration distributed to the university \$776,000 in excess of income earned from the university's operating fund investments. Such distribution is included in Transfers from System Administration in the financial statements.

During the year ended June 30, 2000, the system entered into five separate investment agreements with private equity partnerships. Under the terms of the investment agreements, the system is obligated to make additional investments in the private equity partnerships up to an aggregate of \$25,000,000. As of June 30, 2000, the system had invested a total of \$7,275,000 in the private equity partnerships.

For purposes of applying Statement No. 3 of the Governmental Accounting Standard Board, the majority of the system's investments (other than mutual fund investments which are not categorized) are uninsured and unregistered, with the securities held by the system's agents.

NOTE 4 - ENDOWMENT FUNDS:

Approximately \$86,735,000 of the university's endowment fund investments at June 30, 2000 are pooled on a unit market value basis with endowment fund investments of the other campuses and divisions of the system. The endowment pool is comprised of investments in mutual funds (71%), stocks (14%), and other investments (15%). Each individual fund acquires units on the basis of the market value per unit on the preceding quarterly valuation date. The unit market value at June 30, 2000, was \$405.46.

The system utilizes a spending rule for its pooled endowments, which determines the endowment income to be distributed currently for spending. For the year ended June 30, 2000 the Board of Regents spending policy authorized a distribution of 4.5% of the average unit market value for the twenty (20) preceding quarters. Under the provisions of this spending rule, \$12.88 was distributed to each time-weighted unit for a total distribution to the university of \$2,736,000.

NOTE 5 - LOANS RECEIVABLE:

Loans receivable from students bear interest primarily between 3% and 12% and are generally repayable in installments over a five to ten year period commencing nine months from the date of separation from the university. A provision for possible uncollectible amounts is recorded on the basis of the various university's estimated future losses for such items.

NOTE 6 - PROPERTY, BUILDINGS AND EQUIPMENT:

Property, buildings and equipment at June 30, 2000 consist of the following:

| | |
|-------------------------------|-----------------------------|
| Land | \$ 27,990,000 |
| Land improvements | 23,244,000 |
| Buildings | 267,167,000 |
| Machinery and equipment | 77,912,000 |
| Library books and media | <u>14,851,000</u> |
| Sub-total | 411,164,000 |
| Less accumulated depreciation | <u>(167,443,000)</u> |
| | 243,721,000 |
| Construction in progress | <u>38,680,000</u> |
| TOTAL | <u>\$282,401,000</u> |

In addition to the accounts payable for construction costs shown in the Plant Fund, the estimated cost to complete property authorized or under construction at June 30, 2000 is \$36,832,000. These costs will be financed by State appropriations, available resources and/or long-term borrowings.

NOTE 7 - LONG-TERM DEBT:

Long-term debt at June 30, 2000 consists of the following:

| | <u>Annual</u> <u>Interest Rate</u> | Fiscal Year Final <u>Payment Due</u> | Outstanding <u>Principal</u> |
|---|---------------------------------------|--|---------------------------------|
| Universities Revenue Bonds, Series August 1, 1991 | 5.70% to 8.25% | 2002 | \$ 805,000 |
| Universities Refunding Revenue Bonds, Series January 1, 1994 | 4.00% to 5.60% | 2014 | 10,890,000 |
| Universities Revenue Bonds, Series September 1, 1995 | 3.95% to 5.25% | 2011 | 1,105,000 |
| Universities Refunding Revenue Bonds, Series January 1, 1997 | 4.50% to 6.00% | 2007 | 5,893,000 |
| Universities Revenue Bonds, Series September 1, 1998 | 4.00% to 5.25% | 2014 | 1,905,000 |
| Universities Revenue Bonds, Series January 1, 2000 | 5.10 to 5.88% | 2021 | 14,500,000 |
| Notes Payable | | | <u>9,035,000</u> |
| TOTAL | | | <u>\$44,133,000</u> |

The revenue bonds are collateralized by tuition and fees, auxiliary enterprises revenues and certain other revenues of the university and the University of Nevada, Las Vegas as defined in the bond indentures.

There are a number of limitations and restrictions contained in the various bond indentures. The university is in compliance with the terms, covenants, provisions and conditions of the various bond indentures as they relate to the payment of bond interest and principal when due and maintenance of insurance coverage. The most restrictive covenant of the various bond indentures requires the university to maintain minimum levels of revenues, as defined in the indentures.

Scheduled maturities of long-term debt for the years ending June 30 are as follows:

| | |
|------------|---------------------|
| 2001 | \$ 2,218,000 |
| 2002 | 2,369,000 |
| 2003 | 2,555,000 |
| 2004 | 2,631,000 |
| 2005 | 5,692,000 |
| Thereafter | <u>28,668,000</u> |
| | <u>\$44,133,000</u> |

NOTE 8 – OBLIGATION UNDER CAPITAL LEASE:

The university has entered into a non-cancelable lease agreement for a fire science academy in Carlin, Nevada, expiring in 2019. Under the terms of the agreement, which has been classified as a capital lease for accounting purposes, the university is obligated to make monthly lease payments of \$250,000 over the life of the lease. The university is also obligated to maintain the facility and to pay insurance and other costs of operating the facility. At the completion of the lease term, title to the land, buildings, and improvements transfers to the university.

