



University of Nevada, Reno  
Unaudited Financial Statements

As of and for the Years Ended  
June 30, 2007 and 2006

# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

## Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Nevada, Reno (the "University") during the fiscal year ended June 30, 2007 with comparative information as of June 30, 2006 and June 30, 2005. This discussion provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements and footnotes. The financial statements, footnotes and this discussion are solely the responsibility of management.

The University is a land-grant institution committed to being accessible and providing teaching, research and outreach services to its constituencies. Student enrollments have grown to over 16,000 in 2005-2006, with students coming from all 17 counties in Nevada, all 50 states and 39 countries. The student body is instructed by 875 academic faculty, of whom 94% of tenured or tenure-track faculty and 79% of full-time faculty hold terminal degrees in their discipline.

## Using the Financial Statements

The University's financial report consists of three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board ("GASB") principles.

During the year ended June 30, 2004, the University adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. Based on GASB No. 39, the University identified two component units; 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 Note 1 of the footnotes to the financial statements.

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 presents the financial position of the University at the end of the fiscal year 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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.

- The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing and investing activities. Its primary purpose is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of the University's ability to generate future net cash flows, meet obligations as they come due, and determine its need for external financing.

### Financial Highlights

#### University

- The University's financial position remained strong at June 30, 2007, with assets of \$ 851.1 million and liabilities of \$295.7 million, compared to assets of \$817.2 million and liabilities of \$281.1 million at June 30, 2006. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, increased by \$19.3 million to \$555.4 million at June 30, 2007.
- Fiscal 2007 operating expenses increased 5.4percent, or \$24.3 million, while operating revenues decreased by less than 1percent, or \$2.2 million.

#### Component Units

##### Foundation

The Foundation at June 30, 2007 had assets of \$147.9 million and liabilities of \$3.4 million, compared to assets of \$120.5 million and liabilities of \$4.1 million at June 30, 2006. In fiscal 2007, net assets increased by \$28.1 million.

##### Practice Plans

The Practice Plans at June 30, 2007 had assets of \$25.8 million and liabilities of \$4.6 million, compared to assets of \$26.6 million and liabilities of \$5.0 million at June 30, 2006. In fiscal 2007, net assets decreased by \$.4 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### University

#### Condensed Statements of Net Assets

For the years ended June 30, 2007, 2006, and 2005

(in thousands of dollars)

	University <u>2007</u>	University <u>2006</u>	Increase (decrease) <u>2006 - 2007</u>	University <u>2005</u>	Increase (decrease) <u>2005 - 2006</u>
Current and other assets	\$367,352	\$414,153	(46,801)	\$311,627	\$102,526
Capital asset, net	<u>483,724</u>	<u>403,063</u>	<u>80,661</u>	<u>370,520</u>	<u>32,543</u>
Total Assets	<u>851,076</u>	<u>817,216</u>	<u>33,860</u>	<u>682,147</u>	<u>135,069</u>
Current liabilities	75,324	60,966	14,358	53,429	7,537
Non-current liabilities	<u>220,344</u>	<u>220,148</u>	<u>196</u>	<u>168,157</u>	<u>51,991</u>
Total Liabilities	<u>295,668</u>	<u>281,114</u>	<u>14,554</u>	<u>221,586</u>	<u>59,528</u>
Net Assets:					
Invested in capital assets, net of related debt	281,323	268,806	12,517	248,382	20,424
Restricted					
Nonexpendable	37,498	36,056	1,442	37,531	(1,475)
Expendable	121,893	123,275	(1,382)	104,943	18,332
Unrestricted	<u>114,694</u>	<u>107,965</u>	<u>6,729</u>	<u>69,705</u>	<u>38,260</u>
Total net assets	<u>\$555,408</u>	<u>\$536,102</u>	<u>19,306</u>	<u>\$460,561</u>	<u>\$ 75,541</u>

### Changes in Net Assets

A review of the University's Statement of Net Assets at June 30, 2007, 2006 and 2005, shows that the University continues to build upon its sound financial foundation. This strong financial position reflects the prudent use of its financial resources, including careful cost controls, management of its endowment funds, utilization of debt and adherence to its long range capital plan for the maintenance and replacement of the physical plant.

At June 30, 2007, total assets were \$851.1 million. The University's largest asset is its investment in capital assets of \$483.7 million. Capital assets increased by \$80.7 million, or 20%, due to net additions to equipment and construction in progress consisting of the Mathewson-IGT Knowledge Center and the Joe Crowley Student Union. Endowment investments, the second largest asset category, increased by \$15 million, or 13.2%, primarily due to an increase in the fair value of investments.

