

University of Nevada, Reno Financial Statements



As of and for the Years Ended
June 30, 2002 and 2001

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the University of Nevada, Reno's ("the university") annual financial statements presents management's discussion and analysis of the university's financial activity during the fiscal years that ended June 30, 2002 and 2001. The purpose of this section is to assist the reader in understanding significant financial issues that occurred during the year. Since this discussion provides summary level financial information, it should be read in conjunction with the accompanying financial statements and footnotes, which follow this section. The financial statements, footnotes and this discussion are solely the responsibility of management.

Financial Highlights

- Assets increased by \$28.5 million, primarily due to an increase of \$8.6 million in cash held by state treasurer and an increase of \$22 million in receivable from the state for capital projects.
- Liabilities increased by \$5 million due to new bonds issued for \$31 million and payoff of a capital lease of \$28 million and an increase in accounts payable of \$2 million.
- Total net assets increased by \$23.5 million.

Using This Report

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented for the university. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the university, the results of operations and cash flows of the university.

One of the most important questions asked about the university's finances is whether the university as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the university's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the services, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The new financial reporting model classifies most expenses as operating but classifies state appropriations as non-operating revenues, which results in operating deficits. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the university's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and investing activities.

University of Nevada, Reno
Condensed Statements of Net Assets
For the years ended June 30, 2002 and 2001
(in thousands of dollars)

	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>Change %</u>
Current and other assets	\$216,470	\$188,013	\$28,457	15.10
Capital assets, net	<u>299,342</u>	<u>299,279</u>	<u>63</u>	0.02
Total assets	<u>515,812</u>	<u>487,292</u>	<u>28,520</u>	5.85
Current liabilities	39,043	40,035	(992)	(.02)
Non-current liabilities	<u>79,951</u>	<u>73,985</u>	<u>5,966</u>	8.10
Total liabilities	<u>118,994</u>	<u>114,020</u>	<u>4,974</u>	4.36
Net Assets:				
Invested in capital assets, net of related debt	231,710	233,453	(1,743)	(0.75)
Restricted				
Nonexpendable	35,764	36,030	(266)	(0.74)
Expendable	84,341	68,043	16,298	23.95
Unrestricted	<u>45,003</u>	<u>35,746</u>	<u>9,257</u>	25.90
Total net assets	<u>\$396,818</u>	<u>\$373,272</u>	<u>\$23,546</u>	6.31

Changes in Net Assets

At the end of fiscal year 2002 total assets were \$515.8 million. The university's largest asset is its investment in capital assets of \$299.3 million. Capital assets remained largely unchanged from fiscal year 2001 to fiscal year 2002, with the increase in depreciation offsetting capital asset additions. Endowment assets, the second largest asset category, decreased by \$6.3 million, or 6.7%, as a result of reduction in the fair market value of investments.

Cash and Cash Equivalents and Cash Held by State Treasurer increased by \$6.4 million, or 40%. The increase was primarily from funds held by the state for capital construction projects approved by the state for the 2002-2003 biennium.

University liabilities were \$119 million at June 30, 2002. The largest liability was long term debt, consisting of bonds and notes payable, of \$70 million. Long term debt increased by \$28.6 million primarily due to the issuance of \$31 million in new bonds in March 2002 offset by payments made on long term debt during 2002. The proceeds from the new bonds were used primarily to pay off the obligations under capital leases of \$26.5 million.

The university's current assets of \$110.6 million appear to be sufficient to cover current liabilities of \$39 million, as the current ratio was 2.8 dollars in current assets to every 1 dollar in current liabilities.

Total net assets increased by \$23.5 million in fiscal year 2002 or 6.3%.

Invested in Capital Assets

Net assets invested in capital assets, net of related debt represent the university's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The \$63,000 increase, which includes \$21.5 million in capital asset additions offset by \$21.3 million in current year depreciation, reflects the university's continued development and renewal of its capital assets in accordance with its long-range plan.

Restricted, Non-expendable/Expendable

The university's endowment funds consist of both permanent endowments and funds functioning as endowments, or quasi endowments.

Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income which is to be expended for the purposes stipulated by the donor.

Funds functioning as an endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the university for long-term investment purposes, although, amounts are not subject to donor restrictions requiring the university to preserve the principal in perpetuity. Programs supported by the endowment include scholarships and other important programs and activities.

Unrestricted Net Assets

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the university's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the university, both operating and non-operating, and the expenses paid by the university, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the university.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the university. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the university. Non-operating revenues are revenues received for which goods and services are not provided. For example state appropriations are non-operating because they are provided by the Legislature to the university without the Legislature directly receiving commensurate goods and services for those revenues.

University of Nevada, Reno
Condensed Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2002 and 2001
(in thousands of dollars)

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Operating Revenues			
Tuition and fees	\$ 38,165	\$ 36,468	\$ 1,697
Grants & contracts	99,956	95,881	4,075
Sales and service of auxiliary enterprises	21,410	19,531	1,879
Sales and services of educational depts.	29,050	26,225	2,825
Other	<u>1,299</u>	<u>1,168</u>	<u>131</u>
Total operating revenues	<u>189,880</u>	<u>179,273</u>	<u>10,607</u>
Operating Expenses			
Instruction	124,001	111,006	12,995
Research	44,345	42,620	1,725
Public service	32,598	38,678	(6,080)
Academic support	21,013	21,286	(273)
Institutional support	22,550	20,045	2,505
Student services	16,932	15,997	935
Operation and maintenance of plant	25,432	20,521	4,911
Scholarships and fellowships	7,674	6,933	741
Auxiliary enterprises	24,762	22,394	2,368
Depreciation	<u>21,283</u>	<u>15,753</u>	<u>5,530</u>
Total operating expenses	<u>340,590</u>	<u>315,233</u>	<u>25,357</u>
Operating loss	<u>(150,710)</u>	<u>(135,960)</u>	<u>(14,750)</u>
Non-operating Revenue (Expenses)			
State Appropriations	126,606	115,207	11,399
Transfers from System Admin	8,522	6,914	1,608
Gifts	9,666	11,221	(1,555)
Investment income	(3,353)	258	(3,611)
Other	<u>(4,953)</u>	<u>(5,197)</u>	<u>244</u>
Net non-operating revenues	<u>136,488</u>	<u>128,403</u>	<u>8,085</u>
Loss before other revenue, expenses, gains or losses	<u>(14,222)</u>	<u>(7,557)</u>	<u>(6,665)</u>
Capital grants and gifts	2,382	3,179	(797)
Additions to endowments	1,035	1,815	(780)
Capital Appropriations	<u>34,351</u>	<u>(1)</u>	<u>34,352</u>
Total other revenues	<u>37,768</u>	<u>4,993</u>	<u>32,775</u>
Increase (Decrease) in Net Assets	23,546	(2,564)	26,110
Net assets, beginning of year (2001 as restated)	<u>373,272</u>	<u>375,836</u>	<u>(2,564)</u>
Net assets, end of year	<u>\$396,818</u>	<u>\$373,272</u>	<u>\$23,546</u>

Operating revenues increased by \$10.6 million. This included:

- An increase in student tuition and fees of \$1.7 million due to student fee increases of about 3% and an increase in enrollment (see Enrollment and Admissions section below).
- An increase of \$4.08 million in total grants and contracts including \$2.79 million in new federal, state and local grants and contracts, \$2.7 million growth in state grants for the millennium scholarship program and a decrease of \$1.3 million in other grants and contracts for programs that ended during FY2001.
- An increase of sales and services of educational departments of \$2.8 million due to increases in parking fees, cooperative extension salaries paid by the counties and medical school practice salaries.
- An increase in sales of auxiliary enterprises of \$1.9 million from increased bookstore sales due to increased enrollment and book prices, increased housing and dining sales from increased fees and increased dorm occupancy rates, and increased revenue at Lawlor Events Center from a large concert.

