

University of Nevada, Reno
Financial Statements



As of and for the Years Ended
June 30, 2003 and 2002

University of Nevada, Reno
Financial Statements and Report of Independent Auditors
As of and for the Years Ended June 30, 2003 and 2002

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The University of Nevada, Reno does not discriminate on the basis of sex, race, color, religion, handicap, or national origin in the educational programs or activities, which it operates.

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, 2003 and 2002. 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 \$42.4 million, primarily due to an increase of \$27.6 million in cash and cash held by state treasurer, an increase of \$11.8 million in investments and an increase in capital assets of \$6.6 million.
- Liabilities increased by \$49.3 million due primarily to an increase in long-term debt of \$45.8 million.
- Total net assets decreased by \$7.0 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*.

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 private corporations. Over time, increases or decreases in net assets (the difference between assets and liabilities) are 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 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, 2003 and 2002
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Change %</u>
Current and other assets	\$252,276	\$216,470	\$35,806	16.54
Capital assets, net	<u>305,920</u>	<u>299,342</u>	<u>6,578</u>	2.19
Total assets	<u>558,196</u>	<u>515,812</u>	<u>42,384</u>	8.22
Current liabilities	42,551	39,043	3,508	8.98
Non-current liabilities	<u>125,788</u>	<u>79,951</u>	<u>45,837</u>	57.33
Total liabilities	<u>168,339</u>	<u>118,994</u>	<u>49,345</u>	41.46
Net Assets:				
Invested in capital assets, net of related debt	221,789	231,710	(9,921)	4.28
Restricted				
Nonexpendable	35,715	35,764	(49)	(0.14)
Expendable	77,758	84,341	(6,583)	(7.81)
Unrestricted	<u>54,595</u>	<u>45,003</u>	<u>9,592</u>	21.31
Total net assets	<u>\$389,857</u>	<u>\$396,818</u>	<u>(\$ 6,961)</u>	(1.75)

Changes in Net Assets

At the end of fiscal year (FY) 2003 total assets were \$558.2 million. The university's largest asset is its investment in capital assets of \$305.9 million. Capital assets increased by \$6.6 million, primarily due to additions to equipment. Endowment investments, the second largest asset category, decreased by \$1.1 million, or 1.2%, as a result of reduction in the fair market value of investments.

Cash and Cash Equivalents and Cash Held by State Treasurer increased by \$27.6 million, or 122%. The increase was primarily from proceeds from bonds issued during the year.

University liabilities were \$168.3 million at the end of FY 2003. The largest liability was long-term debt, consisting of bonds and notes payable, of \$118.9 million. Long-term debt increased by \$45.8 million due to the issuance of bonds to finance a new dorm, dining commons and parking garage.

The university's current assets of \$151.9 million (included in current and other assets above) appear to be sufficient to cover current liabilities of \$42.6 million, as the current ratio was 3.6 dollars in current assets to every 1 dollar in current liabilities.

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 \$9.9 million decrease, includes a \$6.6 million net increase in capital assets and a \$29.3 million increase in cash balances from bond proceeds, offset by a \$45.8 million increase in capital asset related debt which reduces net assets invested in capital assets, net of related debt.

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

University of Nevada, Reno

Condensed Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2003 and 2002

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>	<u>Changes</u>
<u>Change:</u>			
Operating Revenues			
Tuition and fees	\$ 42,100	\$ 38,165	\$ 3,935
Grants & contracts	111,872	99,956	11,916
Sales and service of auxiliary enterprises	22,852	21,410	1,442
Sales and service of educational depts.	30,555	29,050	1,505
Other	<u>1,998</u>	<u>1,299</u>	<u>699</u>
Total operating revenues	<u>209,377</u>	<u>189,880</u>	<u>19,497</u>
Operating Expenses			
Instruction	131,302	124,001	7,301
Research	54,272	44,345	9,927
Public service	32,789	32,598	191
Academic support	24,521	21,013	3,508
Institutional support	22,871	22,550	321
Student services	18,463	16,932	1,531
Operation and maintenance of plant	23,271	25,432	(2,161)
Scholarships and fellowships	8,729	7,674	1,055
Auxiliary enterprises	25,321	24,762	559
Depreciation	<u>19,468</u>	<u>21,283</u>	<u>(1,815)</u>
Total operating expenses	<u>361,007</u>	<u>340,590</u>	<u>20,417</u>
Operating loss	<u>(151,630)</u>	<u>(150,710)</u>	<u>(920)</u>
Non-operating Revenue (Expenses)			
State Appropriations	128,306	126,606	1,700
Transfers from System Admin	5,623	8,522	(2,899)
Gifts	10,706	9,666	1,040
Investment income	5,684	(3,353)	9,037
Other	<u>(5,948)</u>	<u>(4,953)</u>	<u>(995)</u>
Net non-operating revenues	<u>144,371</u>	<u>136,488</u>	<u>7,883</u>
Loss before other revenue, expenses, gains or losses	<u>(7,259)</u>	<u>(14,222)</u>	<u>6,963</u>
Capital grants and gifts	126	2,382	(2,256)
Additions to endowments	172	1,035	(863)
Capital Appropriations	<u>-</u>	<u>34,351</u>	<u>(34,351)</u>
Total other revenues	<u>298</u>	<u>37,768</u>	<u>(37,470)</u>
Increase (Decrease) in Net Assets	<u>(6,961)</u>	23,546	<u>(30,507)</u>
Net assets, beginning of year	<u>396,818</u>	<u>373,272</u>	<u>23,546</u>
Net assets, end of year	<u>\$389,857</u>	<u>\$396,818</u>	<u>(\$ 6,961)</u>