At June 30, 2006, total assets were \$817.2 million. The University's largest asset is its investment in capital assets of \$403.1 million. Capital assets increased by \$32.5 million, or 8.8%, due to net additions to equipment; construction in progress consisting of the Mathewson-IGT Knowledge Center and the Joe Crowley Student Union; the final costs of the Cooperative Extension Building and the donation of Legacy Hall by the Athletic Association of the University. Endowment investments, the second largest asset category, increased by \$7 million, or 6.5%, primarily due to an increase in the fair value of investments.

At June 30, 2007, Cash and Cash Equivalents and Cash Held by State Treasurer decreased by \$9.9 million, or 42%. The decrease was due to bond proceeds, appropriations and university donations spent on construction of the University's capital projects by the State Public Works Board.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

At June 30, 2006, Cash and Cash Equivalents and Cash Held by State Treasurer decreased by \$28.5 million, or 36.6%. The decrease was due primarily to the investment of unspent bond proceeds in guaranteed investment contracts in fiscal year 2006.

At June 30, 2007, University liabilities were \$295.7 million. The largest liability was long term debt, which consists of bonds and notes payable of \$203.3 million. Liabilities increased by \$14.6 million primarily due to the increase in accounts payable of \$10.7 million and an increase of \$2.1 in accrued payroll and related liabilities. The increase in accounts payable was primarily due to a \$4.9 million increase in accounts payable associated with the capital construction projects and the \$3.4 million increase of funds returned to the State. The increase in accrued payroll and related liabilities was primarily due to the REGIA payment not being paid until after June 30, 2007.

At June 30, 2006, University liabilities were \$281.1 million. The largest liability was long term debt, which consists of bonds and notes payable of \$204 million. Liabilities increased by \$59.5 million primarily due to changes in long term debt of \$52.1 million. The change in long term debt primarily consisted of the issuance of 2005B bonds for \$67.2 plus an issuance premium of \$3.8 million; the refunding of \$11 million of the 2000 bonds; the call of 2002A bonds of \$3.9 million and principal payments of \$3.9 million. The remaining increase was due to an accounts payable increase of \$5.5 million and an increase in compensated absences of \$1.6 million. The increase in accounts payable consisted of an increase in accounts payable associated with the construction of the Mathewson-IGT Knowledge Center of \$4.1 million and the increase of reversions owed to the State of \$1.1 million. The increase of the compensated absences liability was due to a 2% raise to all employees plus standard merit raises during fiscal 2006.

In fiscal year 2007, the University's current assets of \$177 million (included in current and other assets above) appear sufficient to cover current liabilities of \$75 million, as the current ratio was 2.4 dollars in current assets to every one dollar in current liabilities.

In fiscal year 2006, the University's current assets of \$166.5 million (included in current and other assets above) appear sufficient to cover current liabilities of \$70 million, as the current ratio was 2.4 dollars in current assets to every one dollar in current liabilities.

### **Endowment Funds: Restricted Net Assets, Non-expendable and Expendable**

Endowment funds supporting the University are comprised of institutional assets and the University of Nevada, Reno Foundation assets. The Foundation, with endowed assets of \$97 million, is the primary source of gifts to the University. 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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

In fiscal year 2007, the value of the University endowments increased \$15 million as a result of \$.5 million in additions and an increase in market value of \$14.3 million. In fiscal year 2006, the value of the University endowments increased \$7 million as a result of (\$.7) million in withdrawals and an increase in market value of \$7.7 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.

The University participates with other Nevada System of Higher Education (NSHE) institutions in following Board approved investment policies for managing all public funds, including operating funds and endowment funds invested by NSHE. NSHE currently employs several external investment managers to manage investments. The investment objective of the endowment funds is to attain an inflation-adjusted total return, net of fees, at least equal to the University's contemplated spending/distribution rate of 4.5%. This policy is subject to periodic reviews.

### **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.

### **Capital and Debt Activities: Invested in Capital Assets, Net of Related Debt**

One of the critical factors in continuing the quality of the University's academic and research programs is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its complement of older teaching and research facilities, balanced with new construction.

Capital additions totaled \$104.6 million in 2007, as compared to \$60.1 million in 2006. Capital additions primarily comprise replacement, renovation, and new construction of academic, research and parking facilities, as well as investments in equipment.