Operating expenses increased \$25 million, including the following changes:

- Salary increases of \$18 million impacted all functional categories, excluding depreciation and scholarships. All salaries increased 4% for cost of living, eligible faculty salaries increased an additional 2.5% for merit and eligible classified salaries increased an additional 5% for merit.
- Instruction expenses increased \$13 million with \$9.9 million in salary increases, \$.7 million in increases in expenses from state funds, primarily for the purchase of non-capitalized equipment, \$.3 million in increases in federal, state and local grant expenses, \$.6 million in increases in University Studies Abroad Program expenses, \$.2 million in increases in sales account expenses, \$.3 million in increases in summer school expenses, \$.2 million in increases in the accrual for compensated absences and \$.7 million in various other increases.
- Research expenses increased \$1.7 million including salary increases of \$2.7 million and a \$1 million decrease in other expenses. While research grant activity continued to grow in fiscal year 2002, a significant part of the increase involved purchases of capitalized equipment, which was not included in operating expenses. Equipment purchases from research grants increased \$4 million from fiscal year 2001 to fiscal year 2002.
- Public service expenses decreased by \$6 million due to a decrease in expenses for the Job Corps contract (the contract ended in August 2001) of \$9.8 million, increases in salaries of \$1.3 million, increases in federal and state grant expenses of \$1.4 million, increases of expenses from sales accounts of \$.7 million, increases in medical school expenses for rural health programs of \$.3 million and various other increases of \$.2 million.
- Academic support expenses decreased by \$.3 million which included a \$.9 million increase in salaries and a decrease of \$1.2 million in other expenses. The increase in salaries was a combination of increases due to the cost of living and merit increases and decreases resulting from positions in development that were moved from academic support to institutional support as a result of the strategic planning process. The reorganization also impacted other expenses.
- Institutional support expenses increased by \$2.5 million including a \$1.2 million increase in salaries, \$.5 million increase in expenses for the strategic planning process, \$.6 million increase in expenses for parking services and \$.2 million increase in other expenses. The increase in salaries was a combination of cost of living and merit increases and positions moved from academic support as a result of the strategic planning process.

- Student services expenses increased by \$.9 million, including \$.8 million in salary increases and \$.1 million in other increases. A portion of the salary increase is due to new positions added to student services as a result of the change in the state funding formula.
- Operation and maintenance of plant increased \$4.9 million due to an increase in salaries of \$.5 million, an increase of \$2.1 million in expenses for maintenance and repair of the Fire Science Academy in Carlin, \$1.6 million for furniture and equipment for the new medical education building at the School of Medicine, and \$.7 million in various maintenance and repair projects on campus.
- Scholarship expenses increased \$.7 million due primarily to the second year class of millennium scholars entering the university in fall 2001.
- Auxiliary enterprises increased \$2.4 million due to salary increases of \$.6 million and increased costs of books sold by the bookstore and payouts related to concerts at Lawlor Events Center.
- Depreciation increased \$5.5 million due to additional depreciation expense associated with over \$53 million of capital additions in 2002 and 2001.

Grants and Contracts

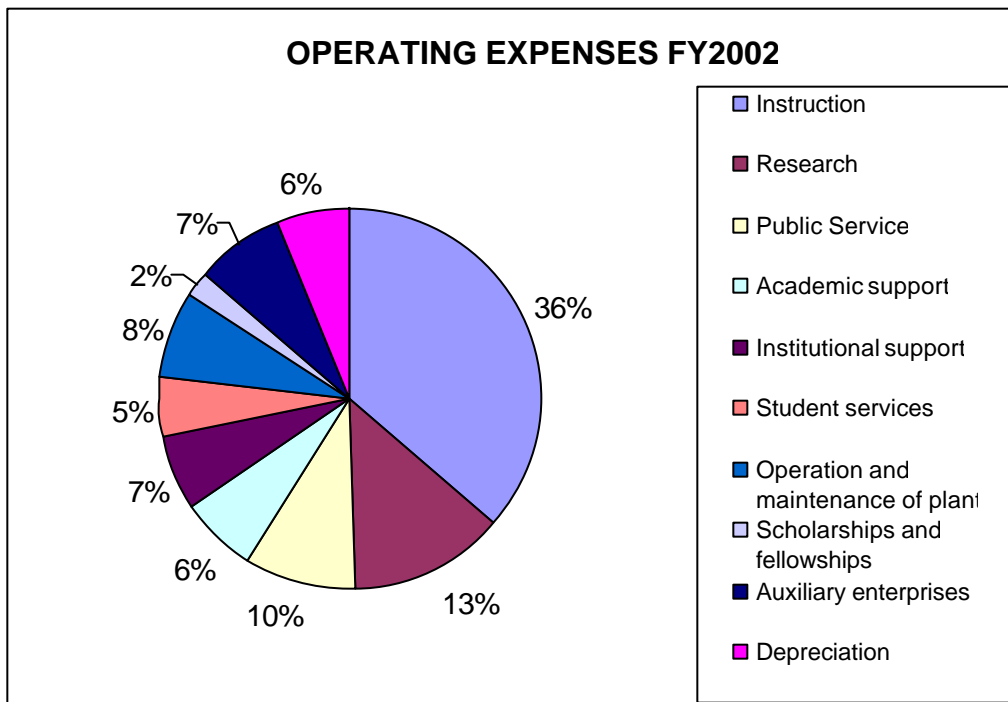
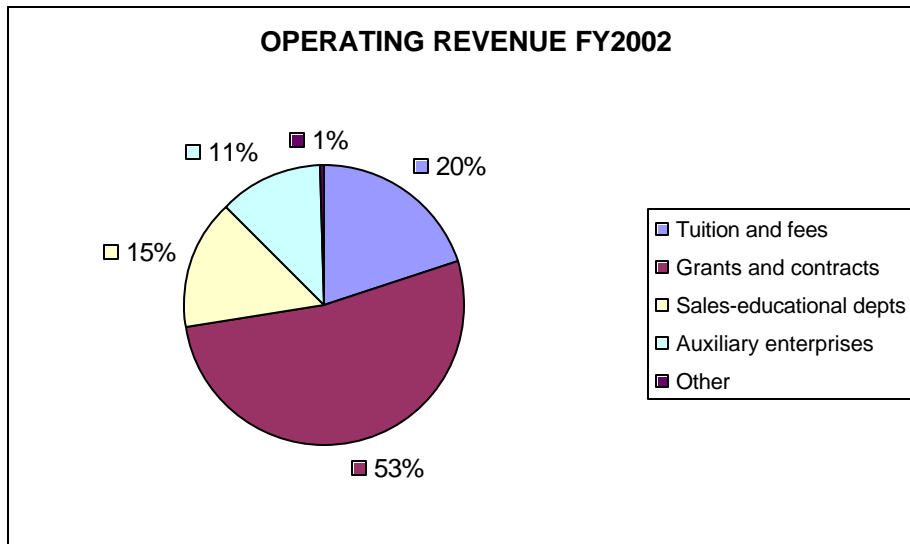
Grant and contract revenue has grown from approximately \$54 million in FY 1993 to nearly \$100 million in fiscal year 2002. Sources of grant and contract funding are 73% from the federal government, 12% from local governments (primarily Washoe and Clark counties), 9% from private sources (private foundations and other charitable organizations) and 6% from the State of Nevada. Grants and contracts activities were 49% research, 25% instruction, 20% public service, 4% scholarships and 1% student services.

