

University of Nevada, Reno  
Financial Statements

As of and for the Year Ended  
June 30, 2004

**University of Nevada, Reno**  
**Financial Statements and Report of Independent Auditors**  
**As of and for the Year Ended June 30, 2004**

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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 year that ended June 30, 2004. 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.

### **Reporting Entity**

The financial statements report information about the University as a whole using accounting methods similar to those used by private sector companies. For the first time the University financial statements for fiscal 2004 include financial reporting for the university together with two related organizations determined to be component units based on the following criteria:

- the economic resources received by these organizations are significant to the University,
- the economic resources received by these organizations are held entirely for the benefit of the University, and
- the University has the ability to access a majority of the economic resources received or held by these organizations.

The two component units are the University of Nevada, Reno Foundation (the "foundation"), and the Practice Plan organizations of the University of Nevada School of Medicine, (the "practice plans"). Descriptions of these entities are provided in the footnotes to the financial statements.

### **Financial Highlights**

#### **University**

- Assets increased by \$53 million, primarily due to an increase of \$23.3 million in investments and an increase in capital assets of \$33.7 million.
- Liabilities increased by \$8.5 million due primarily to increases in accounts payable of \$3.1 million and obligations under capital lease of \$5.2 million.
- Total net assets increased by \$44.4 million.

#### **Component Units**

##### Foundation

- Assets increased by \$11.7 million
- Liabilities increased by \$1.7 million.
- Total net assets increased by \$10 million

##### Practice Plans

- Assets increased by \$2.7 million.
- Liabilities decreased by \$463,000
- Net assets increased by \$3.1 million

### **Using This Report**

This report consists of a set of financial statements, prepared in accordance with the Governmental Accounting Standards Board principles.

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) 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. Net assets are further broken into three categories; Invested in capital asset, net of debt, restricted and unrestricted.

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 nonoperating. 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, noncapital financing, capital financing and investing activities.

The footnotes provide additional information that is essential to understanding the information provided in the financial statements. The notes to the financial statements can be found at the end of the financial report.

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Current and other assets	\$271,416	\$252,276	\$19,140	7.59
Capital assets, net	<u>339,683</u>	<u>305,920</u>	<u>33,763</u>	11.04
Total assets	<u>611,099</u>	<u>558,196</u>	<u>52,903</u>	9.48
Current liabilities	47,814	42,551	5,263	12.00
Non-current liabilities	<u>128,991</u>	<u>125,788</u>	<u>3,203</u>	2.55
Total liabilities	<u>176,805</u>	<u>168,339</u>	<u>8,466</u>	5.03
 Net Assets:				
Invested in capital assets, net of related debt	237,036	221,789	15,247	6.87
Restricted				
Nonexpendable	37,396	35,715	1,681	4.71
Expendable	97,092	77,758	19,334	24.86
Unrestricted	<u>62,770</u>	<u>54,595</u>	<u>8,175</u>	14.97
Total net assets	<u><u>\$434,294</u></u>	<u><u>\$389,857</u></u>	<u><u>\$44,437</u></u>	11.40

### **Changes in Net Assets**

At the end of fiscal year (FY) 2004 total assets were \$611.1 million. The university's largest asset is its investment in capital assets of \$339.7 million. Capital assets increased by \$33.7 million, primarily due to additions to equipment and construction in progress consisting of a parking facility and energy retrofit projects. Endowment investments, the second largest asset category, increased by \$12.1 million, or 14.08%, as a result primarily of an increase in the fair market value of investments.

Cash and Cash Equivalents and Cash Held by State Treasurer decreased by \$8.1 million, or 16.2%. The decrease was due primarily to the increase in expenditures for capital assets during the year.

University liabilities were \$176.8 million at the end of FY 2004. The largest liability was long term debt, consisting of bonds and notes payable of \$117.9 million. Liabilities increased by \$8.5 million due to an increase in accounts payable of \$3.1 million and an increase in obligations under capital lease of \$5.2 million. Accounts payable increased due to spending from increased state appropriations and significant increases in payables for capital projects. New capital leases were obtained to finance energy retrofit projects which replaced old boilers, chillers and lighting fixtures with more energy efficient models in order to reduce future utility costs.

The university's current assets of \$149.5 million (included in current and other assets above) appear to be sufficient to cover current liabilities of \$47.8 million, as the current ratio was 3.2 dollars in current assets to every one dollar in current liabilities.

### **Restricted, Non-expendable and 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.

The value of the university endowment increased by \$12.1 million as a result of gifts of \$1.1 million for endowment additions and an increase in market value of \$11 million. Sixty percent of income from endowments was used to support student scholarships with the remaining income used to support university, college or program 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 for capital projects.

### **Invested in Capital Assets**

Invested in capital assets, net of related debt represents the historical cost of property and equipment, reduced by the balance of related debt outstanding and depreciation expense charged over the years. Net assets invested in capital assets increased by \$15.2 million due to a \$33.7 million net increase in capital assets, a \$14.3 million decrease in unexpended bond proceeds, and a \$4.2 million increase in capital asset related debt.

**Component Units**  
**Condensed Statements of Net Assets**  
**For the years ended June 30, 2004 and 2003**  
(in thousands of dollars)

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Current and other assets	\$104,857	\$89,846	\$15,011	16.71
Capital assets, net	<u>2,044</u>	<u>2,589</u>	<u>( 545)</u>	<u>( 21.05)</u>
Total assets	<u>106,901</u>	<u>92,435</u>	<u>14,466</u>	<u>15.65</u>
Current liabilities	3,884	4,480	( 596)	( 13.30)
Non-current liabilities	<u>9,471</u>	<u>7,537</u>	<u>1,934</u>	<u>25.66</u>
Total liabilities	<u>13,355</u>	<u>12,017</u>	<u>1,338</u>	<u>11.13</u>
 Net Assets:				
Invested in capital assets, net of related debt	2,046	1,953	93	4.76
Restricted				
Nonexpendable	55,608	22,376	33,232	148.52
Expendable	19,067	45,150	(26,083)	( 57.77)
Unrestricted	<u>16,825</u>	<u>10,939</u>	<u>5,886</u>	<u>53.81</u>
Total net assets	<u>\$ 93,546</u>	<u>\$80,418</u>	<u>\$13,128</u>	<u>16.32</u>

**Changes in Net Assets**

- Assets increased by \$14.4 million due to increases in cash and investments from gift revenue, increases in market value of investments and increases in patient receivables from the state and private pay patients.
- Liabilities increased by \$1.7 million primarily due to unearned revenue related to several conditional gifts related to the Knowledge Center.

**University****Condensed Statements of Revenues, Expenses and Changes in Net Assets****For the Year Ended June 30, 2004**

(in thousands of dollars)