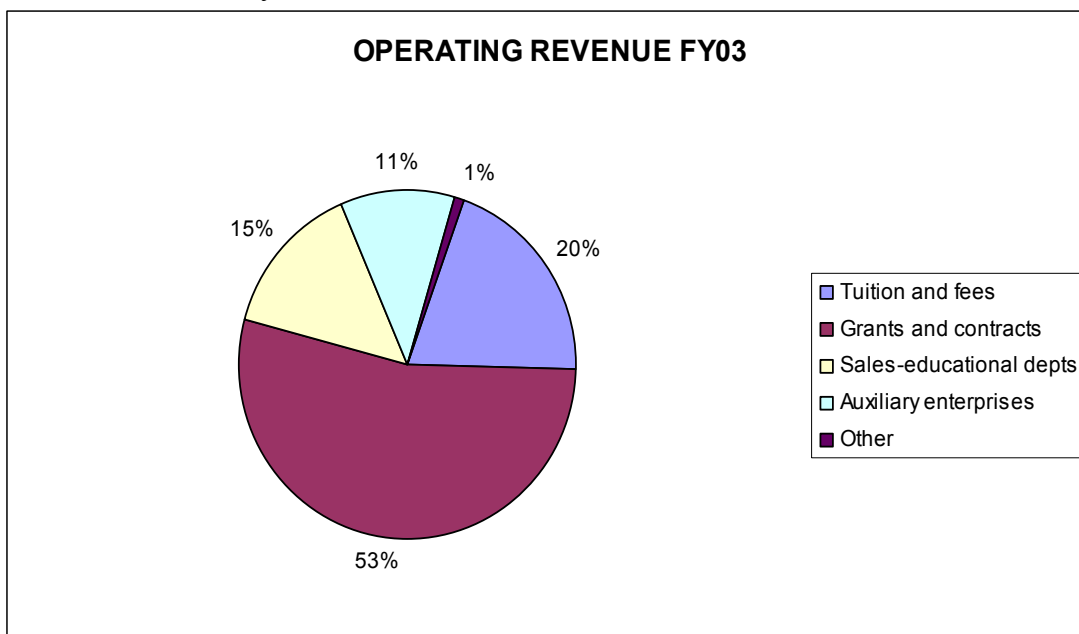
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the university, both operating and non-operating, and the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

Operating revenues and expenses

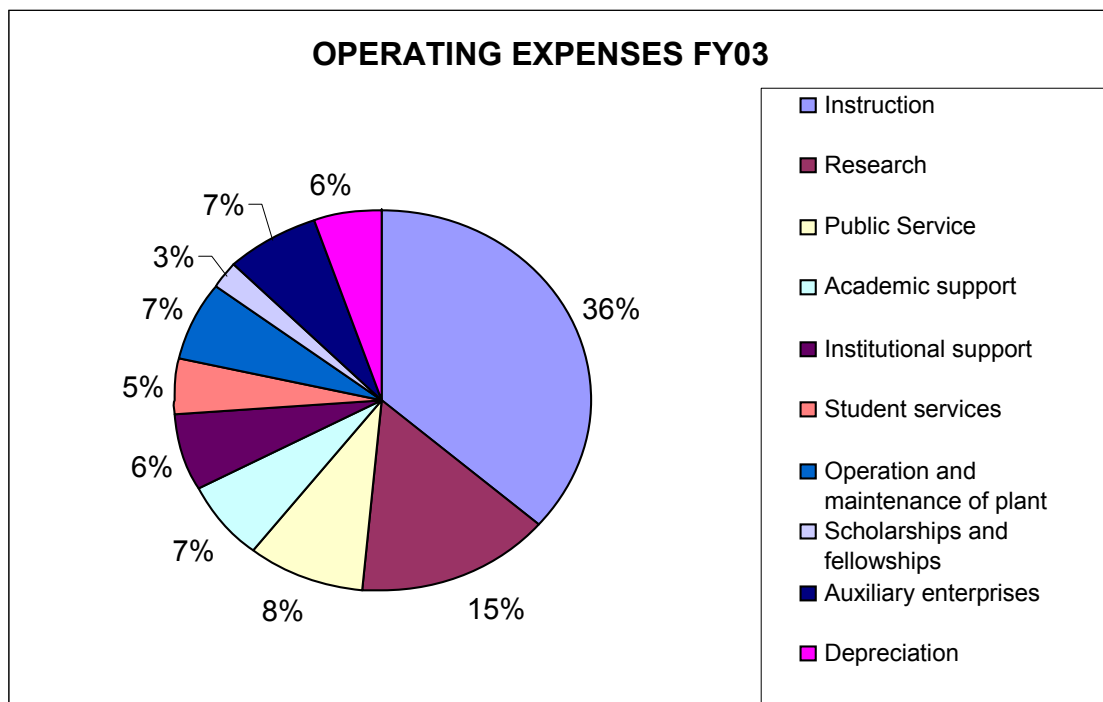
Operating revenues increased by \$19.5 million. This included:

- An increase in student tuition and fees of \$3.9 million due to student fee increases of approximately 3%, increase in enrollment of approximately 8% (see Enrollment and Admissions section below) and an increase of \$3.1 million in Fire Sciences Academy and University Studies Abroad Consortium fees.
- An increase of \$11.9 million in total grants and contracts including \$7.3 million in federal grants and contracts, \$1.2 million in local grants and contracts, and \$2.7 million in state grants primarily for the millennium scholarship program.
- An increase of sales and services of educational departments of \$1.5 million due to an increase in medical school practice plan salary reimbursements and intercollegiate athletics sales.
- An increase in sales of auxiliary enterprises of \$1.4 million from increased bookstore sales due to increased enrollment and book prices and increased revenue at Lawlor Events Center from increased concert activity.