Enrollment and Admissions

Admission to the university is open to residents and non-residents of the State on a competitive basis. For the fall 2001 semester, Nevada residents accounted for 75.4% of total graduate and undergraduate students.

In 1999, the State established the millennium scholarship in order to increase the number of Nevada students who perform well in high school and then enroll in and graduate from one of the state's higher education institutions. The millennium scholarships are funded from a trust fund established with proceeds received by the State of Nevada from settlement agreements resulting from civil actions against manufacturers of tobacco products. The scholarships may be used for registration fees, class or laboratory fees and expenses, required textbooks and course materials and other costs related to attending the university.

Total enrollment at the university increased 8.88% from fall semester 2000 to fall semester 2001, due in large part to the availability of the millennium scholarship. The total number of students by headcount for fall 2001 was 14,316 and the full time equivalent (FTE) number of students was 10,423. The university expects participation in the program to increase in future semesters.



Non-operating revenues and expenses grew by \$8.1 million, including an \$11.4 million increase in state appropriation, a \$1.6 million increase in transfers from System Administration, a \$1.6 million decrease in gifts and a \$3 million decrease in investment income, due to the decrease in fair market value of operating and endowment investments.

State appropriations increased 9.89% from fiscal year 2001 to fiscal year 2002, largely to fund a 4% cost of living increase for university employees and increased staffing to support significant student enrollment growth. State appropriations for capital purposes were \$34.4 million in fiscal year 2002.

University of Nevada, Reno
Condensed Statements of Cash Flows
For the Years Ended June 30, 2002 and 2001
(in thousands of dollars)

	<u>2002</u>	<u>2001</u>
Cash provided/(used) by :		
Operating activities	(\$127,252)	(\$126,915)
Non-capital financing activities	143,762	132,832
Capital financing activities	(8,861)	(24,960)
Investing activities	<u>(1,212)</u>	<u>(12,570)</u>
Net increase (decrease) in cash and cash equivalents	6,437	(31,613)
Cash and cash equivalents--beginning of the year	<u>16,081</u>	<u>47,694</u>
Cash and cash equivalents--end of the year	<u>\$ 22,518</u>	<u>\$ 16,081</u>

For the years ending June 30, 2002 and 2001, the major sources of funds included in operating activities included student tuition and fees (\$38.1 million and \$37.1 million, respectively) and grants and contracts (\$98.9 million and \$90.3 million, respectively). The largest operating activities were payments for compensation and benefits (\$216.4 million and \$199.8 million, respectively) and to suppliers (\$86 million and \$88 million, respectively).

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$125.5 million and \$114.7 million for the years ending June 30, 2002 and 2001, respectively. Cash used by capital and related financing activities is primarily for the acquisition of capital assets. The unfavorable market conditions during the year resulted in decreased cash used by investing activities in fiscal year 2002 due to decreased purchases of investments.

Capital Assets and Debt Administration

At June 30, 2002, the university had capital assets of \$299.3 million, net of accumulated depreciation, in a broad range of capital assets, including equipment, buildings, library books and media, collections and land. During fiscal year 2002 there were land, building, equipment and library collection additions of \$21.5 million, net capital asset disposals of \$162,000 and current year depreciation of \$21.2 million which resulted in a net increase to capital assets of \$63,000 , or 0.02%, over last year.

University of Nevada, Reno
Capital Assets, Net
June 30, 2002 and 2001
(in thousands of dollars)

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Land	\$ 28,818	\$ 28,630	\$ 188
Collections	859	859	0
Land and improvements	25,434	23,321	2,113
Buildings	332,066	318,259	13,807
Equipment	85,756	78,165	7,591
Library books and media	15,620	14,603	1,017
Construction in progress	<u>6,108</u>	<u>14,564</u>	<u>(8,456)</u>
	494,661	478,401	16,260
Less accumulated depreciation	<u>(195,319)</u>	<u>(179,122)</u>	<u>16,197</u>
Total	<u><u>\$299,342</u></u>	<u><u>\$299,279</u></u>	<u><u>\$ 63</u></u>

The legislature appropriated \$34.4 million for capital projects for the 2002-2003 biennium, principally for the construction of a new library. Other funds totaling \$95.9 million will be provided by fund raising and revenue bonds. The 2001 legislature approved additional bonding authority of \$85.5 million which will allow the university to issue additional debt of \$54 million to help pay for the library, a new dormitory and dining hall and a new parking garage. The estimated cost to complete capital construction in progress is \$94.5 million.

Revenue bonds for university projects are issued by the University and Community College System of Nevada (UCCSN) and are payable solely from and are collateralized by an irrevocable pledge of income derived from a portion of student fees from the universities and facilities revenues from the universities which include revenues from the events centers, parking and student housing and food services. The unaudited net pledged revenues for UCCSN were \$73.7 million for fiscal year 2002 and the combined maximum annual debt service was \$14.6 million, for a debt service coverage of 5.02 times. The most recent bond rating for UCCSN from Moody's and Standard and Poors is "A1" and "AA-", respectively. The System's capacity to meet its financial obligations is considered good based on these ratings.

During fiscal year 2001 the university secured a \$1.5 million bank loan to support research start up costs for new faculty and financed an additional \$562,000, using 10 year leases, for additional energy savings projects throughout the university campus.

During fiscal year 2002, the university issued \$31 million in revenue bonds to pay off a \$26.5 million capital lease in order to purchase a specialized firefighting training facility (the Fire Science Academy) in Carlin, Nevada. The purchase of the Fire Science Academy was required pursuant to the terms of a settlement agreement entered into between the system, All Star Investments, which had constructed the Fire Science Academy and was leasing it to the university, and GMAC to which All Star had assigned the lease. The university now owns the Fire Science Academy which reopened and has been conducting classes since May 2002. The university also entered into a new lease totaling \$455,000 to purchase a major piece of research equipment.

In September 2002, the System, on behalf of the university, issued Universities Revenue Bonds, Series 2002B and Series 2002C of \$10,905,000 and \$8,150,000, respectively. The bonds bear interest from 4.0% to 5.5% and mature on various dates from 2004 to 2032. The bonds were issued primarily to fund the costs of constructing and acquiring certain student housing and dining facilities on the campus of the university.

Looking Ahead

During the past year the university has undergone an extensive strategic planning process. The recommendations made to the university president by the planning council in May 2002 explored ways to reorganize the university with the goal of creating more efficient and successful organizational units while maintaining a rigorous and relevant scholastic experience for students. The strategic planning process will better position the university to deal with the effects of the continued enrollment growth on university resources. Annual average full time equivalent (FTE) enrollment increased 8.9% from academic year 2001 to academic year 2002 and is projected to increase 6.3% for academic year 2003.

State funding for the primary instruction appropriation of the university, from fiscal year 2002 forward, is based on the new funding formulas established by Senate Bill 443 of the 70th session of the Nevada Legislature. The formulas were funded at 81.55% in fiscal year 2002 and 80.29% (prior to a budget rescission) in fiscal year 2003. Expenditure flexibility (between expenditure categories and functions) is authorized when the formulas are not fully funded. As student FTE, and various derivations thereof, is the primary driver in the formula and the university is currently experiencing growth in FTE, we anticipate this will continue to be a source of additional funding over the coming biennia. Should enrollments decline significantly and/or the legislature decide to fund the formula at a lower percentage, the formula contains a hold harmless provision which allows individual institutions of the university system to retain their base funding levels for two biennia.

The Board of Regents approved a new tuition policy in the spring of 2002 which is to set fees so that over time, the charge for full time attendance will be equivalent to the most recently reported median tuition and fees charged by Western Interstate Commission for Higher Education peer institutions. As a result of this change in policy the Board increased undergraduate tuition by 7.6% for the fall 2003 and 7.0% for fall 2004. Increased tuition will generate additional funds for operating and capital improvements over the next biennium.