The following property included in the accompanying financial statements was leased under the capital lease as of June 30, 2000:

| | |
|--------------------------------|----------------------|
| Buildings and improvements | \$ 25,789,000 |
| Machinery and equipment | 1,630,000 |
| Less, accumulated depreciation | <u>(1,212,000)</u> |
| | <u>\$ 26,207,000</u> |

Future net minimum rental payments which are required under the lease are as follows as of June 30, 2000:

Years Ending June 30,

| | |
|------------------------------------|----------------------|
| 2001 | \$ 3,000,000 |
| 2002 | 3,000,000 |
| 2003 | 3,000,000 |
| 2004 | 3,000,000 |
| 2005 | 3,000,000 |
| Thereafter | <u>41,000,000</u> |
| Total minimum lease payments | 56,000,000 |
| Less, amount representing interest | <u>(29,457,000)</u> |
| Obligation under capital lease | <u>\$ 26,543,000</u> |

Total interest expense under the capital lease and included in the accompanying financial statements was \$2,494,000 during the year ended June 30, 2000.

NOTE 9 - EXTINGUISHMENT OF DEBT:

At June 30, 2000, debt in the amount of \$ 6,715,000 is considered to be extinguished through refunding of prior issues by a portion of the current issues. Sufficient proceeds were invested in state and local government securities and placed in escrow to assume the timely payment of the maturities of prior issues. Neither the debt nor the escrowed assets are reflected on the financial statements.

NOTE 10 - PENSION PLANS:

Substantially all permanent employees of the university are covered by retirement plans. Classified employees are covered by the State of Nevada Public Employees Retirement System ("PERS"), a cost-sharing multiple-employer public employee retirement system. Professional employees are covered under PERS or up to four Alternative Retirement Plans.

All permanent university classified employees are mandated by State law to participate in PERS. Employees who retire with 5 or more years of service at age 65, 10 or more years of service at age 60 or with 30 years or more of service at any age are entitled to a retirement benefit, payable monthly for life, equal to 2 1/2 percent of the employee's average compensation for each year of service up to 36 years, with a maximum of 90 percent. Employees' average compensation is the average of the employee's highest compensation for 36 consecutive months. A diminished benefit is provided to all eligible employees upon early retirement, if such employees have achieved the years of service required for regular retirement. PERS also provides death and disability benefits. Benefits are established by State statute.

The authority for establishing and amending the obligation to make contributions is provided by statute. Contribution rates are also established by statute. Active employees contribute to PERS at a rate of either 10% or 0% of annual covered wages depending on the contribution option selected. The university is required to contribute to PERS at a rate of either 10% or 18.75% of annual covered wages, depending on the option selected by the employee. The university is not liable for any unfunded liabilities of PERS.

PERS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS at 693 West Nye Lane, Carson City, NV 89703-1599.

In addition to PERS, certain exempt employees have the option of participating in various retirement plans provided through the Teachers Insurance and Annuity Association and the College Retirement Equities Fund, the American Century Family of Funds, VALIC, and Fidelity Investments. Under these defined contribution plans, the system and participants make annual contributions to purchase individual, fixed or variable annuities equivalent to retirement benefits earned or to participate in a variety of mutual funds.

The university's contribution to all retirement plans for the year ended June 30, 2000 was approximately \$16,975,000 equal to the required contribution for the year.

NOTE 11 - CONTINGENT LIABILITIES:

The university is a defendant or co-defendant in legal actions. Based on present knowledge and advice of legal counsel, the university management believes any ultimate liability in these matters, in excess of insurance coverage, will not materially affect the financial position, changes in fund balances or current operating funds revenues, expenditures and other changes of the university.

NOTE 12 - FIRE SCIENCE ACADEMY:

General: In 1994, the system issued a statewide request for proposals to local economic development agencies for the relocation of its existing fire science academy (the "Fire Science Academy"). The university had successfully operated its Fire Science Academy at a site in Stead, Nevada since 1972; however, development in the area was imposing increasing limitations on its ability to operate at the existing site. The economic impact of the training facility had been and was projected to continue to be significant to the local community in which it was situated. Based on the needs of the academy and the proposals submitted, Elko County was selected as the relocation site in July 1995.

Pursuant to its proposal, Elko County purchased over 400 acres of land near Carlin, Nevada as the site for the new facility. In order to construct the new facility, the Board of Regents (the "Board") entered into a lease agreement in 1997 with All Star Investments, LLC, a California Limited Liability Company ("All Star"). Pursuant to the lease agreement, All Star was required to design, build and finance a turnkey facility for the university's use as a specialized firefighting training facility. As a result of All Star's difficulties in obtaining financing, Elko County relinquished title to its property to the Board which in turn transferred title to All Star.