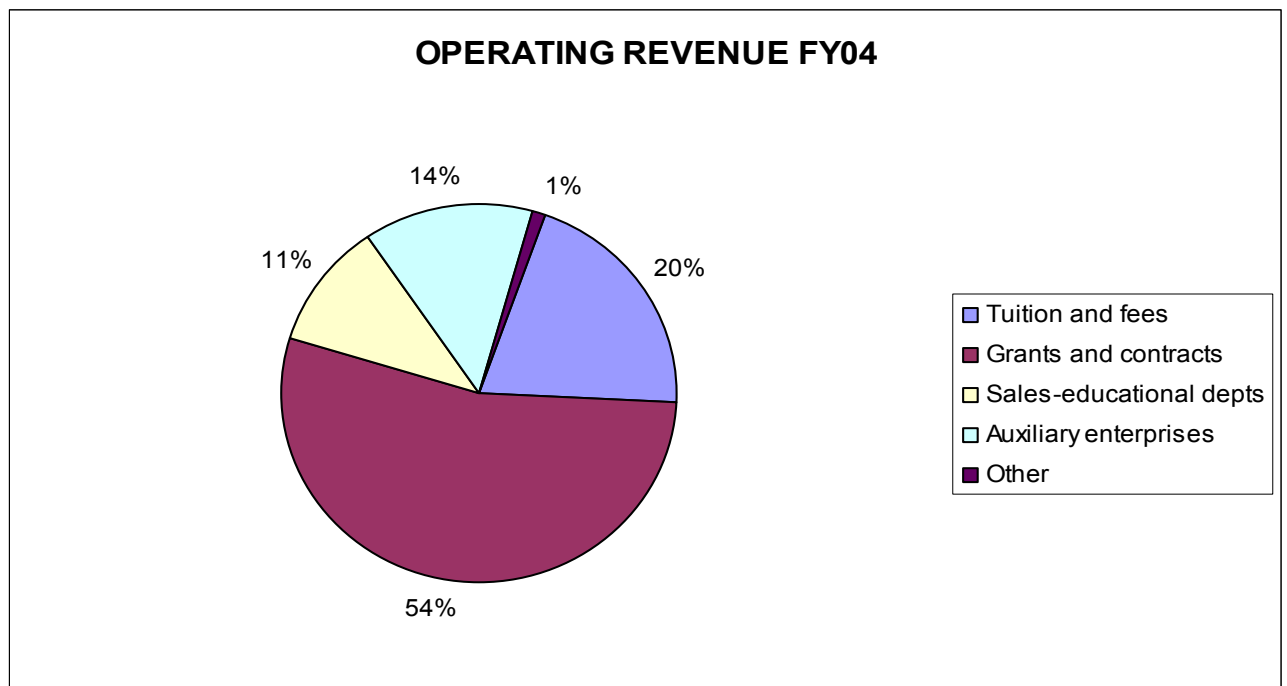
	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Tuition and fees	\$ 46,886	\$ 42,100	\$ 4,786	11.37
Grants & contracts	118,802	111,872	6,930	6.19
Sales and service of educational depts.	32,137	22,852	9,285	40.63
Sales and service of auxiliary enterprises	25,149	30,555	( 5,406)	( 17.69)
Other	<u>1,273</u>	<u>1,998</u>	<u>( 725)</u>	<u>( 36.29)</u>
Total operating revenues	224,247	209,377	14,870	7.10
 Operating Expenses	 <u>395,335</u>	 <u>361,007</u>	 <u>34,328</u>	 9.51
 Operating loss	 <u>( 171,088)</u>	 <u>( 151,630)</u>	 <u>( 19,458)</u>	 12.83
 Nonoperating Revenue (Expenses)				
State appropriations	166,022	128,306	37,716	29.40
Transfers (to) from System Admin	(3,143)	5,623	( 8,766)	( 155.90)
Gifts	10,138	10,706	( 568)	( 5.31)
Investment income	21,197	5,684	15,513	272.92
Other	<u>( 6,979)</u>	<u>( 5,948)</u>	<u>( 1,031)</u>	<u>17.33</u>
Net nonoperating revenues	187,235	144,371	42,864	29.69
 Income (loss) before other revenue, expenses, gains or losses	 <u>16,147</u>	 <u>( 7,259)</u>	 <u>23,406</u>	 322.44
 Capital appropriations	 14,177	 -	 14,177	
Capital grants and gifts	12,969	126	12,843	10,192.86
Additions to endowments	<u>1,144</u>	<u>172</u>	<u>972</u>	565.12
Total other revenues	28,290	298	27,992	9,393.29
 Increase in net assets	 44,437	 ( 6,961)	 51,398	 738.37
Net assets, beginning of year	<u>389,857</u>	<u>396,818</u>	<u>( 6,961)</u>	<u>( 1.75)</u>
Net assets, end of year	<u>\$434,294</u>	<u>\$389,857</u>	<u>\$44,437</u>	11.40

This statement reflects the effect of operations on net assets. The statement is broken down into three categories: Operating, Nonoperating and Other.

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. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the university without the Legislature directly receiving commensurate goods and services for those revenues.

### Operating revenues

Total operating revenues for fiscal 2004 were \$224,247,000. The most significant sources for the University are tuition and fees and grants and contracts. The chart below displays operating revenues by source for the University in FY2004.

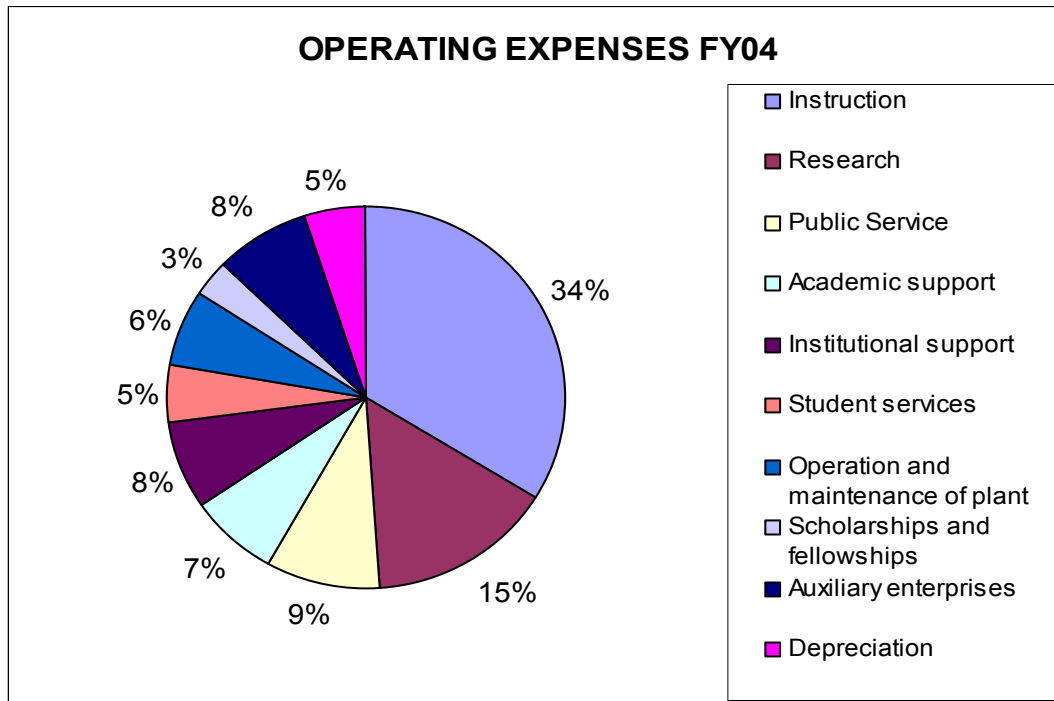


Operating revenues increased by 7.1% in FY2004. Operating revenue increases included:

- Tuition and fees increased as a result of increases in tuition and fee rates and increases in enrollment in undergraduate, graduate, University Studies Abroad and summer school courses.
- Auxiliary and educational sales increased due to new housing and dining facilities that opened for the Fall 2003 semester, several large concerts held at the events center on campus, and increased ticket sales and conference revenue received by Intercollegiate Athletics.

## Operating Expenses

University operating expenses including depreciation totaled \$395.3 million in FY2004. The chart below displays fiscal year 2004 operating spending.



Operating expenses increased \$34.3 million, including the following changes:

- Employee compensation and benefits increased by \$7.4 million. All eligible faculty and staff received merit and cost of living increases in fiscal year 2004. The cost of health insurance increased by 28.9% from fiscal 2003 to fiscal 2004.
- Supplies and services expenses increased by \$23.2 million due to increased state appropriations and grants and contracts activity, increases in auxiliary expenses for the new dorm and dining commons and increased spending for technology to support student and academic needs.

## Grants and Contracts

University grant and contract revenue grew approximately 6% in fiscal year 2004 to nearly \$119 million. Sources of grant and contract funding were 68% from the federal government, 12% from local governments (primarily Washoe and Clark counties), 13% from the State of Nevada and 7% from private sources (private foundations and other charitable organizations). Grants and contracts activities were 50% research, 24% instruction, 20% public service, 5% scholarships and 1% student services.