Construction in progress at June 30, 2007 totaled \$120.5 million, as compared to \$37.9 million at June 30, 2006. The increase was primarily due to continued construction on the Mathewson-IGT Knowledge Center and the Joe Crowley Student Union. Site work began in 2005 on the 295,000 square-foot, five-story Mathewson-IGT Knowledge Center project, which will replace the 43-year-old Getchell Library and the 165,000 square-foot new Joe Crowley Student Union. Funding for the Knowledge Center will be provided from a combination of appropriations, revenue bonds and gifts, with completion scheduled for the summer 2008. The Student Union, which will replace the Jot Travis Student Union, will be funded in large part by student initiated and approved fees and revenue bonds; it is slated to open October 2007. These new facilities will provide a new "gateway" to the University from Virginia Street.

The University takes seriously its role of financial stewardship and works hard to manage its financial resources effectively, including the prudent use of debt to finance capital projects. Revenue bonds payable, including bond premiums, totaled \$196.3 million and \$200.1 million at June 30, 2007 and 2006, respectively. In fiscal year 2007, no new bonds were issued. In addition to revenue bonds, the University has outstanding notes payable of \$12.2 million and \$8.6 million at June 30, 2007 and 2006, respectively. In fiscal year 2007, the System on behalf of the University entered into a \$5.8 promissory note with Banc of America.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Revenue bonds for University projects are issued by NSHE 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 debt service coverage on the NSHE Revenue bonds was 4.07. For statutory purposes, the coverage was 2.97 above the minimum of 1.10. (This coverage figure is based on June 30, 2006 unaudited revenues). The most recent bond rating for NSHE from Moody's and Standard and Poor's is "Aa3" and "AA-", respectively. The System's capacity to meet its financial obligations is considered good based on these ratings.

### Component Units

#### Condensed Statements of Net Assets

For the years ended June 30, 2007, 2006 and 2005

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	Increase (decrease) <u>2006 - 2007</u>	<u>2005</u>	Increase (decrease) <u>2005 - 2006</u>
Current and other assets	\$170,360	\$144,158	\$ 26,202	\$120,511	\$ 23,647
Capital asset, net	<u>3,271</u>	<u>2,923</u>	<u>348</u>	<u>2,130</u>	<u>793</u>
Total Assets	<u>173,631</u>	<u>147,081</u>	<u>26,550</u>	<u>122,641</u>	<u>24,440</u>
Current liabilities	7,654	7,700	(46)	4,708	2,992
Non-current liabilities	<u>342</u>	<u>1,406</u>	<u>(1,064)</u>	<u>1,667</u>	<u>(261)</u>
Total Liabilities	<u>7,996</u>	<u>9,106</u>	<u>(1,110)</u>	<u>6,375</u>	<u>2,731</u>
Net Assets:					
Invested in capital assets, net of related debt	2,667	2,304	363	1,823	481
Restricted					
Nonexpendable	102,614	80,729	21,885	67,606	13,123
Expendable	34,086	30,355	3,731	26,243	4,112
Unrestricted	<u>26,268</u>	<u>24,587</u>	<u>1,681</u>	<u>20,594</u>	<u>3,993</u>
Total net assets	<u>\$165,635</u>	<u>\$137,975</u>	<u>\$ 27,660</u>	<u>\$116,266</u>	<u>\$ 21,709</u>

### Changes in Net Assets

- Assets increased by \$26.6 million due to increases in market value of investments, increases in pledges receivable and increases in patient receivables.
- Liabilities decreased by \$1.1 million primarily due to a decrease in the amount owed to the university.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

### **Statement of Revenues, Expenses and Changes in Net Assets**

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operations. The statement is categorized into operating revenues and expenses, nonoperating revenue and expenses and other revenue, expenses and gains or losses.