The university's 2002-03 original operating budget for State appropriation and authorized expenditures (the "State Supported Operating Budget") totals \$173.1 million (including \$1.3 million of estate tax funds). This budget represents a 5.4% increase in the authorized funding level as compared to the originally approved \$164.3 million budget for fiscal year 2002. State appropriations for fiscal year 2003 total \$133.4 million, representing 77.1% of the State Supported Operating Budget. This compares to \$126.6 million budgeted for fiscal year 2002 and represents a 5.4% increase. Other budgeted revenue sources, including student fees, non-resident tuition, federal and county funds, indirect cost recovery, investment income, recharge credits, discretionary funds, training grants, health lab fees and estate tax proceeds, account for the remaining budgeted amount.

Pursuant to State law, the Governor has broad authority to reduce appropriations when necessary to maintain a balanced budget. Accordingly, should the State economy experience a significant downturn and cause State revenues to decrease below predicted levels, the Governor may rescind a

portion of the State appropriation for the biennium. To date, the Governor has announced a 3% across the board budget rescission in fiscal year 2003, has implemented a partial vacant position freeze, has stopped expenditures of one-time appropriations, and implemented several new programs. In fiscal 2003, the university expects to revert \$4.6 million as a result of the 3% reduction, and about \$700,000 in excess indirect cost recovery funds. The university expects to absorb both energy costs that exceed budgeted amounts and excess costs resulting from the recent special session of the Legislature which increased the university's contribution for employee health insurance benefits.

The university currently supplements the State-supported budget with available estate taxes. Pursuant to State statute, one-half of the estate taxes collected in the State (less administrative costs and a 5% reserve allowance) are deposited in the System's endowment funds and are authorized for expenditure by the Legislature each biennium. Estate tax funds deposited into the endowment may only be spent pursuant to legislative authorization. For the 1999-01 biennium, the legislature authorized the expenditure of \$12.7 million for the university. In fiscal year 2001, the authorized expenditure was \$6.3 million allocated across university appropriations. That amount was directed to research initiatives, the School of Medicine, student aid, gender equity initiatives in intercollegiate athletics, technology costs, and other programs. In the current biennium, approximately \$13.4 million in estate tax expenditure have been authorized for the university (approximately \$6.4 million in fiscal 2002 and approximately \$7 million in fiscal year 2003). The estate tax is to be used for substantially the same purposes as in prior years. Federal tax legislation has been enacted phasing out the estate tax. The State's estate tax is a "pick up" tax based upon the federal tax. Accordingly, the federal tax legislation will cause the State's tax to phase out over the next four years. The System intends to request that the State assume responsibility for the ongoing programs funded with estate tax in the next budget cycle as this source of revenue phases out under the federal law changes.

The Governor has issued budget instructions that the System's 2003-2005 biennial budget request for base funding and enhancements should not exceed twice the fiscal year 2003 approved budget. Current service cost (enrollment growth) can then be added to the budget request. The System has submitted its formal budget request as directed by the Governor and has also submitted a supplementary schedule of enhancements should money become available. The State has a legislatively created Task Force which is required to make recommendations to the Governor on November 15, 2002 on the State's tax structure and how best to alleviate any structural deficit.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the university, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the university expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The university does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets, and cash flows present fairly, in all material respects, the financial position of University of Nevada, Reno (the "University") at June 30, 2002 and 2001 and its revenues, expenses and changes in net assets, and cash flows for the years 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 audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

As described in Note 2, as of July 1, 2001 the University adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* as well as GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

PriceWaterhouseCoopers LLP

October 4, 2002

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2002 AND 2001

<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 10,324,000	\$ 12,514,000
Short-term investments	46,074,000	40,961,000
Accounts receivable, net	12,619,000	12,455,000
Receivable from U.S. Government	13,495,000	13,262,000
Receivable from State of Nevada	24,560,000	2,290,000
Current portion of loans receivable, net	911,000	682,000
Inventories	2,274,000	2,447,000
Current portion of deferred expenditures and deposits	294,000	182,000
Total Current Assets	110,551,000	84,793,000
<i>Noncurrent Assets</i>		
Cash held by State Treasurer	12,194,000	3,567,000
Endowment investments	87,501,000	93,792,000
Loans receivable, net	5,405,000	5,438,000
Deferred expenditures and deposits	819,000	423,000
Capital assets, net	299,342,000	299,279,000
Total Noncurrent Assets	405,261,000	402,499,000
TOTAL ASSETS	515,812,000	487,292,000
<u>LIABILITIES</u>		
<i>Current Liabilities</i>		
Accounts payable	10,060,000	7,871,000
Accrued payroll and related liabilities	6,067,000	5,461,000
Current portion of compensated absences	7,889,000	6,906,000
Deferred revenue	8,182,000	7,077,000
Current portion of long term debt	2,788,000	2,490,000
Current portion of obligations under capital leases	82,000	3,000,000
Accrued interest payable	1,520,000	3,274,000
Funds held in trust for others	941,000	2,283,000
Unemployment insurance and workers' compensation liability	1,514,000	1,673,000
Total Current Liabilities	39,043,000	40,035,000
<i>Noncurrent Liabilities</i>		
Refundable advances under federal loan programs	4,631,000	4,594,000
Compensated absences	4,606,000	4,080,000
Long term debt	70,382,000	41,813,000
Obligations under capital leases	332,000	23,498,000
Total Noncurrent Liabilities	79,951,000	73,985,000
TOTAL LIABILITIES	118,994,000	114,020,000
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	231,710,000	233,453,000
Restricted:		
Nonexpendable	35,764,000	36,030,000
Expendable		
Scholarships, research, instruction & other	47,434,000	52,164,000
Loans	3,554,000	3,572,000
Capital projects	31,777,000	10,914,000
Debt service	1,576,000	1,393,000
Unrestricted	45,003,000	35,746,000
TOTAL NET ASSETS	\$ 396,818,000	\$ 373,272,000

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

UNIVERSITY OF NEVADA, RENO

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

REVENUES

<i>Operating Revenues</i>	2002	2001
Student tuition and fees (net of scholarship allowance of \$10,986,000 and \$8,035,000)	\$ 38,165,000	\$ 36,468,000
Federal grants and contracts	68,187,000	66,734,000
State grants and contracts	10,966,000	7,699,000
Local grants and contracts	11,880,000	11,140,000
Other grants and contracts	8,923,000	10,308,000
Sales and services of educational departments	29,050,000	26,225,000
Sales and services of auxiliary enterprises (net of scholarship allowance of \$2,873,000 and \$2,711,000)	21,410,000	19,531,000
Other operating revenues	1,190,000	1,155,000
Interest earned on loans receivable	109,000	13,000
Total operating revenues	<u>189,880,000</u>	<u>179,273,000</u>

EXPENSES

<i>Operating Expenses</i>		
Employee compensation and benefits	218,371,000	200,380,000
Utilities	6,023,000	6,530,000
Supplies and services	87,239,000	85,637,000
Scholarships and fellowships	7,674,000	6,933,000
Depreciation	21,283,000	15,753,000
Total operating expenses	<u>340,590,000</u>	<u>315,233,000</u>
Operating loss	<u>(150,710,000)</u>	<u>(135,960,000)</u>

Nonoperating Revenue (Expenses)