Operating expenses increased \$20.4 million, including the following changes:

- Salary and benefits increases of \$22 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. The cost of health insurance increased by 4.3%.
- Instruction expenses increased \$7.3 million including \$6.7 million in salary increases.
- Research expenses increased \$9.9 million including salary increases of \$6.3 million and other expense increases of \$3.6 million due to growth in research activity.
- Academic support expenses increased by \$3.5 million which included a \$1.5 million increase in salaries, a decrease in capitalized library additions of \$1.2 million and other increases of \$.8 million.
- Student services expenses increased by \$1.5 million, including \$0.9 million in salary increases and \$.6 million in other increases.
- Operation and maintenance of plant decreased \$2.2 million due to an increase in capitalized expenditures for plant additions and improvements.
- Scholarship expenses increased \$1 million due primarily to the third year class of millennium scholars entering the university in fall 2002.
- Depreciation expense decreased by \$1.8 million, primarily due to two buildings that were fully depreciated at the end of FY2002.



Grants and Contracts

Grant and contract revenue has grown from approximately \$54 million in FY 1993 to nearly \$112 million in FY 2003. Sources of grant and contract funding are 67% from the federal government, 12% from local governments (primarily Washoe and Clark counties), 12% from the State of Nevada and 9%

from private sources (private foundations and other charitable organizations). Grants and contracts activities were 51% research, 24% instruction, 19% public service, 5% scholarships and 1% student services.

Non-operating revenues and expenses

Non-operating revenues grew by \$7.9 million, including a \$1.7 million increase in state appropriation, a \$2.9 million decrease in transfers from System Administration, a \$1.0 million increase in gifts, a \$0.9 million increase in other expenses and a \$9.0 million increase in investment income.

Pursuant to State law, the Governor has broad authority to reduce appropriations when necessary to maintain a balanced budget. In fiscal 2003 the Governor enacted a 3% across the board budget rescission, implemented a partial vacant position freeze, and stopped expenditures of one-time appropriations. In fiscal 2003, the university reverted \$4.6 million as a result of the 3% reduction, and approximately \$700,000 in excess indirect cost recovery funds. Additionally, the university was required to absorb both energy costs and an increase in the university's contribution for employee health insurance benefits that exceed budgeted amounts.

Statement of Cash Flows

University of Nevada, Reno
Condensed Statements of Cash Flows
For the Years Ended June 30, 2003 and 2002
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Cash provided/(used) by :		
Operating activities	(\$129,384)	(\$127,252)
Non-capital financing activities	147,915	143,762
Capital financing activities	15,186	(8,861)
Investing activities	<u>(6,129)</u>	<u>(1,212)</u>
Net increase (decrease) in cash and cash equivalents	27,588	6,437
Cash and cash equivalents--beginning of the year	<u>22,518</u>	<u>16,081</u>
Cash and cash equivalents--end of the year	<u>\$ 50,106</u>	<u>\$ 22,518</u>

For the years ending June 30, 2003 and 2002, the major sources of funds included in operating activities were student tuition and fees (\$42.9 million and \$38.1 million, respectively) and grants and contracts (\$114.1 million and \$98.9 million, respectively). The largest operating activities were payments for compensation and benefits (\$239.1 million and \$216.4 million, respectively) and to suppliers (\$85.6 million and \$86 million, respectively).

The largest inflow of cash in the non-capital financing activities group is the state appropriation of \$129.8 million and \$125.5 million for the years ending June 30, 2003 and 2002, respectively. Cash provided by capital and related financing activities in FY03 is primarily from the issuance of long term debt and cash used for capital financing activities in FY02 was for the acquisition of capital assets and the pay off of a large capital lease.

Capital Assets and Debt Administration

At June 30, 2003, the university had capital assets of \$305.9 million, net of accumulated depreciation, in a broad range of capital assets, including equipment, buildings, library books and media, collections and land. During FY 2003 there were land, building, equipment and library collection additions of \$30.9 million, capital asset disposals of \$13.3 million and current year net depreciation of \$11 million, which resulted in a net increase to capital assets of \$6.6 million, or 2.2%, over last year.