## Nonoperating revenues and expenses

University nonoperating revenues grew by \$42.9 million or 30.9% due primarily to a \$37.7 million increase in state appropriation, and a \$15.5 million increase in investment income due to improved investment performance. These increases were offset by an increase in transfers to System Administration for operating pool investment income funds retained by the System and a decrease in other income.

The increase in capital appropriations reflects funds appropriated by the 2003 legislature for 2004-2005 biennial projects. Capital appropriations are recorded in the first year of a new biennial budget.

Capital gifts increased due to significant gift funds received for the Knowledge Center.

### **Component Units**

#### **Condensed Statements of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2004**

(in thousands of dollars)

Operating Revenues	
Contributions	\$15,389
University support	1,313
Special events and other income	515
Net patient service revenue	38,207
Contract revenue	6,101
Total operating revenues	<u>61,525</u>
Operating Expenses	<u>45,635</u>
Operating income	<u>15,890</u>
Nonoperating Revenue (Expenses)	
Investment income	10,037
Payments to University	(18,527)
Other nonoperating revenues, net	3,231
Net nonoperating expenses	<u>( 5,259)</u>
Income before other revenue, expenses, gains or losses	<u>10,631</u>
Other revenue, expenses, gains or losses	
Additions to permanent endowments	<u>2,497</u>
Total other revenues	<u>2,497</u>
Increase in Net Assets	13,128
Net assets, beginning of year	<u>80,418</u>
Net assets, end of year	<u><u>\$93,546</u></u>

Comparative numbers for fiscal 2003 are not presented for the component units' Statement of Revenues, Expenses and Changes in Net Assets as fiscal year 2003 audited numbers are not available for the practice plans.

Contributions to the foundation increased by \$6 million or 65% in FY04. A significant portion of the increase was for the Knowledge Center to be built on the University campus. Expenses for the foundation increased by \$8.8 million, the majority of which was for the construction of the Redfield Campus and the Knowledge Center. Expenses also increased related to increases in staffing levels and fundraising activity.

## Statement of Cash Flows

**University of Nevada, Reno**  
**Condensed Statements of Cash Flows**  
**For the Year Ended June 30, 2004**  
(in thousands of dollars)

	<u>University</u>
Cash used by :	
Operating activities	(\$152,045)
Noncapital financing activities	172,982
Capital financing activities	( 26,755)
Investing activities	<u>( 2,276)</u>
Net decrease in cash and cash equivalents	( 8,094)
Cash and cash equivalents, beginning of the year	<u>50,106</u>
Cash and cash equivalents, end of the year	<u><u>\$ 42,012</u></u>

For the year ending June 30, 2004 the major sources of funds included in operating activities were student tuition and fees (\$47.9 million) and grants and contracts (\$116.1 million). The largest operating activities were payments for compensation and benefits (\$248.8 million) and to suppliers (\$105.7 million).

The largest inflow of cash in the noncapital financing activities group is the state appropriation of \$165.6 million. Cash used for capital financing activities in FY04 was for the acquisition of capital assets and the payment of principal and interest on capital debt and leases.

### Capital Assets and Debt Administration

At June 30, 2004, the university had capital assets of \$339.7 million, net of accumulated depreciation, in a broad range of capital assets, including equipment, buildings, library books and media, collections, construction in progress and land. During FY 2004 there were capital asset additions of \$55.3 million, capital asset disposals of \$9.4 million and current year net depreciation of \$12.2 million which resulted in a net increase to capital assets of \$33.7 million, or 11%.

In the fall of 2003 the University opened phase two of a new dormitory that houses an additional 259 students and a new 39,000 square foot dining facility. Construction was begun on a new \$28.5 million parking complex that will add 1,950 parking spaces on campus.

The 2003 legislature appropriated \$14.5 million for capital projects for the 2004-2005 biennium. The capital projects funding included \$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. This property was acquired in October 2003. Other capital projects funding included \$2.6 million planning funds for the 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, currently in the planning phase.

The university plans to break ground in the Spring of 2005 on an \$86 million, 295,000 square foot, Knowledge Center which will replace the current 42 year old library. The project will be the largest public building in the history of the state. Funding for the project will come from state capital appropriations, revenue bonds and gifts.

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 \$93.9 million for FY 2004 and the combined maximum annual debt service was \$20.2 million, for a debt service coverage of 4.63 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.

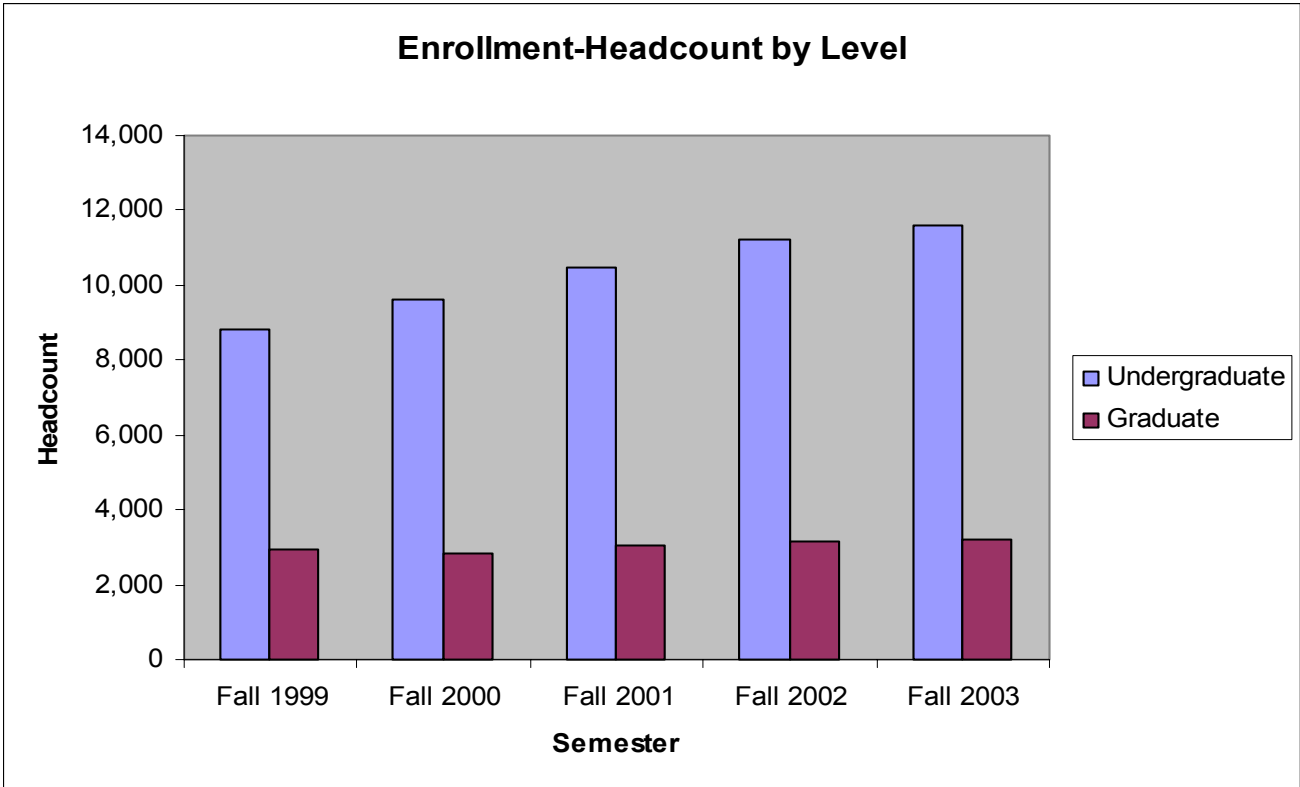
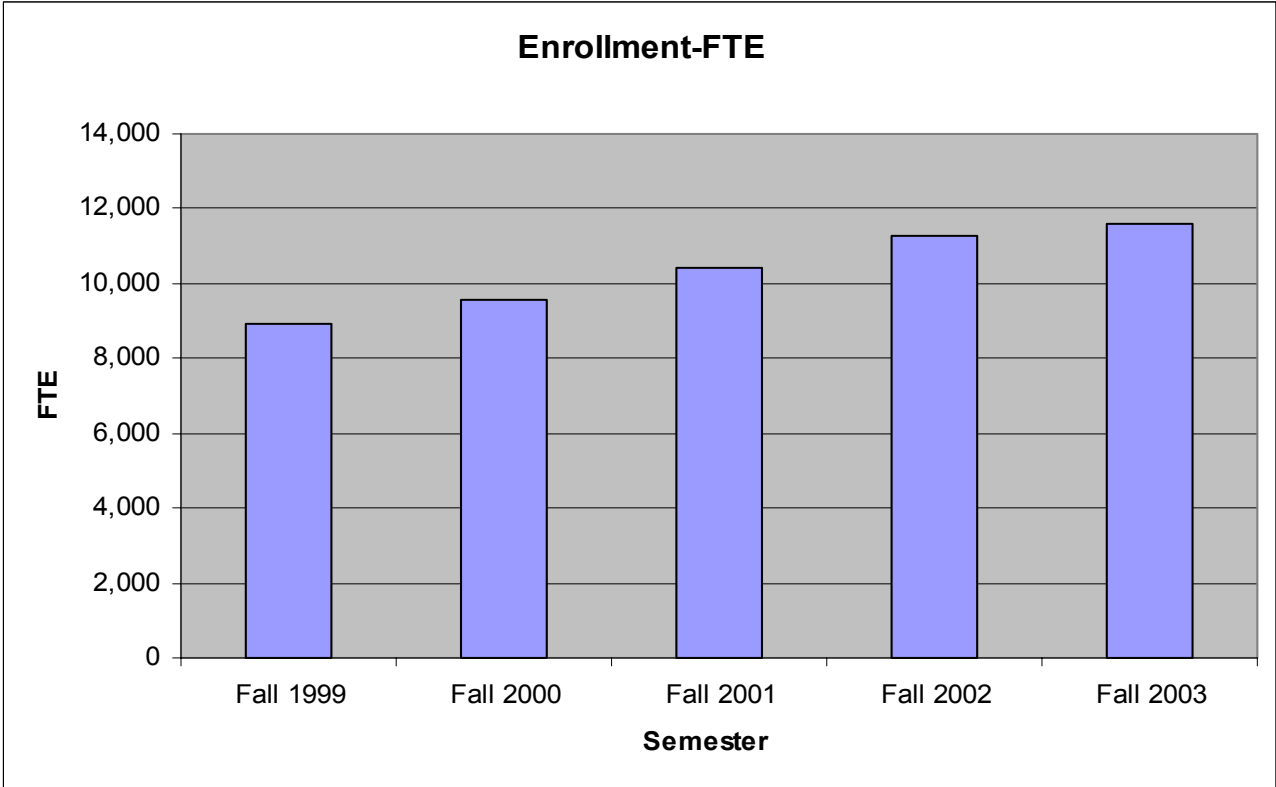
During FY 2004 the university secured a \$4.6 million bank loan to fund improvements to the athletic facilities on campus. The University also refinanced \$4.2 million of notes payable and obtained \$5.3 million of new financing through capital leases to continue energy retrofit projects to reduce energy consumption in future years. These projects included replacement of the central heat plant boiler, replacement of several chillers and improvements to interior and exterior lighting. Payments for this debt will be made from savings from reduced energy consumption and operating costs.