State appropriations	126,606,000	115,207,000
Transfers from System Administration	8,522,000	6,914,000
Gifts	9,666,000	11,221,000
Investment income (loss), net	(3,353,000)	258,000
Disposal of plant assets	(163,000)	(345,000)
Interest on capital asset-related debt	(3,671,000)	(4,824,000)
Other non-operating expenses, net	<u>(1,119,000)</u>	<u>(28,000)</u>
Net nonoperating revenues	<u>136,488,000</u>	<u>128,403,000</u>
Loss before other revenue, expenses, gains or losses	(14,222,000)	(7,557,000)
State appropriations restricted for capital purposes	34,351,000	(1,000)
Capital grants and gifts	2,382,000	3,179,000
Additions to permanent endowments	<u>1,035,000</u>	<u>1,815,000</u>
Total other revenues	<u>37,768,000</u>	<u>4,993,000</u>
Increase (decrease) in net assets	23,546,000	(2,564,000)

NET ASSETS

Net assets- beginning of year as originally reported	373,272,000	383,437,000
Cumulative effect of changes in accounting principle:		
Change in revenue recognition for summer sessions	-	612,000
Change in revenue recognition for restricted funds	-	(3,752,000)
Change in accounting for loan funds	-	(4,461,000)
Net assets- beginning of year (2001 as restated)	<u>373,272,000</u>	<u>375,836,000</u>
Net assets-end of year	<u>\$ 396,818,000</u>	<u>\$ 373,272,000</u>

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

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

	2002	2001
Cash flows from operating activities		
Student tuition and fees	\$ 38,140,000	\$ 37,053,000
Grants and contracts	98,895,000	90,257,000
Payments for supplies and services	(85,976,000)	(88,023,000)
Payments for utilities	(5,953,000)	(6,314,000)
Payments for employee compensation and benefits	(216,417,000)	(199,768,000)
Payments for scholarships and fellowships	(7,676,000)	(6,940,000)
Loans issued to students and employees	(1,220,000)	(1,315,000)
Collection of loans to students and employees	1,063,000	807,000
Sales and services of auxiliary enterprises	21,734,000	19,113,000
Sales and services of educational departments	29,125,000	26,476,000
Other receipts	<u>1,033,000</u>	<u>1,739,000</u>
Net cash used by operating activities	<u>(127,252,000)</u>	<u>(126,915,000)</u>
Cash flows from noncapital financing activities		
State appropriations	125,520,000	114,729,000
Transfers from System Administration	8,244,000	6,914,000
Gifts and grants for other than capital purposes	10,577,000	10,049,000
Gifts for endowment purposes	870,000	1,813,000
Other	(157,000)	(36,000)
Agency transactions	(1,292,000)	(637,000)
Receipts under federal student loan programs	17,847,000	15,619,000
Disbursements under federal student loan programs	<u>(17,847,000)</u>	<u>(15,619,000)</u>
Net cash provided by noncapital financing activities	<u>143,762,000</u>	<u>132,832,000</u>
Cash flows from capital financing activities		
Proceeds from capital debt	31,356,000	8,080,000
Payment of bond issuance costs	(410,000)	-
Capital appropriations	13,319,000	7,345,000
Capital grants and gifts received	2,187,000	2,909,000
Purchases of capital assets	(20,859,000)	(32,687,000)
Principal paid on capital debt and leases	(29,028,000)	(7,954,000)
Interest paid on capital debt and leases	<u>(5,426,000)</u>	<u>(2,653,000)</u>
Net cash used by capital financing activities	<u>(8,861,000)</u>	<u>(24,960,000)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	35,917,000	45,920,000
Purchase of investments	(40,269,000)	(66,763,000)
Interest and dividends on investments	4,185,000	4,076,000
Net (increase) decrease in cash equivalents non-current investments	<u>(1,045,000)</u>	<u>4,197,000</u>
Net cash used by investing activities	<u>(1,212,000)</u>	<u>(12,570,000)</u>
Net increase (decrease) in cash and cash equivalents	6,437,000	(31,613,000)
Cash and cash equivalents - beginning of the year	<u>16,081,000</u>	<u>47,694,000</u>
Cash and cash equivalents - end of year	<u>\$ 22,518,000</u>	<u>\$ 16,081,000</u>

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

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

Reconciliation of net operating loss to net cash
used by operating activities

	<u>2002</u>	<u>2001</u>
Operating loss	\$ (150,710,000)	\$ (135,960,000)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	21,283,000	15,753,000
Changes in assets and liabilities:		
Accounts receivable, net	(2,041,000)	(3,795,000)
Loans receivable, net	(196,000)	(586,000)
Inventories	173,000	20,000
Deferred expenditures and deposits	(98,000)	43,000
Accounts payable	1,224,000	(2,339,000)
Accrued payroll and related liabilities	606,000	309,000
Accrued unemployment and workers' compensation insurance	(159,000)	161,000
Refundable advances under federal loan programs	40,000	(2,000)
Deferred revenue	1,117,000	(918,000)
Compensated absences	1,509,000	399,000
Net cash used by operating activities	<u>\$ (127,252,000)</u>	<u>\$ (126,915,000)</u>
Non-cash transactions		
Capital assets acquired by incurring capital lease obligations	<u>\$ 455,000</u>	<u>\$ -</u>
Loss on disposal of capital assets	<u>\$ 163,000</u>	<u>\$ 345,000</u>
Capital assets acquired by gift	<u>\$ 198,000</u>	<u>\$ 333,000</u>

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

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 1 -- ORGANIZATION:

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 university is an agency of the State of Nevada (the "State") 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 \$6,355,000 and \$9,553,000 to the university during the years ended June 30, 2002 and 2001, respectively.

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.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

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

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*, issued in June and November 1999. While these Statements are scheduled for a phased implementation according to the size of the governmental unit, the university is required to adopt the Statements in the year of adoption by the State, and the State adopted the Statements on July 1, 2001.

Statement No. 35 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 also include Management's Discussion and Analysis of the university's financial position and results of operations.

Statement No. 35 requires the accrual or deferral of revenue associated with certain grants and contracts, the recognition of summer session revenues and expenses when earned or incurred, accounting for certain scholarship allowances as a reduction of revenue and classification of federal refundable loans as a liability. Previously, excess restricted receipts under certain grants and contracts were included in net assets when received, summer session revenues and expenses were reported in the fiscal year in which the summer session was predominantly conducted, all scholarship allowances were classified as an operating expense and federal refundable loans were included in net assets. In accordance with Statement No. 35, the cumulative effects of the accounting changes described above have been recorded as adjustments to the June 30, 2000 net assets as presented in the accompanying Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2001.

The university has elected to restate its 2001 financial statements to conform to the new financial statement presentation for purposes of presenting comparative information for the year ended June 30, 2002.

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Basis of Presentation (continued):

GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, were also adopted by the university on July 1, 2001. Statement No. 37 clarifies guidance to be used in preparing Management’s Discussion and Analysis and Statement No. 38 modifies, adds and deletes various note disclosure requirements. The implementation of these two Statements had no effect on the university’s net assets or changes in net assets for the year ended June 30, 2002.

Basis of Accounting

The financial statements of the university have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay. The university has the option to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents

The university considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are primarily stated at fair value. Fair value of investments is determined from quoted market prices, quotes obtained from brokers or reference to other publicly available market information. Interests in private equity partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. The System believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because the private equity partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a ready market for such investments existed. Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned.

Inventories

Inventories consist primarily of bookstore and agricultural inventories, and other items held for sale 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.

Capital Assets

Capital assets are defined as assets with an initial unit cost of \$2,000 or more and an estimated useful life in excess of one year. Such assets are stated at cost at the date of acquisition or fair market value at date of donation in the case of gifts. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets’ lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated. Accumulated depreciation is computed on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	15
Machinery and equipment	5 to 10
Library books	5

Collections are capitalized at cost or fair value at the date of donation. The university’s collections are protected, preserved and held for public exhibition, education, or research and include art and rare book collections which are considered inexhaustible and therefore not depreciated.