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

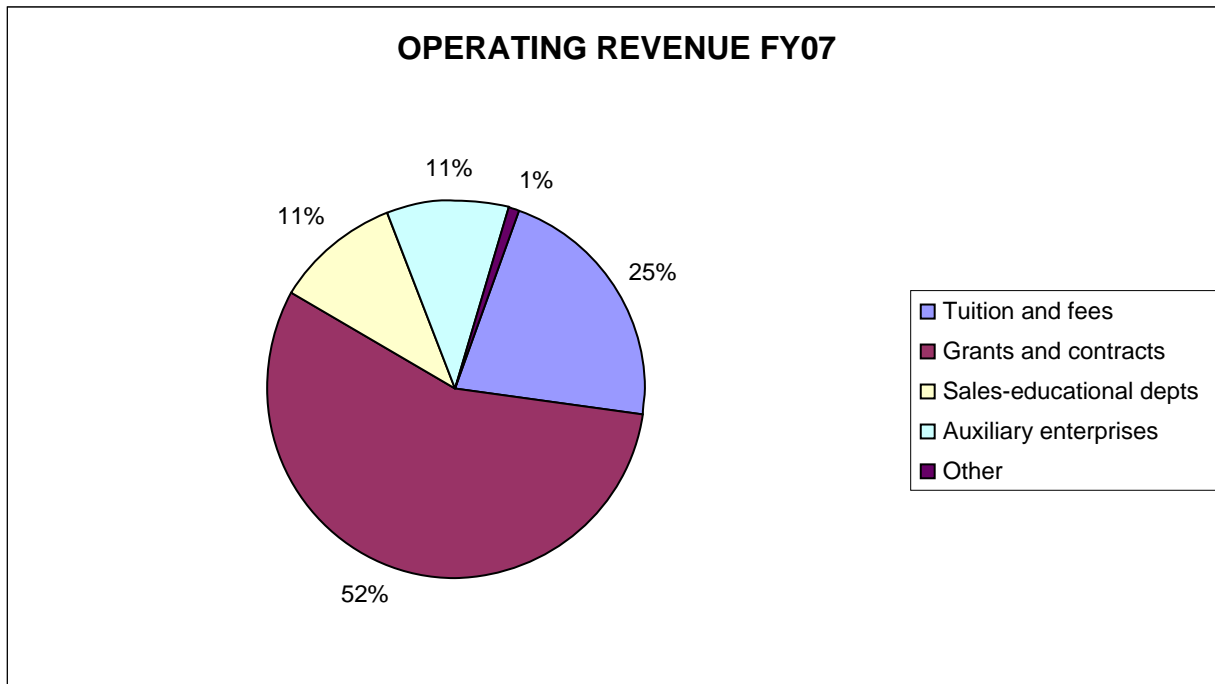
**University Condensed Statements of Revenues, Expenses and Changes in Net Assets  
For the Years Ended June 30, 2007, 2006, and 2005 (in thousands)**

	University <u>2007</u>	University <u>2006</u>	Increase (decrease) <u>2006 - 2007</u>	University <u>2005</u>	Increase (decrease) <u>2005 - 2006</u>
<b>Operating Revenues</b>					
Tuition and fees	\$ 65,235	\$ 59,003	6,232	\$ 52,461	\$ 6,542
Grants & contracts	137,388	147,335	(9,947)	135,744	11,591
Sales & service educational departments	28,331	28,042	289	25,865	2,177
Sales & services auxiliary enterprises	29,162	27,732	1,430	25,583	2,149
Other	<u>2,401</u>	<u>2,553</u>	<u>(152)</u>	<u>2,079</u>	<u>474</u>
Total operating revenues	<u>262,517</u>	<u>264,665</u>	<u>(2,148)</u>	<u>241,732</u>	<u>22,933</u>
Operating Expenses	<u>474,981</u>	<u>450,638</u>	<u>24,343</u>	<u>420,724</u>	<u>29,914</u>
Operating Loss	<u>(212,464)</u>	<u>(185,973)</u>	<u>26,491</u>	<u>(178,992)</u>	<u>(6,981)</u>
<b>Nonoperating Revenue (Expense)</b>					
State appropriations	196,852	183,254	13,598	169,608	13,646
Transfers (to) from System Admin	(11,868)	(3,838)	(8,030)	(3,829)	(9)
Gifts	14,219	12,269	1,950	11,635	634
Investment income	37,031	22,482	14,549	18,588	3,894
Other	<u>(7,650)</u>	<u>(15,090)</u>	<u>7,440</u>	<u>(3,703)</u>	<u>(11,387)</u>
Net nonoperating revenues	<u>228,584</u>	<u>199,077</u>	<u>29,507</u>	<u>192,299</u>	<u>6,778</u>
Income (loss) before other revenue, expenses, gains or losses	<u>16,120</u>	<u>13,104</u>	<u>3,016</u>	<u>13,307</u>	<u>(203)</u>
Capital appropriations	1,293	34,312	(33,019)	418	33,794
Capital grants and gifts	1,383	8,767	(7,384)	12,346	(3,579)
Additions to endowments					
Withdrawal from trust	510	165	345	196	(31)
	<u>-</u>	<u>(970)</u>	<u>970</u>	<u>-</u>	<u>(970)</u>
Total other revenue	<u>3,186</u>	<u>42,274</u>	<u>(39,088)</u>	<u>12,960</u>	<u>29,214</u>
Special item: Gain on sale of land	-	20,263	(20,263)	-	-
Increase in net assets	19,306	75,541	(56,235)	26,267	41,374
Net assets, beginning of year	<u>536,102</u>	<u>460,561</u>	<u>75,541</u>	<u>434,294</u>	<u>26,267</u>
Net assets, end of year	<u>\$ 555,408</u>	<u>\$ 536,102</u>	<u>19,306</u>	<u>\$ 460,561</u>	<u>\$ 67,641</u>