University of Nevada, Reno

Capital Assets, Net

June 30, 2003 and 2002

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Land	\$ 29,034	\$ 28,818	\$ 216
Collections	960	859	101
Land and improvements	27,017	25,434	1,583
Buildings	328,870	332,066	(3,196)
Equipment	90,465	85,756	4,709
Library books and media	14,822	15,620	(798)
Construction in progress	<u>21,058</u>	<u>6,108</u>	<u>14,950</u>
	512,226	494,661	17,565
Less accumulated depreciation	<u>(206,306)</u>	<u>(195,319)</u>	<u>(10,987)</u>
Total	<u>\$305,920</u>	<u>\$299,342</u>	<u>\$ 6,578</u>

The legislature appropriated \$34.4 million for capital projects for the 2001-2003 biennium, principally for the construction of a new library (\$22 million). Other project costs of \$95.9 million are being provided by fund raising and revenue bonds. The 2001 legislature approved additional bonding authority of \$85.5 million which allowed the university to issue additional debt during FY03 of \$47.8 million to fund construction of phase two of the new dormitory, a new dining hall and an additional parking garage. The university still plans to issue approximately \$22 million in bonds in the near future to construct a new library. The estimated cost to complete capital construction in progress at June 30, 2003 is \$109.3 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 \$81.2 million for FY 2003 and the combined maximum annual debt service was \$17.7 million, for a debt service coverage of 4.58 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 FY 2003 the university secured a \$2 million bank loan to fund improvements to the athletic practice and intramural fields.

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 student housing and dining facilities on the campus of the university.

In April 2003, the System, on behalf of the universities, issued Universities Revenue Refunding Bonds, Series 2003A of \$8.0 million. These bonds refunded bonds originally issued in 1994. The university's present value savings on this refunding was approximately \$680,000.

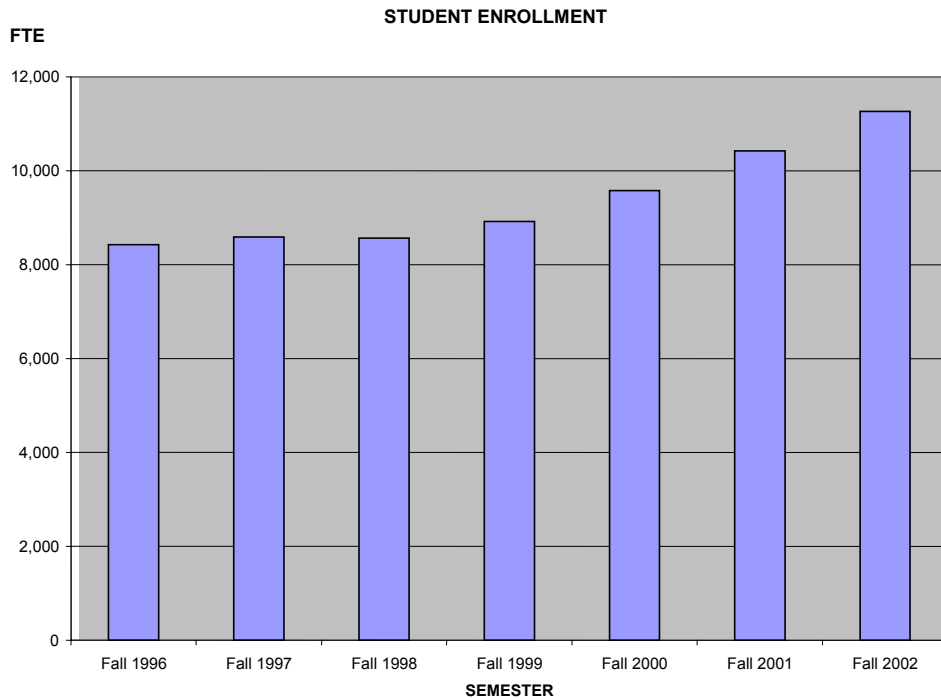
In May 2003, the System, on behalf of the universities, issued Universities Revenue Bonds, Series 2003B of \$28.8 million. The bonds bear interest from 2.0% to 5.0% and mature on various dates from 2006 to 2034. The bonds were issued to fund the costs of constructing a new parking facility on the north end of campus with capacity for approximately 1,950 vehicles.

Enrollment and Admissions

Admission to the university is open to residents and non-residents of the State on a competitive basis. For the fall 2002 semester, Nevada residents accounted for 79% 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 approximately 8% from fall semester 2001 to fall semester 2002, due in part to the availability of the millennium scholarship. The total number of students by headcount for fall 2002 was 15,093 and the full time equivalent (FTE) number of students was 11,261.



Looking Ahead

State funding for the primary instruction appropriation of the university, from FY 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 84.45% for fiscal year 2003-04 and 84.09% in fiscal year 2004-05, up from 80.29% for 2002-03. Expenditure flexibility (between expenditure categories and functions) is authorized when the formulas are not fully funded. Student FTE, is the primary driver in the formula and the university is currently experiencing growth in student enrollment. As a result, we anticipate additional funding in subsequent biennia. Should enrollments decline or the legislature decide to fund the formula at a lower percentage, the formulas contain a ‘hold harmless’ provision which allows institutions of the University and Community College System of Nevada to retain their base funding levels for two biennia.

The Board of Regents approved a new tuition policy in the spring of 2002 which sets fees so that over time, the charge for full time attendance will be equivalent to the 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 2003-04 original operating budget for State appropriation and authorized expenditures (the “State Supported Operating Budget”) totals \$203.8 million. This budget represents a 15.5% increase in the authorized funding level as compared to the originally approved \$173 million budget for FY 2002. State appropriations for FY 2004 total \$160.1 million, representing 78.5% of the State Supported Operating Budget. This compares to \$133.4 million budgeted for fiscal year 2003 and represents a 16.7% 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.