In 1999, after several revisions to the lease agreement required by All Star, the Board (on behalf of the university) entered into an Amended and Restated Lease with All Star dated January 28, 1999 (the "Lease"). The Lease is a \$27 million lease-purchase agreement requiring All Star to design, build and finance the Fire Science Academy on its new site. Pursuant to the Lease, the university is required to make monthly payments totaling \$3 million per year (principal and interest) for 20 years commencing on March 1, 1999. The university opened the new Fire Science Academy in March 1999.

All Star Litigation: Fire Science Academy management became aware of some potential environmental threats in late 1999. After investigation, the university determined that these threats were the result of inadequate design and construction of the facility. University officials repeatedly requested that All Star correct the design and construction deficiencies; however, All Star refused to do so. In June 2000, a test sample taken as part of the university's routine monitoring of test wells on the property indicated reportable levels of contaminants in the groundwater. The university notified appropriate State authorities and All Star of the test results.

In July 2000, the university took additional test samples to attempt to locate the source of the contamination. The university also tested the recycled “firewater” used for fighting training fires. After receiving the results of these tests, the university determined that it could no longer continue burn classes without the possibility of further environmental contamination and student exposure to health risks. After repeatedly requesting that All Star correct the design and construction deficiencies resulting in the contamination, the university suspended firefighting burn classes on July 28, 2000 until such time as All Star does take action to correct those deficiencies. Because the university could no longer operate the facility for the purposes for which it was designed, the university ceased making Lease payments in August 2000. The university intends to resume full operations at such time as All Star, as required by the Lease, corrects the design and construction defects which currently make the Fire Science Academy unusable for its intended purpose. At that time, the university anticipates it would make appropriate rental payments.

On September 5, 2000, All Star sued the university in State district court alleging, among other items, that the university has breached its contract by failing to pay rent. After failing to reach resolution with All Star with regard to correction of the design and construction flaws, the university sued All Star in State district court on September 6, 2000, claiming, among other items, defective construction, breach of warranties, misrepresentation and constructive eviction due to All Star’s defective design and construction of the Fire Science Academy.

No judicial action has been taken on either complaint and it is unclear when the case will be resolved; however, the parties have stipulated to consolidation of the complaints into one case for trial proceedings. The parties are currently in mediation with regard to the issues raised in the complaints.

The university, in consultation with legal counsel, is unable to predict at this time what the outcome of the case will be, and any unfavorable results of the above litigation, and/or ultimate determination of the cost and responsibility for environmental remediation at the Fire Science Academy, and/or university management’s ultimate plans with respect to the continued operation of the Fire Science Academy could have a material adverse impact on the financial position, changes in fund balance and current operating funds revenues, expenditures and other changes of the university.

LaSalle National Bank Litigation: After execution of the Lease, All Star assigned its rights under the Lease to GMAC Commercial Mortgage Corporation, a California corporation (“GMAC”), which had provided All Star with financing for the Fire Science Academy. After All Star’s assignments of its rights, GMAC assigned its rights in the Lease to LaSalle Bank National Association (“LaSalle”), as Trustee for the registered Certificate Holders of the GMAC Commercial Mortgage Pass-Through Certificates, Series 1999-C2 (the “Certificates”). The Certificates are collateralized by revenues from a real estate mortgage pool created by GMAC without the university’s knowledge or consent. The pool includes LaSalle’s rights to receive payments from All Star under the Lease. On October 19, 2000, LaSalle sued the university in State district court alleging, among other things, that the university had breached its contract by failing to pay rent under the Lease.

The university has no contractual relationship with LaSalle. Further, the Lease expressly prohibits All Star or any assignee of All Star from issuing certificates of participation or similar securities representing interests in the Lease or any portion thereof. The university believes the assignment to LaSalle in connection with issuance of the Certificates violates this provision in the Lease. The university is unable to determine at this time whether this case will proceed to trial on its own or whether it will be consolidated with the lawsuits discussed above, and the university cannot predict what the outcome of the suit will be or what impact it will have on the university. However, the university believes, based on consultation with legal counsel, that under Nevada law, it cannot be required to pay the amounts, if any, determined to be due under the Lease as rent to more than one party; accordingly, any liability, if any, for rent under the Lease will be paid only once.

NOTE 13- NEW ACCOUNTING PRONOUNCEMENTS:

The Governmental Accounting Standards Board has issued Statement No. 33 *Accounting and Financial Reporting for Non-exchange Transactions* and Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, that will be adopted by the system over the next two years.

Statement No. 33, effective for the fiscal year beginning July 1, 2000, establishes new criteria for recording revenue from non-exchange transactions. Beginning next year, promises of private donations will be recognized as receivables and revenue once applicable eligibility requirements are met.

Statement No. 35, effective for the fiscal year beginning July 1, 2001, establishes a fundamentally new financial reporting model for all public colleges and universities. The financial statements required by the new financial reporting model are the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. Financial reporting requirements will also include Management's Discussion and Analysis of the System's financial position and results of operations.

The System is currently evaluating the effect that GASB Statements 33 and 35 will have on its financial statements.