**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Operating revenues**

Total operating revenues for fiscal 2007 were \$262.5 million. 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 FY2007.



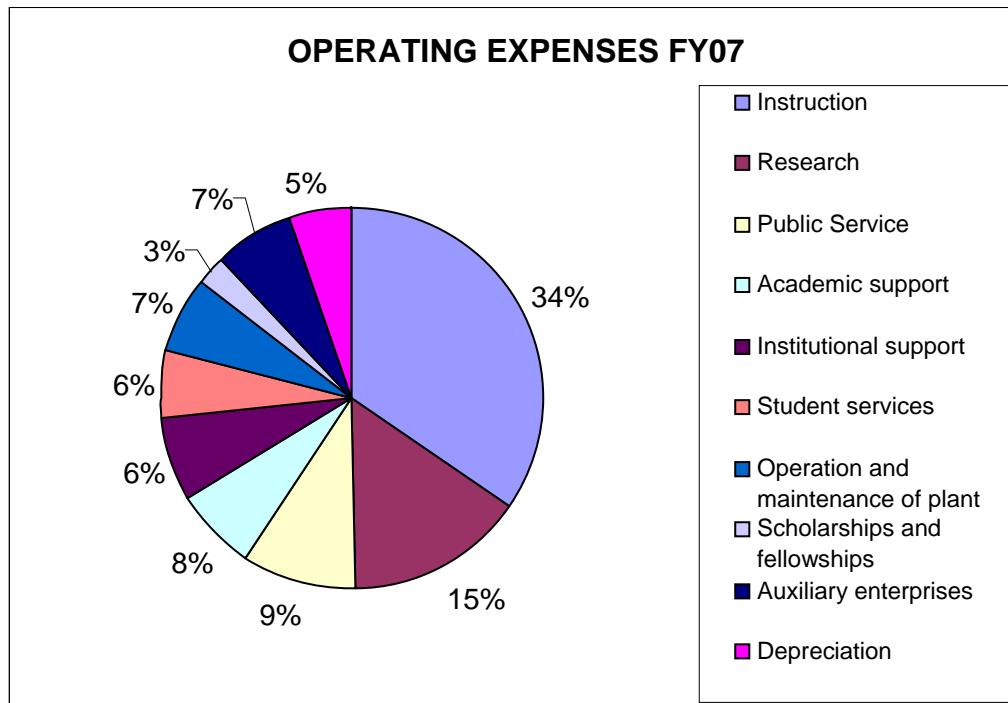
Operating revenues decreased by .8% in FY2007. Significant operating revenue changes included:

- Tuition and fees increased by 10.5% in fiscal year 2007 to \$65.2 million. The fiscal 2007 increase resulted from tuition rate increases, 3% for undergraduate students and 6.9% for graduate students, as well as increases in fees and enrollment in undergraduate, graduate, University Studies Abroad and summer school courses.
- University grant and contract revenue decreased approximately 6.7% in fiscal year 2007 to \$137.4 million. The decrease was primarily due to a one-time Department of Energy Grant of \$3.9 million to the Fire Science Academy in fiscal year 2006 and a decrease in the federal Facilities and Administrative rates from 45% in FY 06 to 40% in FY 07. Sources of grant and contract funding were 71% from the federal government, 12% from local governments (primarily Washoe and Clark counties), 10% from the State of Nevada and 7% from private sources (private foundations and other charitable organizations). Grants and contracts activities were 40% research, 21% instruction, 19% public service, 14% scholarships and 3% student services and 3% other.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Operating Expenses

University operating expenses including depreciation totaled \$475 million in FY2007. The chart below displays fiscal year 2007 operating spending.