### **Enrollment and Admissions**

Admission to the university is open to residents and non-residents of the State on a competitive basis. For the fall 2003 semester, Nevada residents accounted for 79.9% 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. The first full class of graduating Millennium Scholarship recipients graduated in May 2004.

The university's enrollment growth patterns have stabilized over the past two years. The institution experienced significant growth, approximately 8% per year, during the "ramp up" phase of the Millennium Scholarship. Now, with four years of Millennium Scholars, the university enrollment has returned to more normal patterns, with enrollment increases of approximately 3% annually.



## Looking Ahead

State funding for the primary instruction appropriation of the university is based on the funding formulas established by the Nevada Legislature. The formulas were funded at 84.45% for fiscal year 2003-04 and 84.09% in fiscal year 2004-05. 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.

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 7.0% for the fall 2004 and 7.7% for fall 2005. Increased tuition will generate additional funds for operating and capital improvements over the next biennium.

The university's 2004-05 operating budget for State appropriation and authorized expenditures (the "State Supported Operating Budget") totals \$216.5 million. This budget represents a 6.1% increase in the authorized funding level as compared to the \$202.8 million budget for FY 2004. State appropriations for FY 2005 total \$169.3 million, representing 78.2% of the State Supported Operating Budget. This compares to \$160.1 million budgeted for fiscal year 2004 and represents a 5.7% increase. Other budgeted revenue sources, including student fees, non-resident tuition, federal and county funds, indirect cost recovery, investment income, recharge credits, 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.

## 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 Auditors**

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

In our opinion, based on our audits and the reports of other auditors, the statements of net assets and the related statements of revenues, expenses and changes in net assets of the University of Nevada, Reno (the "University") and its aggregate discretely presented component units, and the statement of cash flows of the University, which collectively comprise the financial statements of the University, present fairly, in all material respects, the respective financial position of the University and its aggregate discretely presented component units at June 30, 2004, and the respective revenues, expenses and changes in net assets, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Nevada, Reno Foundation, which represents 84 percent, 85 percent and 28 percent, respectively, of the assets, net assets, and operating revenues of the aggregate discretely presented component units under the caption "Component Units" in the accompanying financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of Nevada, Reno Foundation, is based on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

*PricewaterhouseCoopers LLP*

October 1, 2004

**STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2004**

	<u>ASSETS</u>	<u>University</u>	<u>Component Units</u>
<i>Current Assets</i>			
Cash and cash equivalents	\$ 24,360,000		\$ 27,903,000
Restricted cash	864,000		-
Short-term investments	70,202,000		7,795,000
Accounts receivable	11,736,000		772,000
Patient accounts receivable, net of estimated uncollectibles of \$1,065,000	-		6,377,000
Current portion of pledges receivable, net	-		1,768,000
Current portion of notes receivable	-		14,000
Receivable from U.S. Government	17,090,000		-
Receivable from State of Nevada	20,245,000		-
Current portion of loans receivable, net	1,357,000		-
Inventories	2,757,000		-
Current portion of deferred expenditures	905,000		-
Other current assets	-		158,000
Total current assets	<u>149,516,000</u>		<u>44,787,000</u>
<i>Noncurrent Assets</i>			
Cash held by State Treasurer	16,788,000		-
Endowment investments	98,553,000		54,759,000
Loans receivable, net of allowance of \$217,000	5,174,000		-
Pledges receivable, net	-		3,822,000
Notes receivable	-		287,000
Residual interest-irrevocable trusts	-		263,000
Deferred expenditures	1,385,000		-
Real property	-		567,000
Other noncurrent assets	-		372,000
Capital assets, net	339,683,000		2,044,000
Total noncurrent assets	<u>461,583,000</u>		<u>62,114,000</u>
<b>TOTAL ASSETS</b>	<u>611,099,000</u>		<u>106,901,000</u>
 <b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts payable	13,318,000		1,292,000
Accrued payroll and related liabilities	6,303,000		1,037,000
Current portion of compensated absences	8,551,000		-
Current portion of deferred revenue	10,335,000		-
Current portion of long term debt	3,628,000		586,000
Current portion of obligations under capital leases	364,000		168,000
Accrued interest payable	2,875,000		-
Funds held in trust for others	1,750,000		-
Due to the University	-		728,000
Accrued expenses	-		73,000
Unemployment insurance and worker's compensation liability	690,000		-
Total current liabilities	<u>47,814,000</u>		<u>3,884,000</u>
<i>Noncurrent Liabilities</i>			
Refundable advances under federal loan programs	4,709,000		-
Compensated absences	4,810,000		-
Deferred revenue	-		7,757,000
Long-term debt	114,302,000		1,529,000
Obligations under capital leases	5,170,000		185,000
Total noncurrent liabilities	<u>128,991,000</u>		<u>9,471,000</u>
<b>TOTAL LIABILITIES</b>	<u>176,805,000</u>		<u>13,355,000</u>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt includes unexpended plant-funds held by others	237,036,000		2,046,000
Restricted for			
Nonexpendable:	37,396,000		55,608,000
Expendable:			
Scholarships, research, instruction & other	55,639,000		19,067,000
Loans	3,822,000		-
Capital projects	35,510,000		-
Debt service	2,121,000		-
Unrestricted	62,770,000		16,825,000
<b>TOTAL NET ASSETS</b>	<u>\$ 434,294,000</u>		<u>\$ 93,546,000</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 YEAR ENDED JUNE 30, 2004