The university supplemented the state-supported budget with available estate taxes through fiscal year 2002-03. 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. 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 three years. For the 2003-05 biennium, the Legislature authorized funding university estate tax related expenditures of \$10.7 million with general fund revenues. In exchange for state general funds the UCCSN will transfer to the state the estate tax revenues deposited in the System's endowment in fiscal years 2003-04 and 2004-05. Any shortfall in estate tax collections will be borne by the State of Nevada and not by the university.

The 2003 legislature appropriated \$14.5 million for capital projects for the 2004-2005 biennium. The capital project funding includes \$5 million for the acquisition of 23 acres of land contiguous to the campus for women's athletics facilities and fields, which will help the university, meet its Title IX goals. Other capital projects funding includes \$2.6 million for planning and design of a new science and math building, a heart transplant facility for the medical school and renovation of the existing library and \$6.2 million for general campus maintenance projects. The legislature also approved additional bonding authority of \$65.5 million, which the university plans to use in part for a new student union building.

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.



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REPORT OF INDEPENDENT AUDITORS

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, 2003 and 2002 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.

PricewaterhouseCoopers LLP

October 3, 2003

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2003 AND 2002

	<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
<i>Current Assets</i>			
Cash and cash equivalents	\$	42,310,000	\$ 10,324,000
Short-term investments		58,965,000	46,074,000
Accounts receivable, net		11,599,000	12,619,000
Receivable from U.S. Government		12,569,000	13,495,000
Receivable from State of Nevada		22,192,000	24,560,000
Current portion of loans receivable, net		1,068,000	911,000
Inventories		2,878,000	2,274,000
Current portion of deferred expenditures		302,000	294,000
Total Current Assets		<u>151,883,000</u>	<u>110,551,000</u>
<i>Noncurrent Assets</i>			
Cash held by State Treasurer		7,796,000	12,194,000
Endowment investments		86,390,000	87,501,000
Loans receivable, net		4,908,000	5,405,000
Deferred expenditures and deposits		1,299,000	819,000
Capital assets, net		<u>305,920,000</u>	<u>299,342,000</u>
Total Noncurrent Assets		<u>406,313,000</u>	<u>405,261,000</u>
TOTAL ASSETS		<u>558,196,000</u>	<u>515,812,000</u>
 <u>LIABILITIES</u>			
<i>Current Liabilities</i>			
Accounts payable		10,213,000	10,060,000
Accrued payroll and related liabilities		6,884,000	6,067,000
Current portion of compensated absences		8,258,000	7,889,000
Current portion of deferred revenue		8,564,000	8,182,000
Current portion of long term debt		2,809,000	2,788,000
Current portion of obligations under capital leases		87,000	82,000
Accrued interest payable		1,933,000	1,520,000
Funds held in trust for others		2,374,000	941,000
Unemployment insurance and workers' compensation liability		<u>1,429,000</u>	<u>1,514,000</u>
Total Current Liabilities		<u>42,551,000</u>	<u>39,043,000</u>
<i>Noncurrent Liabilities</i>			
Refundable advances under federal loan programs		4,648,000	4,631,000
Compensated absences		4,782,000	4,606,000
Long term debt		116,113,000	70,382,000
Obligations under capital leases		<u>245,000</u>	<u>332,000</u>
Total Noncurrent Liabilities		<u>125,788,000</u>	<u>79,951,000</u>
TOTAL LIABILITIES		<u>168,339,000</u>	<u>118,994,000</u>
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt		221,789,000	231,710,000
Restricted:			
Nonexpendable		35,715,000	35,764,000
Expendable			
Scholarships, research, instruction & other		46,206,000	47,434,000
Loans		3,532,000	3,554,000
Capital projects		26,317,000	31,777,000
Debt service		1,703,000	1,576,000
Unrestricted		<u>54,595,000</u>	<u>45,003,000</u>
TOTAL NET ASSETS	\$	<u>389,857,000</u>	\$ <u>396,818,000</u>