Operating expenses increased \$24.4 million, including the following changes:

- Employee compensation and benefits increased by \$20.5 million. All eligible faculty and staff received merit and cost of living increases in fiscal year 2007. The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers.
- Utilities increased by 2.75% to \$11.8 million, primarily due to an increase in power rates and consumption.
- Supplies and services increased in fiscal 2007 by \$2.4 million, primarily due to an increase in state appropriations and grants and contracts activity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Nonoperating revenues and expenses

University nonoperating revenues decreased by \$29.5 million in fiscal 2007 primarily due to a gain on sale of land in fiscal year 2006 of \$20.3 and none in fiscal year 2007, a \$32.9 million decrease in capital appropriations, a \$13.6 million increase in state appropriations and a \$14.6 million increase in investment income.

The decrease in capital appropriations reflects funds appropriated by the 2005 legislature for 2006-2007 biennial projects. Capital appropriations are recorded in the first year of a new biennial budget; therefore most appropriations would be recognized in fiscal 2006, the first year of a biennial budget rather than in fiscal 2007, the last year of a biennial budget. The increase in investment income is due to an increase in the fair market value in fiscal year 2007 of \$6.7 million and an increase in cash reserve of \$8 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Component Units

#### Condensed Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended June 30, 2007, 2006, and 2005 (in thousands of dollars)

	<u>2007</u>	<u>2006</u>	Increase/ (decrease) <u>2005-2006</u>	<u>2005</u>	Increase/ (decrease) <u>2005-2006</u>
Operating Revenues					
Contributions	\$ 11,070	\$ 14,069	\$ (2,999)	\$ 24,724	\$ (10,655)
University support	1,828	1,759	69	1,077	682
Special events and other income	1,333	1,119	214	652	467
Net patient service revenue	45,870	45,203	667	43,329	1,874
Contract revenue	7,082	6,963	119	7,014	(51)
Other revenue	5,950	3,572	2,378	2,941	631
Total operating revenues	<u>73,133</u>	<u>72,685</u>	448	<u>79,737</u>	<u>(7,052)</u>
Operating Expenses	<u>61,400</u>	<u>53,103</u>	8,297	<u>50,740</u>	<u>2,363</u>
Operating income	<u>11,733</u>	<u>19,582</u>	<u>(7,849)</u>	<u>26,056</u>	<u>(9,415)</u>
Nonoperating Revenue (Expenses)					
Investment income	17,113	7,992	9,119	7,458	536
Payments to University	(12,016)	(13,786)	1,770	(20,910)	7,125
Net nonoperating expenses	<u>5,097</u>	<u>(5,792)</u>	10,889	<u>(13,452)</u>	7,661
Income before other revenue, expenses, gains or losses	<u>16,830</u>	<u>13,790</u>	3,040	<u>10,631</u>	<u>4,913</u>
Other revenue, expenses, gains or losses					
Additions to permanent endowments	<u>10,830</u>	<u>7,919</u>	2,911	<u>7,176</u>	<u>743</u>
Total other revenues	<u>10,830</u>	<u>7,920</u>	2,911	<u>2,497</u>	<u>743</u>
Increase in Net Assets	<u>27,660</u>	<u>21,709</u>	5,951	<u>22,720</u>	<u>(1,011)</u>
Net assets, beginning of year	<u>137,975</u>	<u>116,266</u>	21,709	<u>93,546</u>	<u>22,720</u>
Net assets, end of year	<u>\$165,635</u>	<u>\$137,975</u>	<u>\$27,660</u>	<u>\$116,266</u>	<u>\$ 21,709</u>

Contributions to the Foundation decreased by \$3 million or 21% in FY07. A significant portion of the decrease was due to the gifts received in fiscal year 2006 for the Knowledge Center to be built on the University campus. Foundation expenses decreased by \$.9 million, primarily due to the reduction in the amount of funds held for athletics and transferred to the Board of Regents.

The Practice Plans' net patient service revenue increased by \$.7 million or 1.5% in FY 2007 due to an increase in patients as a result of Nevada's rapid growth. Practice Plan expenses increased by \$7.7 million primarily due to rising physician and staff costs and inflationary increases in operating costs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

### Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's financial results, by reporting the major sources and uses of cash.