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Deferred Revenue

Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue received in advance of the event, such as student tuition and fees, fees for housing and dining services, and advanced ticket sales for athletic and other events.

Compensated Absences

The university accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked. Such accrued expenses have been classified as a component of employee compensation and benefits in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

Federal Refundable Loans

Certain loans to students are administered by the university, with funding primarily supported by the federal government. The university's Statements of Net Assets include both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Net Assets

Net Assets for the university are classified as follows:

Invested in capital assets, net of related debt: This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purposes of producing present and future income, which may either be expended or added to principal.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the university is obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from indirect cost recoveries, state appropriations, and sales and services of auxiliary departments. These resources are used for transactions relating to the educational and general operations of the university and may be used to meet current expenses for any purpose.

Operating and Non-operating Revenues and Expenses

Revenues and expenses are classified as operating if they result from providing services and producing and delivering goods. They also include other events that are not defined as capital and related financing, non-capital financing, or investing activities. Grants and contracts representing an exchange transaction are considered operating revenues.

Revenues and expenses are classified as non-operating if they result from capital and related financing, non-capital financing, or investing activities. Appropriations received to finance operating deficits are classified as non-capital financing activities; therefore, they are reported as non-operating revenues. Grants and contracts representing non-exchange receipts are treated as non-operating revenues.

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. The Legislature approved the release of estate tax endowment funds for certain unrestricted expenditures during the years ended June 30, 2002 and 2001. The university's share of such amounts released from restriction for the years ended June 30, 2002 and 2001 was \$7,049,000 and \$6,213,000, respectively, and is included in Transfers from System Administration in the financial statements.

Grants-in-Aid

Tuition and fees revenue includes grants-in-aid for faculty and staff benefits charged to the appropriate expenditure programs to which the applicable personnel relate. Grants-in-aid for the years ended June 30, 2002 and 2001 totaled \$2,593,000 and \$2,478,000, respectively.

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statements of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the university, and the amount that is paid by students and/or third parties making payments on the students' behalf. Payments of financial aid made directly to students are classified as scholarships and fellowships expenses.

Tax Exemption

The System is qualified as a tax-exempt organization under the provisions of Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

New Accounting Pronouncements

The GASB has issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, effective for years beginning July 1, 2003. Statement No. 39 will require the university's legally separate campus foundations and medical school practice plans to be presented discretely in the university's financial statements. At June 30, 2001, the date of the most recently available financial information, campus foundations and medical school practice plans net assets exceeded \$82 million.

NOTE 3 -- CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are stated at cost, which approximates market, and consists primarily of deposits in money market funds, which are not federally insured and also includes the unexpended proceeds of certain bond issues. Cash held by State Treasurer represents the funds from certain state appropriations, which were enacted to provide the university with the funds necessary for the construction of major assets. Such amounts are controlled by the Nevada Public Works Board. All of the above are included in cash and cash equivalents in the Statements of Cash Flows.

NOTE 4 -- INVESTMENTS:

Investments are stated at fair value. Substantially all of the university's investments are pooled with those of the other campuses and divisions of the System. At June 30, the System's investment pool was comprised the following:

	<u>2002</u>	<u>2001</u>
Mutual funds	63%	68%
Bonds	1%	1%
Stocks	7%	11%
Private equity partnerships	20%	19%
Other investments	9%	1%

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 4 -- INVESTMENTS (continued):

Mutual funds consist of investments in shares of mutual funds with eight 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:

	<u>2002</u>	<u>2001</u>
Stocks	33%	37%
U.S. Government bonds	30%	31%
Corporate bonds	8%	7%
International securities	22%	24%
Cash and equivalents	7%	1%

As of June 30, 2002, the System had entered into various investment agreements with private equity partnerships. Under the terms of certain of these investment agreements, the System is obligated to make additional investments in the private equity partnerships of \$19,223,000.

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 years ended June 30, 2002 and 2001, System Administration distributed to the university \$1,473,000 and \$701,000, respectively, in excess of investment income from the university's share of operating fund investments. Such distribution is presented as a Transfer from System Administration in the financial statements.

For purpose of applying Statement No. 3 of the Governmental Accounting Standards 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 agent.

NOTE 5 -- ENDOWMENT FUNDS:

At June 30, 2002 and 2001 approximately \$77,934,000 and \$82,915,000, respectively, of the university's endowment fund investments 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 the following at June 30:

	<u>2002</u>	<u>2001</u>
Mutual funds	71%	68%
Stocks	11%	17%
Private equity partnerships	17%	14%
Other investments	1%	1%

Each individual fund acquires units on the basis of the market value per unit on the preceding quarterly valuation date. The unit market values at June 30, 2002 and 2001 were \$356.55 and \$387.31, respectively.

The System utilizes a spending rule for its pooled endowments, which determines the endowment income to be distributed currently for spending. For the years ended June 30, 2002 and 2001, the Board of Regents' policy authorized a distribution of 4.5% of the average unit market value for the previous twenty calendar quarters. Under the provisions of this spending rule, \$15.63 and \$14.27 was distributed to each time-weighted unit for a total distribution to the university of \$3,379,000 and \$3,070,000 during the years ended June 30, 2002 and 2001, respectively.

NOTE 6 -- ACCOUNTS AND LOANS RECEIVABLE:

Accounts receivable consist primarily of amounts due from students for tuition and fees, from local and private sources for grants and contract agreements, from the NCAA and the conference for support of intercollegiate athletics and from various entities for the sales of goods and services by various campus colleges and departments.

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 university's estimated future losses for such items.

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 6 -- ACCOUNTS AND LOANS RECEIVABLE (continued):

The loans receivable and corresponding allowance for uncollectible loans balances as of June 30, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Loans receivable	\$6,379,000	\$6,227,000
Less: Allowance for doubtful loans	<u>(63,000)</u>	<u>(107,000)</u>
Net loans receivable	6,316,000	6,120,000
Less: current portion	<u>(911,000)</u>	<u>(682,000)</u>
Noncurrent loans receivable	<u>\$ 5,405,000</u>	<u>\$ 5,438,000</u>

NOTE 7 -- CAPITAL ASSETS:

Capital asset activity for the years ended June 30, 2002 and 2001 was as follows:

	<u>2002</u>			
	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 28,630,000	\$ 188,000	\$ -	\$ 28,818,000
Construction in progress	14,564,000	5,028,000	(13,484,000)	6,108,000
Collections	<u>859,000</u>	<u>-</u>	<u>-</u>	<u>859,000</u>
Total capital assets not being depreciated	<u>44,053,000</u>	<u>5,216,000</u>	<u>(13,484,000)</u>	<u>35,785,000</u>
Capital assets being depreciated:				
Land improvements	23,321,000	2,113,000	-	25,434,000
Buildings	318,259,000	13,807,000	-	332,066,000
Equipment	78,165,000	10,644,000	(3,053,000)	85,756,000
Library books and media	<u>14,603,000</u>	<u>3,212,000</u>	<u>(2,195,000)</u>	<u>15,620,000</u>
Total capital assets being depreciated	<u>434,348,000</u>	<u>29,776,000</u>	<u>(5,248,000)</u>	<u>458,876,000</u>
Less accumulated depreciation for:				
Land improvements	(14,520,000)	(1,259,000)	-	(15,779,000)
Buildings	(102,573,000)	(8,287,000)	-	(110,860,000)
Equipment	(56,012,000)	(7,730,000)	2,891,000	(60,851,000)
Library books and media	<u>(6,017,000)</u>	<u>(4,007,000)</u>	<u>2,195,000</u>	<u>(7,829,000)</u>
Total accumulated depreciation	<u>(179,122,000)</u>	<u>(21,283,000)</u>	<u>5,086,000</u>	<u>(195,319,000)</u>
Total capital assets being depreciated, net	<u>255,226,000</u>	<u>8,493,000</u>	<u>(162,000)</u>	<u>263,557,000</u>
Capital assets, net	<u>\$299,279,000</u>	<u>\$13,709,000</u>	<u>(\$ 13,646,000)</u>	<u>\$299,342,000</u>