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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<i>Operating Revenues</i>		
Student tuition and fees (net of scholarship allowances of \$13,374,000 and \$10,986,000)	\$ 42,100,000	\$ 38,165,000
Federal grants and contracts	75,658,000	68,187,000
State grants and contracts	13,308,000	10,966,000
Local grants and contracts	13,121,000	11,880,000
Other grants and contracts	9,785,000	8,923,000
Sales & services of educational departments	30,555,000	29,050,000
Sales and Services of auxiliary enterprises (net of scholarship allowances of \$3,000,000 and \$2,873,000)	22,852,000	21,410,000
Other operating revenues	1,886,000	1,190,000
Interest earned on loans receivable	112,000	109,000
Total operating revenues	<u>209,377,000</u>	<u>189,880,000</u>
<i>Operating Expenses</i>		
Employee compensation and benefits	240,367,000	218,371,000
Utilities	7,333,000	6,023,000
Supplies and services	85,110,000	87,239,000
Scholarships and fellowships	8,729,000	7,674,000
Depreciation	19,468,000	21,283,000
Total operating expenses	<u>361,007,000</u>	<u>340,590,000</u>
Operating loss	<u>(151,630,000)</u>	<u>(150,710,000)</u>
<i>Nonoperating Revenue (Expenses)</i>		
State appropriations	128,306,000	126,606,000
Transfers from System Administration	5,623,000	8,522,000
Gifts	10,706,000	9,666,000
Investment income (loss), net	5,684,000	(3,353,000)
Disposal of plant assets	(4,812,000)	(163,000)
Interest on capital asset-related debt	(4,557,000)	(3,671,000)
Other non-operating revenues (expenses), net	3,421,000	(1,119,000)
Net non-operating revenues	<u>144,371,000</u>	<u>136,488,000</u>
Loss before other revenue, expenses, gains or losses	<u>(7,259,000)</u>	<u>(14,222,000)</u>
State appropriations restricted for capital purposes	-	34,351,000
Capital grants and gifts	126,000	2,382,000
Additions to permanent endowments	172,000	1,035,000
Total other revenues	<u>298,000</u>	<u>37,768,000</u>
Increase (decrease) in net assets	(6,961,000)	23,546,000
<u>NET ASSETS</u>		
Net assets – beginning of year	<u>396,818,000</u>	<u>373,272,000</u>
Net assets - end of year	<u>\$ 389,857,000</u>	<u>\$ 396,818,000</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, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Tuition and fees	\$ 42,932,000	\$ 38,140,000
Grants and contracts	114,145,000	98,895,000
Payments to suppliers	(85,611,000)	(85,976,000)
Payments to utilities	(7,287,000)	(5,953,000)
Payments for compensation and benefits	(239,065,000)	(216,417,000)
Payments for scholarships and fellowships	(8,733,000)	(7,676,000)
Loans issued to students and employees	(1,341,000)	(1,220,000)
Collection of loans to students and employees	1,559,000	1,063,000
Sales and services of auxiliary enterprises	22,302,000	21,734,000
Sales and services of educational departments	29,728,000	29,125,000
Other receipts	1,987,000	1,033,000
Net cash used by operation activities	<u>(129,384,000)</u>	<u>(127,252,000)</u>
Cash flows from noncapital financing activities		
State appropriations	129,863,000	125,520,000
Transfers from System Administration	5,900,000	8,244,000
Gifts and grants fro other than capital purposes	10,719,000	10,577,000
Gifts for endowment purposes	172,000	870,000
Other	(172,000)	(157,000)
Agency transactions	1,433,000	(1,292,000)
Receipts under federal student loan programs	18,460,000	17,847,000
Disbursements under federal student loan programs	(18,460,000)	(17,847,000)
Net cash provided by noncapital financing activities	<u>147,915,000</u>	<u>143,762,000</u>
Cash flows from capita financing activities		
Proceeds from capital debt	58,604,000	31,356,000
Payment of bond issuance costs	(250,000)	(410,000)
Capital appropriations	1,234,000	13,319,000
Capital grants and gifts received	-	2,187,000
Purchases of capital assets	(28,465,000)	(20,859,000)
Principal paid on capita debt and leases	(12,934,000)	(29,028,000)
Interest paid on capital debt and leases	(4,145,000)	(5,426,000)
Other	1,142,000	-
Net cash provided (used) by capital financing activities	<u>15,186,000</u>	<u>(8,861,000)</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	25,465,000	35,917,000
Purchase of investments	(36,677,000)	(40,269,000)
Interest and dividends on investments	4,375,000	4,185,000
Net decrease (increase) in cash equivalents, noncurrent investments	708,000	(1,045,000)
Net cash used by investing activities	<u>(6,129,000)</u>	<u>(1,212,000)</u>
Net increase in cash and cash equivalents	27,588,000	6,437,000
Cash and cash equivalents – beginning of the year	22,518,000	16,081,000
Cash and cash equivalents – end of the year	<u>\$ 50,106,000</u>	<u>\$ 22,518,000</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, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Reconciliation of net operating loss to		
Net cash used by operating activities		
Operating loss	\$ (151,630,000)	\$ (150,710,000)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	19,468,000	21,283,000
Changes in assets and liabilities:		
Accounts receivable, net	1,268,000	(2,041,000)
Loans receivable	340,000	(196,000)
Inventories	(604,000)	173,000
Deferred expenditures and deposits	(55,000)	(98,000)
Accounts payable	153,000	1,224,000
Accrued payroll and related liabilities	818,000	606,000
Accrued unemployment and workers' compensation insurance	(86,000)	(159,000)
Refundable advances under federal loan programs	17,000	40,000
Deferred revenue	382,000	1,117,000
Compensated absences	545,000	1,509,000
Net cash used by operating activities	<u>\$ (129,384,000)</u>	<u>\$ (127,252,000)</u>

Non-cash transactions

Capital assets acquired by incurring capital lease obligations	<u>\$ -</u>	<u>\$ 455,000</u>
Loss on disposal of capital assets	<u>\$ 4,812,000</u>	<u>\$ 163,000</u>
Capital assets acquired by gift	<u>\$ 126,000</u>	<u>\$ 198,000</u>
Capital assets transferred from the State of Nevada	<u>\$ 2,267,000</u>	<u>\$ -</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, 2003 AND 2002

NOTE 1 -- ORGANIZATION:

The accompanying financial statements include the accounts of all University of Nevada, Reno (the "university") operations. The university is one of nine 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
- Nevada State College at Henderson
- 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 for student scholarships, general academic support and program support to intercollegiate athletics. These organizations contributed a total of approximately \$8,365,000 and \$6,355,000 to the university during the years ended June 30, 2003 and 2002, 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*.