### Statement of Cash Flows

**University of Nevada, Reno**

**Condensed Statements of Cash Flows**

**For the Years Ended June 30, 2007, 2006 and 2005**

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash provided (used) by :			
Operating activities	\$ (176,207)	\$ (167,788)	\$ (161,029)
Noncapital financing activities	188,266	192,730	196,891
Capital financing activities	(115,098)	32,457	( 4,286)
Investing activities	<u>(111,024)</u>	<u>(85,907)</u>	<u>4,172</u>
Net increase (decrease) in cash and cash equivalents	7,985	(28,508)	35,748
Cash and cash equivalents, beginning of the year	<u>49,252</u>	<u>77,760</u>	<u>42,012</u>
Cash and cash equivalents, end of the year	<u>\$ 57,237</u>	<u>\$ 49,252</u>	<u>\$ 77,760</u>

For the year ending June 30, 2007 the major sources of cash provided by operating activities were student tuition and fees (\$65.5 million) and grants and contracts (\$146.5 million). The largest uses of cash for operating activities were payments for compensation and benefits (\$308.1 million) and to suppliers (\$110.8 million).

For the year ending June 30, 2006 the major sources of cash provided by operating activities were student tuition and fees (\$59.1 million) and grants and contracts (\$141.2 million). The largest uses of cash for operating activities were payments for compensation and benefits (\$285.8 million) and to suppliers (\$114.8 million).

In FY 2007, the largest inflow of cash for noncapital financing activities was the state appropriation of \$186.4 million. Cash used for capital financing activities in FY 2007 was for the acquisition of capital assets and the payment of principal and interest on capital debt and leases

In FY 2006, the largest inflow of cash in the noncapital financing activities group is the state appropriation of \$184.5 million. Cash used for capital financing activities in FY 2006 was for the acquisition of capital assets and the payment of principal and interest on capital debt and leases.

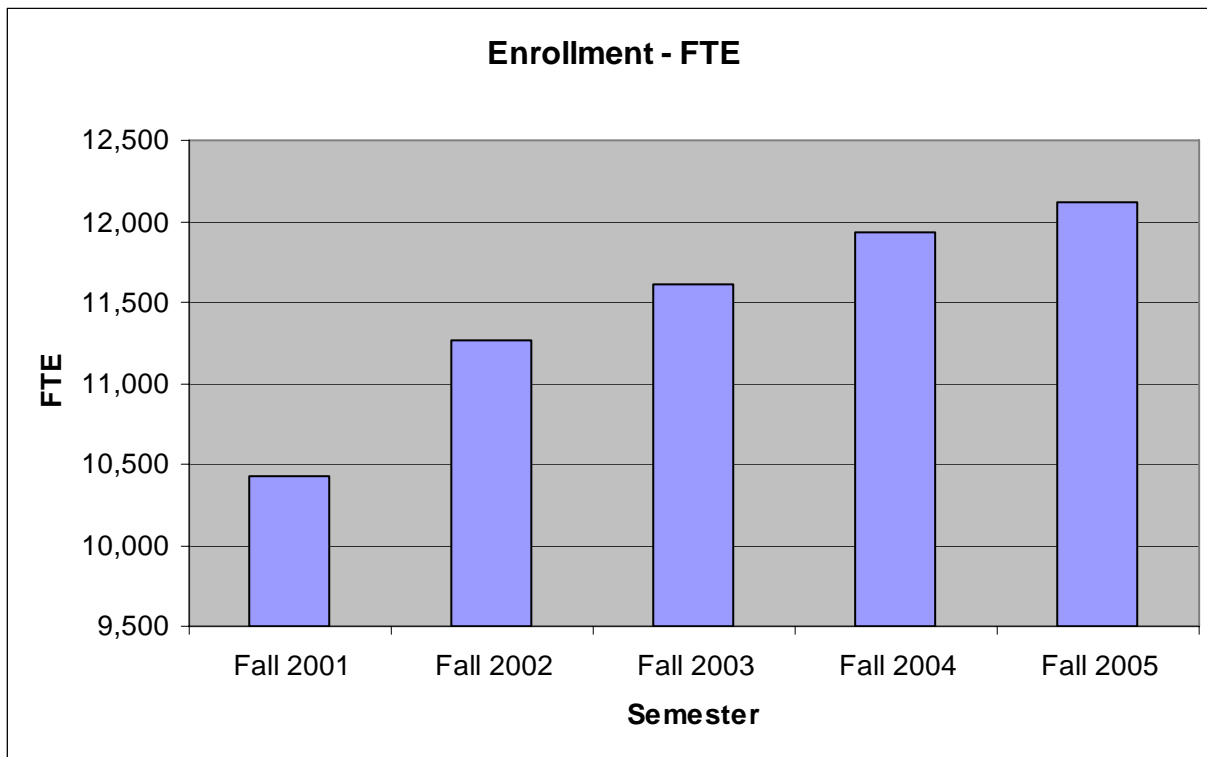
# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