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 7 -- CAPITAL ASSETS (continued):

	<u>2001</u>			
	<u>Beginning</u>		<u>Decreases</u>	<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>		<u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 27,990,000	\$ 640,000	\$ -	\$ 28,630,000
Construction in Progress	38,680,000	20,378,000	(44,494,000)	14,564,000
Collections	<u>795,000</u>	<u>64,000</u>	<u>-</u>	<u>859,000</u>
Total capital assets not being depreciated	<u>67,465,000</u>	<u>21,082,000</u>	<u>(44,494,000)</u>	<u>44,053,000</u>
Capital assets being depreciated:				
Land improvements	23,244,000	512,000	(435,000)	23,321,000
Buildings	267,167,000	51,092,000	-	318,259,000
Equipment	77,117,000	2,986,000	(1,938,000)	78,165,000
Library books and media	<u>14,851,000</u>	<u>2,233,000</u>	<u>(2,481,000)</u>	<u>14,603,000</u>
Total capital assets being depreciated	<u>382,379,000</u>	<u>56,823,000</u>	<u>(4,854,000)</u>	<u>434,348,000</u>
Less accumulated depreciation for:				
Land improvements	(12,901,000)	(1,619,000)	-	(14,520,000)
Buildings	(95,625,000)	(6,948,000)	-	(102,573,000)
Equipment	(50,419,000)	(7,186,000)	1,593,000	(56,012,000)
Library books and media	<u>(8,498,000)</u>	<u>-</u>	<u>2,481,000</u>	<u>(6,017,000)</u>
Total accumulated depreciation	(167,443,000)	(15,753,000)	4,074,000	(179,122,000)
Total capital assets being depreciated, net	<u>214,936,000</u>	<u>41,070,000</u>	<u>(780,000)</u>	<u>255,226,000</u>
Capital assets, net	<u>\$282,401,000</u>	<u>\$62,152,000</u>	<u>(\$45,274,000)</u>	<u>\$299,279,000</u>

The estimated cost to complete property authorized or under construction at June 30, 2002 and 2001 is \$94,495,000 and \$17,308,000, respectively. These costs will be financed by State appropriations, available resources and/or long-term borrowings.

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 8 -- LONG-TERM DEBT:

Long-term debt at June 30, 2002 and 2001 consists of the following:

2002

BONDS	Annual Interest Rate	Fiscal Year Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Current
Universities Revenue Bonds, Series August 1, 1991	5.70% to 8.25%	2002	\$ 355,000	\$ -	(\$ 355,000)	\$ -	\$ -
Universities Refunding Revenue Bonds, Series January 1, 1994	4.00% to 5.60%	2014	10,800,000	-	(95,000)	10,705,000	475,000
Universities Revenue Bonds, Series September 1, 1995	3.95% to 5.25%	2011	1,030,000	-	(80,000)	950,000	85,000
Universities Refunding Revenue Bonds, Series January 1, 1997	4.50% to 6.00%	2007	5,106,000	-	(825,000)	4,281,000	870,000
Universities Revenue Bonds, Series September 1, 1998	4.00% to 5.25%	2014	1,805,000	-	(105,000)	1,700,000	110,000
Universities Revenue Bonds, Series January 1, 2000	5.10% to 5.88%	2021	14,500,000	-	-	14,500,000	120,000
Universities Revenue Bonds, Series 2002A	3.87% to 5.4%	2032	-	31,000,000	-	31,000,000	-
Total Bonds Payable			33,596,000	31,000,000	(1,460,000)	63,136,000	1,660,000
Notes Payable			10,707,000	357,000	(1,030,000)	10,034,000	1,128,000
TOTAL			\$44,303,000	\$31,357,000	(\$2,490,000)	\$73,170,000	\$2,788,000

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 8 -- LONG-TERM DEBT (continued):

BONDS	Fiscal Year		Beginning Balance	Additions	Reductions	Ending Balance	Current
	Annual Interest Rate	Final Payment Due					
Universities Revenue Bonds, Series August 1, 1991	5.70% to 8.25%	2002	\$ 805,000	\$ -	(\$ 450,000)	\$ 355,000	\$ 355,000
Universities Refunding Revenue Bonds, Series January 1, 1994	4.00% to 5.60%	2014	10,890,000	-	(90,000)	10,800,000	95,000
Universities Revenue Bonds, Series September 1, 1995	3.95% to 5.25%	2011	1,105,000	-	(75,000)	1,030,000	80,000
Universities Refunding Revenue Bonds, Series January 1, 1997	4.50% to 6.00%	2007	5,893,000	-	(787,000)	5,106,000	825,000
Universities Revenue Bonds, Series September 1, 1998	4.00% to 5.25%	2014	1,905,000	-	(100,000)	1,805,000	105,000
Universities Revenue Bonds, Series January 1, 2000	5.10% to 5.88%	2021	14,500,000	-	-	14,500,000	-
Total Bonds Payable			35,098,000	-	(1,502,000)	33,596,000	1,460,000
Notes Payable			9,034,000	8,080,000	(6,407,000)	10,707,000	1,030,000
TOTAL			\$44,132,000	\$8,080,000	(\$7,909,000)	\$44,303,000	\$2,490,000

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:

	<u>Principal</u>	<u>Interest</u>
2003	\$ 2,788,000	\$ 3,549,000
2004	2,724,000	3,687,000
2005	5,977,000	3,453,000
2006	3,126,000	3,201,000
2007	3,568,000	3,014,000
2008-2012	15,360,000	12,248,000
2013-2017	11,462,000	9,126,000
2018-2022	10,670,000	6,106,000
2023-2027	7,605,000	3,740,000
2028-2032	<u>9,890,000</u>	<u>1,391,000</u>
	<u>\$73,170,000</u>	<u>\$49,515,000</u>

UNIVERSITY OF NEVADA, RENO
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FOR THE YEARS ENDED JUNE 30, 2002 AND 2001

NOTE 8 -- LONG-TERM DEBT (continued):

In September 2002, the System, on behalf of the university, issued Universities Revenue Bonds, Series 2002B and Series 2002C of \$10,905,000 and \$8,150,000, respectively. The bonds bear interest from 4.00% to 5.50% and mature on various dates from 2004 to 2032. The bonds were issued primarily to fund the costs of constructing and acquiring certain student housing and dining facilities on the campus of the university.

NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES:

During the year ended June 30, 2002, the university entered into a non-cancelable lease agreement for equipment expiring fiscal year 2007.

The capital lease agreement for fiscal year 2001 was for a fire science academy in Carlin, Nevada. Under the terms of the agreement, the university was obligated to make monthly lease payments of \$250,000 over the life of the lease. As further described in Note 13, the university entered into a settlement agreement in relation to the litigation associated with this obligation. In March 2002, the university issued revenue bonds to pay off the lease and purchase the fire science academy. The university now owns the fire science academy.