	<u>REVENUES</u>	University	Component Units
<i>Operating Revenues</i>			
Student tuition and fees (net of scholarship allowance of \$12,692,000)	\$	46,886,000	\$ -
Federal grants and contracts		81,472,000	-
State grants and contracts		14,623,000	-
Local grants and contracts		13,952,000	-
Other grants and contracts		8,755,000	-
Sales & services of educational departments (including \$31,000 from the foundation and \$884,000 from the practice plans)		25,149,000	-
Sales and Services of auxiliary enterprises (net of scholarship allowance \$2,342,000)		32,137,000	-
Other operating revenues		1,162,000	-
Interest earned on loans receivable		111,000	-
Gifts and contributions		-	15,389,000
University support		-	1,313,000
Special events and other income		-	515,000
Net patient service revenue		-	38,207,000
Contract revenue		-	6,101,000
Total operating revenues		<u>224,247,000</u>	<u>61,525,000</u>
	<u>EXPENSES</u>		
<i>Operating Expenses</i>			
Employee compensation and benefits		247,829,000	18,394,000
Utilities		7,882,000	-
Supplies and services		108,330,000	202,000
Scholarships and fellowships		11,755,000	-
Depreciation		19,539,000	576,000
Program expenses		-	26,463,000
Total operating expenses		<u>395,335,000</u>	<u>45,635,000</u>
Operating income (loss)		<u>(171,088,000)</u>	<u>15,890,000</u>
<i>Nonoperating Revenues (Expenses)</i>			
State appropriations		166,022,000	-
Net transfers to System Administration		(3,143,000)	-
Gifts (including \$7,833,000 from the foundation)		10,138,000	-
Investment income		21,197,000	10,037,000
Disposal of plant assets		(870,000)	-
Interest on capital asset-related debt		(6,116,000)	(36,000)
Payments to University		-	(18,527,000)
Other nonoperating revenues		7,000	3,267,000
Net nonoperating revenues (expenses)		<u>187,235,000</u>	<u>(5,259,000)</u>
Income before other revenues		<u>16,147,000</u>	<u>10,631,000</u>
<i>Other Revenues</i>			
State appropriations restricted for capital purposes		14,177,000	-
Capital grants and gifts (including \$8,979,000 from the foundation)		12,969,000	-
Additions to permanent endowments (including \$800,000 from the foundation)		1,144,000	2,497,000
Total other revenues		<u>28,290,000</u>	<u>2,497,000</u>
Increase in net assets		44,437,000	13,128,000
	<u>NET ASSETS</u>		
Net assets- beginning of year		389,857,000	80,418,000
Net assets-end of year		<u>\$ 434,294,000</u>	<u>\$ 93,546,000</u>

The accompanying notes are an integral part of these financial statements

UNIVERSITY OF NEVADA, RENO

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004

	<u>University</u>
<i>Cash Flows from Operating Activities</i>	
Tuition and fees	\$ 47,916,000
Grants and contracts	116,172,000
Payments to suppliers	(105,727,000)
Payments for utilities	(7,505,000)
Payments for compensation and benefits	(248,842,000)
Payments for scholarships and fellowships	(11,685,000)
Loans issued to students and employees	(2,315,000)
Collection of loans to students and employees	1,739,000
Sales and services of educational departments	24,067,000
Sales and services of auxiliary enterprises	32,535,000
Other receipts	1,600,000
Net cash used by operating activities	<u>(152,045,000)</u>
<i>Cash Flows from Noncapital Financing Activities</i>	
State appropriations	165,593,000
Net transfers to System Administration	(3,143,000)
Gifts and grants for other than capital purposes	10,094,000
Gifts for endowment purposes	1,144,000
Other	(82,000)
Agency transactions	(624,000)
Receipts under federal student loan programs	20,624,000
Disbursements under federal student loan programs	<u>(20,624,000)</u>
Net cash provided by noncapital financing activities	<u>172,982,000</u>
<i>Cash Flows from Capital Financing Activities</i>	
Proceeds from capital debt	9,058,000
Capital appropriations	15,251,000
Capital grants and gifts received	8,998,000
Purchases of capital assets	(44,751,000)
Principal paid on capital debt and leases	(10,137,000)
Interest paid on capital debt and leases	<u>(5,174,000)</u>
Net cash used by capital financing activities	<u>(26,755,000)</u>
<i>Cash Flows from Investing Activities</i>	
Proceeds from sales and maturities of investments	35,043,000
Purchase of investments	(38,371,000)
Interest and dividends on investments	4,247,000
Net increase in cash equivalents, noncurrent investments	<u>(3,195,000)</u>
Net cash used by investing activities	<u>(2,276,000)</u>
Net decrease in cash and cash equivalents	(8,094,000)
Cash and cash equivalents - beginning of the year	50,106,000
Cash and cash equivalents - end of year	<u>\$ 42,012,000</u>

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

UNIVERSITY OF NEVADA, RENO

STATEMENT OF CASH FLOWS (continued)  
FOR THE YEAR ENDED JUNE 30, 2004

University

*Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities*

Operating loss	\$ (171,088,000)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	19,539,000
Changes in assets and liabilities:	
Accounts receivable, net	(3,787,000)
Loans receivable	(555,000)
Inventories	121,000
Deferred expenditures and deposits	162,000
Accounts payable	2,717,000
Accrued payroll and related liabilities	(580,000)
Accrued unemployment and workers' compensation insurance	(738,000)
Refundable advances under federal loan programs	61,000
Deferred revenue	1,781,000
Compensated absences	322,000
Net cash used by operating activities	\$ <u><u>(152,045,000)</u></u>

*Non-cash transactions*

Capital assets acquired through capital lease	\$ <u><u>5,289,000</u></u>
Loss on disposal of capital assets	\$ <u><u>870,000</u></u>
Capital assets acquired by gift	\$ <u><u>3,971,000</u></u>

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

**UNIVERSITY OF NEVADA, RENO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004**

**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 System 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.

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.

These financial statements present the university and its component units. The component unit's column in the financial statements represents the combined financial data of the university's discretely presented component units. The component units include the University of Nevada, Reno Foundation and the Medical School Practice Plans.

The University of Nevada, Reno Foundation, (the "foundation"), is a legally separate, tax-exempt component unit of the university. The foundation's mission is to facilitate the solicitation and management of gift revenues for the benefit of the university. The foundation's Board of Trustees is appointed by the System's Board of Regents. Because the resources held by the foundation can only be used for the benefit of the university, the foundation is considered a component unit of the university and is discretely presented in the university's financial statements. During the year ended June 30, 2004 the foundation distributed \$17,643,000 to the university for both restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Laurie McLanahan, Treasurer, University of Nevada, Reno, Mail Stop 162, Reno, Nevada, 89557.