Statement No. 35 establishes a fundamentally new financial reporting model for all public colleges and universities. The financial statements required by Statement No. 35 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.

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

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

Basis of Presentation (continued):

The university has also adopted GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. 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.

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 incurred. 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, 2003 AND 2002

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, 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, 2003 and 2002. The university's share of such amounts released from restriction for the years ended June 30, 2003 and 2002 was \$7,311,000 and \$7,049,000, 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, 2003 and 2002 totaled \$2,677,000 and \$2,593,000, respectively.

**UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

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, 2003, the date of the most recently available financial information, campus foundations and medical school practice plans net assets exceeded \$76 million.

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. Statement No. 40 modifies or eliminates certain disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*. The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004.

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>2003</u>	<u>2002</u>
Mutual funds	60%	63%
Bonds	1%	1%
Stocks	6%	7%
Private equity partnerships	17%	20%
Other investments	16%	9%

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

NOTE 4 -- INVESTMENTS (continued):

Mutual funds consist of investments in shares of mutual funds with six 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>2003</u>	<u>2002</u>
Stocks	34%	33%
U.S. Government bonds	35%	30%
Corporate bonds	5%	8%
International securities	17%	22%
Cash and equivalents	9%	7%

As of June 30, 2003, 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 \$16,597,000.

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 accordance with this policy, during the year ended June 30, 2003, System Administration retained \$1,688,000 of investment income from the university's operating fund investments. During the year ended June 30, 2002 System Administration distributed to the university \$1,473,000 in excess of investment income from the university's operating fund investments. Such amounts are included in Transfers 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 agents.

NOTE 5 -- ENDOWMENT FUNDS:

At June 30, 2003 and 2002 approximately \$77,044,000 and \$77,934,000, 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>2003</u>	<u>2002</u>
Mutual funds	68%	71%
Stocks	10%	11%
Private equity partnerships	21%	17%
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, 2003 and 2002 were \$351.68 and \$356.55, 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, 2003 and 2002, 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, \$16.41 and \$15.63 was distributed to each time-weighted unit for a total distribution to the university of \$3,593,000 and \$3,379,000 during the years ended June 30, 2003 and 2002, 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, 2003 AND 2002

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

The loans receivable and corresponding allowance for uncollectible loans balances as of June 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Loans receivable	\$6,167,000	\$6,379,000
Less: Allowance for doubtful loans	<u>(191,000)</u>	<u>(63,000)</u>
Net loans receivable	5,976,000	6,316,000
Less: current portion	<u>(1,068,000)</u>	<u>(911,000)</u>
Noncurrent loans receivable	<u>\$ 4,908,000</u>	<u>\$ 5,405,000</u>

NOTE 7 -- CAPITAL ASSETS:

Capital asset activity for the years ended June 30, 2003 and 2002 was as follows:

	<u>2003</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	\$ 28,818,000	\$ 216,000	\$ -	\$ 29,034,000
Construction in progress	6,108,000	14,950,000	-	21,058,000
Collections	<u>859,000</u>	<u>101,000</u>	-	<u>960,000</u>
Total capital assets not being depreciated	<u>35,785,000</u>	<u>15,267,000</u>	<u>-</u>	<u>51,052,000</u>
Capital assets being depreciated:				
Land improvements	25,434,000	1,583,000	-	27,017,000
Buildings	332,066,000	966,000	(4,162,000)	328,870,000
Equipment	85,756,000	11,020,000	(6,311,000)	90,465,000
Library books and media	<u>15,620,000</u>	<u>2,022,000</u>	<u>(2,820,000)</u>	<u>14,822,000</u>
Total capital assets being depreciated	<u>458,876,000</u>	<u>15,591,000</u>	<u>(13,293,000)</u>	<u>461,174,000</u>
Less accumulated depreciation for:				
Land improvements	(15,779,000)	(1,203,000)	-	(16,982,000)
Buildings	(110,860,000)	(7,161,000)	424,000	(117,597,000)
Equipment	(60,851,000)	(7,583,000)	5,237,000	(63,197,000)
Library books and media	<u>(7,829,000)</u>	<u>(3,521,000)</u>	<u>2,820,000</u>	<u>(8,530,000)</u>
Total accumulated depreciation	<u>(195,319,000)</u>	<u>(19,468,000)</u>	<u>8,481,000</u>	<u>(206,306,000)</u>
Total capital assets being depreciated, net	<u>263,557,000</u>	<u>(3,877,000)</u>	<u>(4,812,000)</u>	<u>254,868,000</u>
Capital assets, net	<u>\$299,342,000</u>	<u>\$11,390,000</u>	<u>(\$ 4,812,000)</u>	<u>\$305,920,000</u>

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

NOTE 7 – CAPITAL ASSETS (continued):

	<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>

The estimated cost to complete property authorized or under construction at June 30, 2003 and 2002 is \$109,334,000 and \$94,495,000, 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, 2003 AND 2002

NOTE 8 -- LONG-TERM DEBT:

Long-term debt at June 30, 2003 and 2002 consists of the following:

BONDS	Annual Interest Rate	Fiscal Year Final Payment Due	<u>2003</u>			Ending Balance	Current
			Beginning Balance	Additions	Reductions		
Universities Refunding Revenue Bonds, Series January 1, 1994	4.00% to 5.60%	Refunded 2003	\$10,705,000	\$ -	(\$10,215,000)	\$490,000	\$490,000
Universities Revenue Bonds, Series September 1, 1995	3.95% to 5.25%	2011	950,000	-	(85,000)	865,000	90,000
Universities Refunding Revenue Bonds, Series January 1, 1997	4.50% to 6.00%	2007	4,281,000	-	(870,000)	3,411,000	907,000
Universities Revenue Bonds, Series September 1, 1998	4.00% to 5.25%	2014	1,700,000	-	(110,000)	1,590,000	115,000
Universities Revenue Bonds, Series January 1, 2000	5.10% to 5.88%	2021	14,500,000	-	(120,000)	14,380,000	145,000
Universities Revenue Bonds, Series 2002A	3.87% to 5.4%	2032	31,000,000	-	-	31,000,000	-
Universities Revenue Bonds, Series 2002B & C	4.0% to 5.5 %	2032	-	19,055,000	-	19,055,000	-
Universities Refunding Revenue Bonds, Series 2003A	2.0% to 4.25%	2016	-	7,979,000	-	7,979,000	-
Universities Revenue Bonds, Series 2003B	2.0% to 5.0%	2034	-	28,750,000	-	28,750,000	-
Total Bonds Payable			63,136,000	55,784,000	(11,400,000)	107,520,000	1,747,000
Premiums			-	820,000	-	820,000	-
Notes Payable			10,034,000	2,000,000	(1,452,000)	10,582,000	1,062,000
TOTAL			\$73,170,000	\$58,604,000	(\$12,852,000)	\$118,922,000	\$2,809,000

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

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

BONDS	Annual		Fiscal Year		Beginning Balance	Additions	Reductions	Ending Balance	Current
	Interest Rate	Final Payment Due	Beginning Balance	Final Payment Due					
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	

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>
2004	2,809,000	5,088,000
2005	6,367,000	5,497,000
2006	3,543,000	5,306,000
2007	4,488,000	5,139,000
2008	4,160,000	4,846,000
2009-2013	19,746,000	21,828,000
2014-2018	17,424,000	17,287,000
2019-2023	18,155,000	12,600,000
2024-2028	18,550,000	8,121,000
2029-2033	21,380,000	2,902,000
2034	<u>2,300,000</u>	<u>40,000</u>
	<u>\$118,922,000</u>	<u>\$88,654,000</u>

UNIVERSITY OF NEVADA, RENO
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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 reductions for fiscal year 2002 related to the fire science academy in Carlin, Nevada. 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, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	\$414,000	\$ -	\$ (82,000)	\$332,000	\$87,000

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

The following capital assets included in the accompanying financial statements were leased under capital leases as of June 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Machinery and equipment	\$ 605,000	\$ 605,000
Less accumulated depreciation	<u>(173,000)</u>	<u>(30,000)</u>
Total	<u>\$ 432,000</u>	<u>\$ 575,000</u>

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

2004	\$107,000
2005	107,000
2006	107,000
2007	<u>53,000</u>
Total minimum lease payments	374,000
Less amount representing interest	<u>(42,000)</u>
Obligations under capital leases	<u>\$332,000</u>

Total interest expense under capital leases included in the accompanying financial statements was \$25,000 and \$840,000 during the years ended June 30, 2003 and 2002, respectively.

NOTE 10 – EXTINGUISHMENT OF DEBT:

At June 30, 2003, debt in the amount of \$8,677,000 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 in the financial statements.

NOTE 11 – OTHER NONCURRENT LIABILITIES ACTIVITY:

The activity with respect to other noncurrent liabilities for the year ended June 30, 2003 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	\$ 4,631,000	\$ 159,000	(\$ 142,000)	4,648,000	\$ -
Compensated absences	12,495,000	8,434,000	(7,889,000)	13,040,000	8,258,000
Deferred revenue	<u>8,182,000</u>	<u>8,564,000</u>	<u>(8,182,000)</u>	<u>8,564,000</u>	<u>8,564,000</u>
Total	<u>\$25,308,000</u>	<u>\$17,157,000</u>	<u>(\$16,213,000)</u>	<u>\$ 26,252,000</u>	<u>\$ 16,822,000</u>

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NOTE 11 -- OTHER NONCURRENT LIABILITIES ACTIVITY (continued):

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>

NOTE 12 -- 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 years ended June 30, 2003, 2002 and 2001 was approximately \$18,088,000, \$16,626,000 and \$15,276,000, respectively, equal to the required contribution for the year.

NOTE 13 -- 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.

UNIVERSITY OF NEVADA, RENO
NOTES TO FINANCIAL STATEMENTS
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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 years ended June 30:

	<u>2003</u>	<u>2002</u>
Instruction	\$131,302,000	\$124,001,000
Research	54,272,000	44,345,000
Public Service	32,789,000	32,598,000
Academic support	24,521,000	21,013,000
Institutional support	22,871,000	22,550,000
Student services	18,463,000	16,932,000
Operation and maintenance of plant	23,271,000	25,432,000
Scholarships and fellowships	8,729,000	7,674,000
Auxiliary enterprises	25,321,000	24,762,000
Depreciation	<u>19,468,000</u>	<u>21,283,000</u>
Total	<u>\$361,007,000</u>	<u>\$340,590,000</u>