Obligations under capital leases were as follows for the year ending June 30, 2002:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	\$26,498,000	\$455,000	(\$26,539,000)	\$ 414,000	\$ 82,000

Obligations under capital leases were as follows for the year ending June 30, 2001:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	\$26,543,000	\$ -	(\$ 45,000)	\$26,498,000	\$3,000,000

The following capital assets included in the accompanying financial statements were leased under capital leases as of June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Buildings and improvements	\$ -	\$25,789,000
Machinery and equipment	<u>605,000</u>	<u>1,630,000</u>
Total	605,000	27,419,000
Less accumulated depreciation	<u>(30,000)</u>	<u>(2,019,000)</u>
Total	<u>\$575,000</u>	<u>\$25,400,000</u>

Future net minimum rental payments, which are required under the capital lease for the years ending June 30, are as follows:

2003	\$107,000
2004	107,000
2005	107,000
2006	107,000
2007	<u>53,000</u>
Total minimum lease payments	481,000
Less amount representing interest	<u>(67,000)</u>
Obligations under capital leases	<u>\$414,000</u>

Total interest expense under capital leases included in the accompanying financial statements was \$840,000 and \$2,439,000 during the years ended June 30, 2002 and 2001, respectively.

UNIVERSITY OF NEVADA, RENO
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NOTE 10 -- OTHER NONCURRENT LIABILITIES ACTIVITY:

The activity with respect to other noncurrent liabilities for the year ended June 30, 2002 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current</u>
Refundable advances under federal loan programs	\$ 4,594,000	\$ 159,000	(\$ 122,000)	\$ 4,631,000	\$ -
Compensated absences	10,986,000	8,415,000	(6,906,000)	12,495,000	7,889,000
Deferred revenue	<u>7,077,000</u>	<u>8,182,000</u>	<u>(7,077,000)</u>	<u>8,182,000</u>	<u>8,182,000</u>
Total	<u>\$22,657,000</u>	<u>\$16,756,000</u>	<u>(\$14,105,000)</u>	<u>\$25,308,000</u>	<u>\$16,071,000</u>

The activity with respect to other non-current liabilities for the year ended June 30, 2001 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current</u>
Refundable advances under federal loan programs	\$ 4,461,000	\$ 167,000	(\$ 34,000)	\$ 4,594,000	\$ -
Compensated absences	10,586,000	7,071,000	(6,671,000)	10,986,000	6,906,000
Deferred revenue	<u>7,994,000</u>	<u>7,077,000</u>	<u>(7,994,000)</u>	<u>7,077,000</u>	<u>7,077,000</u>
Total	<u>\$ 23,041,000</u>	<u>\$14,315,000</u>	<u>(\$14,699,000)</u>	<u>\$22,657,000</u>	<u>\$13,983,000</u>

NOTE 11 -- 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. An employee's 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 university 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, 2002, 2001, and 2000 was approximately \$16,626,000, \$15,276,000, and \$14,527,000, respectively, equal to the required contribution for the year.

NOTE 12 -- 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 net assets, changes in net assets or cash flows of the university.

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NOTE 13 -- FIRE SCIENCE ACADEMY:

In 1997, the System entered into a lease agreement (the "Lease") with All Star Investments, LLC ("All Star") related to a fire science academy (the "Fire Science Academy") to be operated by the university. Pursuant to the lease agreement, All Star was required to design, build and finance a turnkey facility for the university's use as a firefighting training facility in Carlin, Nevada. The Lease, as amended, was a \$27 million lease-purchase agreement requiring 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.

Subsequent to initial operation of the Fire Science Academy, university management became aware of potential environmental threats resulting from alleged inadequate design and construction of the facilities. The university requested that All Star correct these alleged deficiencies; however, All Star refused to do so. On July 28, 2000, the university determined that it could no longer continue burn classes without the possibility of further environmental contamination and student exposure to health risks, and accordingly, suspended all firefighting burn classes at the Fire Science Academy until such time as All Star would take action to correct the design and construction deficiencies.

Because the university could no longer operate the Fire Science Academy for the purposes for which it was designed, the university ceased making Lease payments in August 2000. On September 5, 2000, All Star sued the System for breach of contract, and on September 6, 2000, the System sued All Star 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.

After execution of the Lease, All Star assigned its rights under the Lease to GMAC Commercial Mortgage Corporation ("GMAC"), which had provided All Star with financing for the Fire Science Academy. GMAC subsequently assigned its rights in the Lease to another party (collectively with GMAC, the "Lender Parties"), which sued the System on October 9, 2000 for breach of contract by failing to pay rent under the Lease.

In October 2001, all parties to the above litigation reached agreements to dismiss all claims. Under the terms of the settlement agreements:

- All Star and its contractors (the "design/contractor parties") deposited \$4.68 million into a trust account for the repair of the facility and for any required environmental remediation. Repair and remediation of the facility commenced in August 2001. Payments from the trust account for the repair and remediation of the facility commenced in September, 2001.
- All Star conveyed its ownership of the Fire Science Academy to the university and relinquished any interest it had in the Lease.
- The Lender Parties to the litigation waived the default interest accrued, late charges and all other fees and penalties associated with the System's termination of Lease payments in August 2000.
- The university paid the Lender Parties a total of \$29,785,000 on March 21, 2002 to acquire the fee simple title to the Fire Science Academy, to discharge the Loan and Promissory Note, and to obtain a reconveyance and/or satisfaction or discharge of the Deed of Trust and Security Instrument. The payment to the Lender Parties was made from proceeds of the university's March 2002 issuance of Series 2002A bonds. The amounts owed on the Series 2002A bonds as of June 30, 2002 are \$31 million in principal and \$532,000 in accrued interest.
- By January 2002, the university learned that the monies deposited in the project trust fund would be insufficient to pay for completion of necessary modifications at the facility. By March 2002, the design/contractor parties estimated the costs to complete improvements to the facility were in excess of the monies deposited in the project trust fund by \$2,169,000. In March 2002, the university and the design/contractor parties entered into a supplemental agreement. Under the terms of the supplemental agreement, the university was to pay the first \$750,000 after exhaustion of the project trust fund. The university and the design/contractor parties were to share on a 50/50 basis the costs exceeding \$750,000 up to \$2,500,000. Except to the extent that the university requested improvements or modifications that were not contemplated by the parties, the design/contractor parties agreed to pay 100% of all costs exceeding \$2,500,000. As of June 30, 2002, a total of \$6.8 million had been paid for repair of the facility and required remediation, including \$4.68 million from the trust account described above and \$2.1 million from university funds. During May 2002, the university reopened the Fire Science Academy.

The university's financial statements as of June 30, 2001 reflected a total of \$29 million of liabilities relating to the Fire Science Academy, including \$26.5 million included in capital lease obligations and \$2.5 million of accrued interest payable. As of June 30, 2002, the capital lease and accrued interest obligation have been eliminated under the terms of the settlement agreement described above.

UNIVERSITY OF NEVADA, RENO
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NOTE 14 -- FUNCTIONAL CLASSIFICATIONS:

The following is the functional classifications of expenses as reported on the Statements of Revenues, Expenses and Changes in Net Assets for the period ending June 30:

	<u>2002</u>	<u>2001</u>
Instruction	\$124,001,000	\$111,006,000
Research	44,345,000	42,620,000
Public Service	32,598,000	38,678,000
Academic support	21,013,000	21,286,000
Institutional support	22,550,000	20,045,000
Student services	16,932,000	15,997,000
Operation and maintenance of plant	25,432,000	20,521,000
Scholarships and fellowships	7,674,000	6,933,000
Auxiliary enterprises	24,762,000	22,394,000
Depreciation	<u>21,283,000</u>	<u>15,753,000</u>
Total	<u>\$340,590,000</u>	<u>\$315,233,000</u>