Three legally separate non-profit organizations, together known as the Medical School Practice Plans, comprise another component unit of the university and are also presented discretely. The practice plans include the University of Nevada School of Medicine Multispecialty Group Practice North, Inc., the University of Nevada School of Medicine Multispecialty Group Practice South, Inc., and the Nevada Family Practice Residency Program, Inc. The practice plans were established for the benefit of the University of Nevada School of Medicine and its faculty physicians who are engaged in patient care activities. During the year ended June 20, 2004 the practice plans distributed \$884,000 to the university for restricted purposes. Complete financial statements for the practice plans can be obtained from Vic Redding, University of Nevada, Reno, Mail Stop 332, Reno, Nevada, 89557

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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

**Basis of Presentation**

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 established 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.

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.

The GASB has issued Statement 39, *Determining Whether Certain Organizations are Component Units*, effective for years beginning July 1, 2003. Effective on July 1, 2003, the university adopted Statement No. 39 which requires the university's legally separate campus foundation and medical school practice plans to be presented discretely in the university's financial statements.

### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting 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**

All highly liquid investments with an original maturity of three months or less are considered 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.

### **Patient Accounts Receivable**

Patient accounts receivable of the practice plans represent receivables under various payment agreements with third-party commercial insurance companies, governmental payors, individual patients and others for services already rendered, and includes an allowance for contractual adjustments and uncollectible accounts which are charged to operations based upon managements' estimates. Contractual adjustments result from the difference between gross charges and the established or negotiated rates for physician services performed and amounts management estimates to be collected by certain third-party commercial insurance companies, government sponsored health care programs and other third parties (not including personal guarantors of patients). Provisions for contractual adjustments and uncollectible accounts are recorded in the same period services are rendered.

The provisions for contractual adjustments and uncollectible accounts are determined based upon an evaluation of historical collection experience, anticipated reimbursement levels and other relevant factors. Adjustments and changes in estimates are recorded in the period in which they are determined.

### **Pledges Receivable**

Pledges receivable are recorded as revenue at the pledge date and adjusted to present value based upon collection date in the accompanying financial statements.

### **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 and improvements	10 to 40
Land improvements	15
Machinery and equipment	5 to 10

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.

## Deferred Revenue

### University

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.

### University of Nevada, Reno Foundation

Deferred revenue primarily represents contributions received from donors which are being held for the construction of the Knowledge Center. The gifts are conditional upon the approval of the State Public Works Board to begin the construction of the building. The remaining balance in deferred revenue consists of assets held in irrevocable trusts of which the foundation is the residual beneficiary. The support and revenue will be recognized when the foundation receives its residual interest in the trusts. Interest payments are made to beneficiaries based on rates set forth in the trust documents. Upon death of the income beneficiaries, the trusts will be distributed, and the foundation will receive its residual interest in the trusts. The assets held in the irrevocable trusts are recorded at fair market value. Deferred revenue at June 30, 2004 is comprised of:

Knowledge Center	\$7,417,000
Residual interest in trust	263,000
Annual banquet	<u>77,000</u>
	<u>\$7,757,000</u>

## 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 are classified as follows:

*Invested in capital assets, net of related debt:* This represents 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 which must be expended in accordance with restrictions imposed by external third parties.

*Unrestricted net assets:* Unrestricted net assets represent resources that are not subject to externally imposed restrictions. These resources are used for transactions relating to educational and general operations 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.

### **Recognition of Support and Revenue-University of Nevada, Reno Foundation**

The foundation recognizes donations, gifts and pledges received as income when the donor makes a promise to give to the foundation that is, in substance, unconditional. Contributions received are recorded as unrestricted, restricted or endowed support depending on the existence and/or nature of any donor restrictions.

### **Practice Plan Revenue**

Net patient service revenue is reported when services are provided to patients at the estimated net realizable amounts from patients, third-party payors including Medicare and Medicaid, and others for services are rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Contractual allowances are recorded as deductions from professional fee revenue to arrive at net professional revenues. Contractual allowances include difference between established billing rates and amounts reimbursable under various contractual agreements. Normal differences between final reimbursement and estimated amounts accrued in previous years are recorded as adjustments of the current year's contractual allowances.

### **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 year ended June 30, 2004 totaled \$2,855,000.

### **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 and its discretely presented component units are tax-exempt organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code and are 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. 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.

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The provisions of GASB Statement No. 42 are effective for fiscal years beginning after December 15, 2004.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which supersedes the interim guidance included in Statement 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans* and requires specific reporting framework and measurement parameters to be applied for defined benefit plans. The provisions of GASB Statement No. 43 are effective for fiscal years beginning after December 15, 2004.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which requires accrual-based measurement, recognition and disclosure of other postemployment benefit (OPEB) expense, such as retiree medical and dental costs, over the employees' year of service, along with the related liability, net of any plan assets. The provisions of GASB Statement No. 45 are effective for fiscal years beginning after December 15, 2006.

### NOTE 3 -- CASH AND CASH EQUIVALENTS:

#### University

Cash and cash equivalents of the university 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. Restricted cash represents capital lease proceeds held in escrow for completion of financed projects. 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 Statement of Cash Flows.

#### University of Nevada, Reno Foundation

All foundation cash deposits are primarily on deposit with two financial institutions and several investment companies and are carried at fair value at \$19,853,000 of which \$1,290,000 is insured by the F.D.I.C. The remaining balance is uncollateralized and is a category 3 level of risk, based on risk categories established by the Governmental Accounting Standards Board.

Cash and cash equivalents at June 30, 2004 consist of:

Cash	\$ 883,000
Money funds	8,000
Common fund short-term investments	9,850,000
Certificates of deposit	980,000
Treasury bills	<u>8,132,000</u>
	<u>\$19,853,000</u>

#### Practice Plans

Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less.

### NOTE 4 -- INVESTMENTS:

#### University

University 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, 2004 the System's investment pool was comprised of the following:

Mutual funds	57%
Bonds	1%
Stocks	5%
Private equity partnerships	11%
Other investments	26%

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:

Stocks	36%
U.S. Government bonds	28%
Corporate bonds	1%
International securities	26%
Cash and equivalents	9%

As of June 30, 2004, 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 \$13,913,000.

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, 2004, System Administration retained \$3,399,000 of investment income from the university's operating fund investments and is included in Net transfers to System Administration in the financial statements.

For purposes 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.

University of Nevada, Reno Foundation

Investments consist primarily of open-end mutual funds through a single custodian. For purposes of applying Statement No. 3 of the Governmental Accounting Standards Board, the majority of the foundation's investments (other than mutual fund investments, which are not categorized) are uninsured and unregistered, with the securities held by the foundation's agents.

The fair value of foundation investments and endowment investments at June 30, 2004 are as follows:

Commonfund bond	\$14,056,000
Commonfund global bond	638,000
Commonfund equity	39,265,000
Commonfund international equity	1,230,000
Commonfund emerging markets	1,080,000
Commonfund capital partners	167,000
Commonfund real estate securities	574,000
Commonfund realty investors	1,803,000
Certificates of deposit	2,149,000
U.S. government securities	<u>1,592,000</u>
	<u>\$62,554,000</u>

**NOTE 5 -- ENDOWMENT INVESTMENTS POOL:**

At June 30, 2004 approximately \$88,732,000 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, 2004:

Mutual funds	62%
Stocks	10%
Private equity partnerships	24%
Other investments	4%

Each individual fund acquires units on the basis of the market value per unit on the preceding quarterly valuation date. The unit market value at June 30, 2004 was \$399.66.

The System utilizes a spending rule for its pooled endowments, which determines the endowment income to be distributed currently for spending. For the year ended June 30, 2004 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, \$16.68 was distributed to each time-weighted unit for a total distribution to the university of \$3,671,000 during the year ended June 30, 2004.

**NOTE 6 -- RECEIVABLES:**

University of Nevada, Reno

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 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% per annum 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. The loans receivable and corresponding allowance for uncollectible loan balances as of June 30, 2004 are as follows:

Loans receivable	\$6,748,000
Less: Allowance for doubtful loans	(217,000)
Net loans receivable	6,531,000
Less: current portion	<u>(1,357,000)</u>
Noncurrent loans receivable	<u>\$5,174,000</u>

#### University of Nevada, Reno Foundation

Pledges receivable of the foundation are recorded as revenue at the pledge date and adjusted to present value based upon collection date in the accompanying financial statements. Pledges receivable at June 30, 2004, consist of the following:

College of Agriculture, Biotechnology and Natural Resources	\$ 95,000
College of Education	45,000
College of Engineering	1,405,000
College of Science	1,663,000
Library	566,000
Redfield Campus	2,001,000
School of Journalism	4,000
School of Medicine	47,000
Scholarships	188,000
Other	<u>62,000</u>
	6,076,000
Present value discount	( 486,000)
Net pledges receivable	<u>5,590,000</u>
Less current maturities	<u>1,768,000</u>
	<u>\$3,822,000</u>

#### Practice Plans

The practice plans grant credit without collateral to their patients, most of whom are local residents and are insured under third-party insurance and governmental payor agreements. The components of receivables from patients and third-party payors at June 30, 2004 are as follows:

Medicare	11%
Medicaid	36%
Commercial insurance	32%
Other third-party payors	4%
Patients	<u>17%</u>
	<u>100%</u>

#### **NOTE 7 – UNIVERSITY CAPITAL ASSETS:**

Capital asset activity of the university for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 29,034,000	\$ 9,397,000	\$ -	\$ 38,431,000
Construction in progress	21,058,000	31,185,000	( 20,603,000)	31,640,000
Collections	<u>960,000</u>	<u>124,000</u>	<u>(37,000)</u>	<u>1,047,000</u>
Total capital assets not being depreciated	<u>51,052,000</u>	<u>40,706,000</u>	<u>( 20,640,000)</u>	<u>71,118,000</u>
Capital assets being depreciated:				
Land improvements	27,017,000	2,049,000	-	29,066,000
Buildings	328,870,000	19,650,000	-	348,520,000
Equipment	90,465,000	10,072,000	( 5,858,000)	94,679,000
Library books and media	<u>14,822,000</u>	<u>2,296,000</u>	<u>( 2,315,000)</u>	<u>14,803,000</u>
Total capital assets being depreciated	<u>461,174,000</u>	<u>34,067,000</u>	<u>( 8,173,000)</u>	<u>487,068,000</u>

Less accumulated depreciation for:				
Land improvements	( 16,982,000)	( 1,534,000)	-	( 18,516,000)
Buildings	( 117,597,000)	( 7,513,000)	-	( 125,110,000)
Equipment	( 63,197,000)	( 7,963,000)	5,027,000	( 66,133,000)
Library books and media	( 8,530,000)	( 2,529,000)	2,315,000	( 8,744,000)
Total accumulated depreciation	<u>( 206,306,000)</u>	<u>( 19,539,000)</u>	<u>7,342,000</u>	<u>( 218,503,000)</u>
Total capital assets being depreciated, net	<u>254,868,000</u>	<u>14,528,000</u>	<u>( 831,000)</u>	<u>268,565,000</u>
Capital assets, net	<u><u>\$305,920,000</u></u>	<u><u>\$55,234,000</u></u>	<u><u>(\$21,471,000)</u></u>	<u><u>\$339,683,000</u></u>

The estimated cost to complete university property authorized or under construction at June 30, 2004 is \$111,686,000. These costs will be financed by state appropriations, available resources and/or long-term borrowings.

#### NOTE 8 – UNIVERSITY LONG-TERM DEBT:

Long-term debt of the university at June 30, 2004 consists of the following:

BONDS	Annual Interest Rate	Fiscal Year Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Current
Universities Refunding Revenue Bonds, Series January 1, 1994	4.00% to 5.60%	Refunded 2003	\$ 490,000	\$ -	(\$ 490,000)	\$ -	\$ -
Universities Revenue Bonds, Series September 1, 1995	3.95% to 5.25%	2011	865,000	-	( 90,000)	775,000	95,000
Universities Refunding Revenue Bonds, Series January 1, 1997	4.50% to 6.00%	2007	3,411,000	-	( 907,000)	2,504,000	952,000
Universities Revenue Bonds, Series September 1, 1998	4.00% to 5.25%	2014	1,590,000	-	( 115,000)	1,475,000	120,000
Universities Revenue Bonds, Series January 1, 2000	5.10% to 5.88%	2021	14,380,000	-	( 145,000)	14,235,000	290,000
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	325,000
Universities Refunding Revenue Bonds, Series 2003A	2.0% to 4.25%	2016	7,979,000	-	-	7,979,000	507,000
Universities Revenue Bonds, Series 2003B	2.0% to 5.0%	2034	28,750,000	-	-	28,750,000	-
Premiums			<u>820,000</u>	<u>263,000</u>	<u>( 100,000)</u>	<u>983,000</u>	<u>-</u>
Total Bonds Payable			108,340,000	263,000	( 1,847,000)	106,756,000	2,289,000
Notes Payable			<u>10,582,000</u>	<u>8,795,000</u>	<u>( 8,203,000)</u>	<u>11,174,000</u>	<u>1,339,000</u>
TOTAL			<u><u>\$118,922,000</u></u>	<u><u>\$9,058,000</u></u>	<u><u>(\$10,050,000)</u></u>	<u><u>\$117,930,000</u></u>	<u><u>\$3,628,000</u></u>

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

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

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

	<u>Principal</u>	<u>Interest</u>
2005	\$ 3,628,000	\$ 5,601,000
2006	3,801,000	5,494,000
2007	4,745,000	5,324,000
2008	4,420,000	5,071,000
2009	4,261,000	4,869,000
2010-2014	21,763,000	21,510,000
2015-2019	18,952,000	17,375,000
2020-2024	17,740,000	11,655,000
2025-2029	19,470,000	7,173,000
2030-2034	<u>19,150,000</u>	<u>2,189,000</u>
	<u>\$117,930,000</u>	<u>\$86,261,000</u>

**NOTE 9 – UNIVERSITY OBLIGATIONS UNDER CAPITAL LEASES:**

During the year ended June 30, 2004, the university entered into a lease agreement to finance certain facility improvement measures that will reduce operational costs. The agreement matures in 2014. The university has another capital lease for certain equipment that expires in fiscal year 2007.

Obligations under capital leases were as follows for the year ending June 30, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	\$332,000	\$5,289,000	(\$87,000)	\$5,534,000	\$364,000

The following capital assets of the university included in the accompanying financial statements were leased under capital leases as of June 30, 2004:

Machinery and equipment	\$ 605,000
Buildings	306,000
Construction in progress	<u>4,877,000</u>
Subtotal	5,788,000
Less accumulated depreciation	<u>(288,000)</u>
Total	<u>\$5,500,000</u>

Future net minimum rental payments, which are required under the capital leases of the university for the year ending June 30, are as follows:

2005	\$ 648,000
2006	665,000
2007	623,000
2008	592,000
2009	610,000
2010-2014	3,334,000
2015-2019	<u>621,000</u>
Total minimum lease payments	7,093,000
Less amount representing interest	<u>( 1,559,000)</u>
Obligations under capital leases	<u>\$ 5,534,000</u>

Total interest expense of the university under capital leases included in the accompanying financial statements was \$286,000 during the year ended June 30, 2004.

**NOTE 10 – UNIVERSITY OTHER NONCURRENT LIABILITIES ACTIVITY:**

The activity with respect to other noncurrent liabilities of the university for the year ended June 30, 2004 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	\$ 4,648,000	\$ 149,000	(\$ 88,000)	\$ 4,709,000	\$ -
Compensated absences	13,040,000	8,579,000	( 8,258,000)	13,361,000	8,551,000
Deferred revenue	<u>8,564,000</u>	<u>10,335,000</u>	<u>( 8,564,000)</u>	<u>10,335,000</u>	<u>10,335,000</u>
Total	<u>\$26,252,000</u>	<u>\$19,063,000</u>	<u>(\$16,910,000)</u>	<u>\$28,405,000</u>	<u>\$18,886,000</u>

**NOTE 11 – PENSION PLANS:**University

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 2.67 percent of the employee's average compensation for each year of service up to 30 years, with a maximum of 75 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 10.5% 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 10.5% or 20.25% 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, 2004, 2003 and 2002 was approximately \$19,692,000, \$18,088,000, \$16,626,000, respectively, equal to the required contribution for the year.

Practice Plans

The practice plans sponsor a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code that covers all employees who are 21 years of age or older, have worked for the practice plan for at least one year, and who work at least 83.33 hours per month. Employees may elect to defer up to 15% of their compensation each year not to exceed the dollar limit set by federal law. During the year ended June 30, 2004, the Company made a \$50 per month Qualified Non-Elective Contribution (QNEC) for each eligible employee.

**NOTE 12 -- CONTINGENT LIABILITIES:**University

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.

**NOTE 12 -- CONTINGENT LIABILITIES (continued):**Practice PlansLeases

The practice plan have leases for office space and equipment. Future minimum lease payments under non-cancelable operating leases are as follows:

Year ending June 30,	2005	\$1,447,000
	2006	1,065,000
	2007	292,000
	2008	<u>264,000</u>
		<u>\$3,068,000</u>

Other

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to periodic government review, interpretation and audits, as well as regulatory actions unknown and unasserted at this time.

The practice plans are subject to various lawsuits and claims arising out of the normal course of business. Management and the practice plans' legal counsel are of the opinion that the ultimate liability from such matters will not have a material adverse impact on the practice plans' financial position.

On March 5, 2002, the practice plans entered into an Institutional Compliance Agreement with the United States Office of the Inspector General relating to billing and compliance practices for federal healthcare programs. Management believes they are substantially in compliance with this agreement and any potential conditions of non-compliance will not have a material adverse impact on the practice plans' financial position.

Beginning in March 2004, the practice plans moved from a fully insured health benefit plan for the employees and their participating dependents to a \$6,000 per participant per year self-insurance retention plan. The new plan design has a maximum claims exposure to the practice plans' of \$6,000 per participant per year. On a monthly basis, the practice plans expense an amount it estimates it will be required to pay for health insurance claims for the employees and their participating dependents. This estimate is based on historical health insurance claims data paid by their Third Party Benefits Administrator.

**NOTE 13 – SUBSEQUENT EVENTS:**

In September 2004 the System on behalf of the University issued Universities Revenue Bonds, Series 2004B, of \$10 million. The bonds bear interest from 3.0% to 4.75% and mature on various dates from 2008 to 2029. The proceeds from the bonds will be used to fund the construction of a new 42,000 square foot building to be located in Las Vegas, Nevada. The building will be primarily used as a life-long learning center for the Clark County office of the University of Nevada Cooperative Extension.

**NOTE 14 – UNIVERSITY EXPENSES FUNCTIONAL CLASSIFICATIONS:**

The following is the functional classification of university expenses as reported on the Statements of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2004:

Instruction	\$134,095,000
Research	59,232,000
Public Service	36,323,000
Academic support	27,927,000
Institutional support	29,837,000
Student services	20,232,000
Operation and maintenance of plant	25,120,000
Scholarships and fellowships	11,755,000
Auxiliary enterprises	31,275,000
Depreciation	<u>19,539,000</u>
Total	<u>\$395,335,000</u>

**NOTE 15 – COMPONENT UNITS:**

As further described in Note 1, the financial statements of the university include a component unit's column which represents the combined financial information of the foundation and practice plans. The condensed combining schedules for these component units are as follows:

## NET ASSETS AS OF JUNE 30, 2004

<u>ASSETS</u>	University of Nevada, Reno Foundation	Combined Practice Plans	Total
<i>Current Assets</i>			
Cash and cash equivalents	\$19,853,000	\$ 8,050,000	\$27,903,000
Short-term investments	7,795,000	-	7,795,000
Patient accounts receivable, net	-	6,377,000	6,377,000
Pledges receivable	1,768,000	-	1,768,000
Other current assets	46,000	898,000	944,000
Total Current Assets	<u>29,462,000</u>	<u>15,325,000</u>	<u>44,787,000</u>
<i>Noncurrent Assets</i>			
Endowment investments	54,759,000	-	54,759,000
Pledges receivable	3,822,000	-	3,822,000
Capital assets, net	36,000	2,008,000	2,044,000
Other noncurrent assets	1,489,000	-	1,489,000
Total Noncurrent Assets	<u>60,106,000</u>	<u>2,008,000</u>	<u>62,114,000</u>
TOTAL ASSETS	<u>89,568,000</u>	<u>17,333,000</u>	<u>106,901,000</u>
<u>LIABILITIES</u>			
<i>Current Liabilities</i>			
Due to University	602,000	126,000	728,000
Current portion of long term debt	373,000	213,000	586,000
Other current liabilities	16,000	2,554,000	2,570,000
Total Current Liabilities	<u>991,000</u>	<u>2,893,000</u>	<u>3,884,000</u>
<i>Noncurrent Liabilities</i>			
Deferred revenues	7,757,000	-	7,757,000
Long term debt	1,529,000	-	1,529,000
Obligations under capital leases	-	185,000	185,000
Total Noncurrent Liabilities	<u>9,286,000</u>	<u>185,000</u>	<u>9,471,000</u>
TOTAL LIABILITIES	<u>10,277,000</u>	<u>3,078,000</u>	<u>13,355,000</u>
NET ASSETS CONSIST OF:			
Investment in capital assets, net of related debt	603,000	1,443,000	2,046,000
Restricted			
Nonexpendable	55,608,000	-	55,608,000
Expendable	19,031,000	36,000	19,067,000
Unrestricted	4,049,000	12,776,000	16,825,000
TOTAL NET ASSETS	<u>\$79,291,000</u>	<u>\$14,255,000</u>	<u>\$93,546,000</u>

**NOTE 15 – COMPONENT UNITS (continued):**

REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004

	University of Nevada, Reno Foundation	Combined Practice Plans	Total
<i>Operating Revenues</i>			
Contributions	\$15,389,000	\$ -	\$15,389,000
University support	1,313,000	-	1,313,000
Special events and other income	515,000	-	515,000
Net patient service revenue	-	38,207,000	38,207,000
Contract revenue	-	6,101,000	6,101,000
Total Operating Revenues	<u>17,217,000</u>	<u>44,308,000</u>	<u>61,525,000</u>
<i>Operating Expenses</i>			
Depreciation	12,000	564,000	576,000
Program expenses	251,000	26,212,000	26,463,000
Other operating expenses	1,882,000	16,714,000	18,596,000
Total Operating Expenses	<u>2,145,000</u>	<u>43,490,000</u>	<u>45,635,000</u>
Operating Income	<u>15,072,000</u>	<u>818,000</u>	<u>15,890,000</u>
<i>Nonoperating Revenue (Expenses)</i>			
Investment income	10,037,000		10,037,000
Payments to University	(17,643,000)	(884,000)	(18,527,000)
Other nonoperating revenues, net	-	3,231,000	3,231,000
Net nonoperating revenues (expenses)	<u>(7,606,000)</u>	<u>2,347,000</u>	<u>(5,259,000)</u>
Income Before Other Revenue, Expenses, Gains or Losses	<u>7,466,000</u>	<u>3,165,000</u>	<u>10,631,000</u>
<i>Other Revenue, Expenses, Gains or Losses</i>			
Additions to permanent endowments	<u>2,497,000</u>	-	<u>2,497,000</u>
Total other revenues	<u>2,497,000</u>	-	<u>2,497,000</u>
Increase in net assets	<u>9,963,000</u>	<u>3,165,000</u>	<u>13,128,000</u>
<i>Net Assets</i>			
Net assets, beginning of year	<u>69,328,000</u>	<u>11,090,000</u>	<u>80,418,000</u>
Net assets, end of year	<u>\$79,291,000</u>	<u>\$14,255,000</u>	<u>\$93,546,000</u>