## Enrollment and Admissions

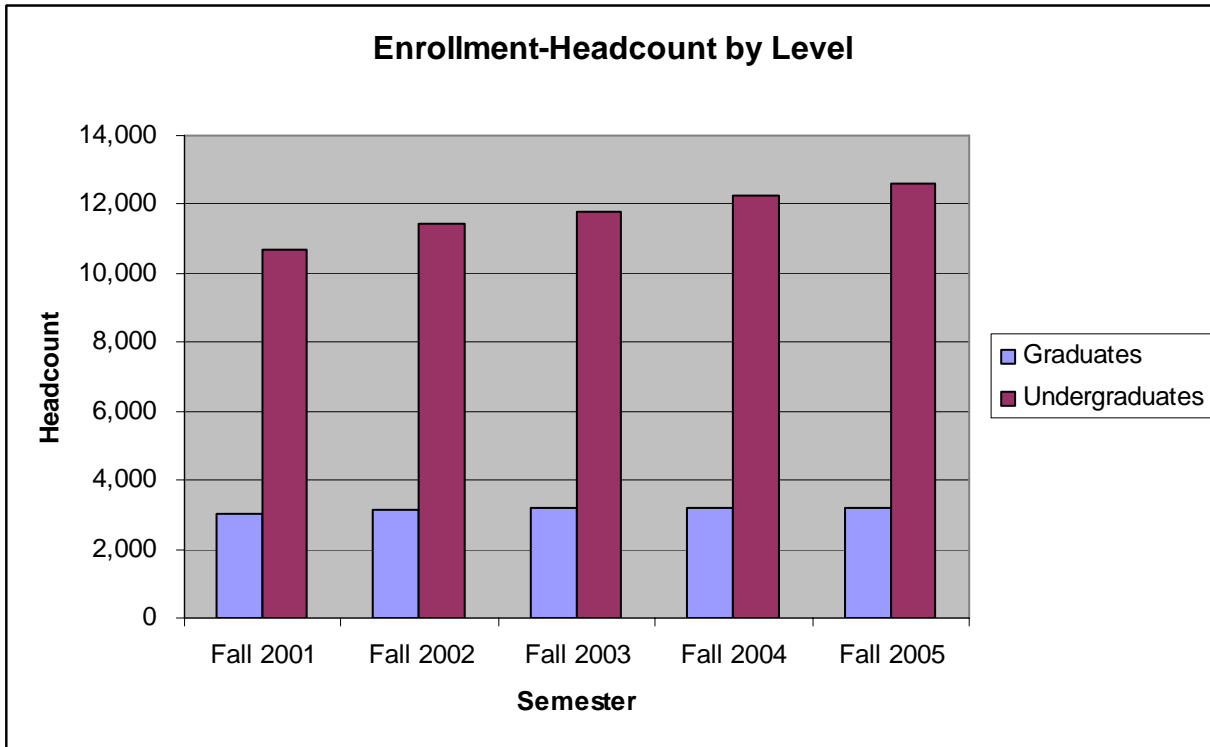
Admission to the University is open to residents and non-residents of the State on a competitive basis. For the fall 2006 semester, Nevada residents accounted for roughly 79% of total graduate and undergraduate students.

In 1999, the State established the millennium scholarship program 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. In 2005, the State Legislature revised the eligibility criteria for the millennium scholarships, which included: increasing the required GPA to maintain the scholarship, limiting the scholarship to 12 credit hours per semester, no millennium dollars for remedial courses and limiting the number of times a student can requalify for the scholarship to two. 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, and a yearly \$7.6 million from the State's Abandoned Property Trust Fund. 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.



**MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**



**Current Factors Having Probable Future Financial Significance**

State funding for the primary instruction appropriation of the University is based on the funding formulas established by the Nevada Legislature. For fiscal years 2005-06 and 2006-07 the formulas were funded at 84.40% and 84.50% respectively. 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 3% for the fall 2007. Increased tuition will generate additional funds for operating and capital improvements over the next biennium.

The University’s 2006-2007 operating budget for state appropriations and total authorized expenditures (the “State Supported Operating Budget”) totaled \$248.0 million. The 2006-2007 operating budget increased 7.1% compared to fiscal year 2006. State appropriations (general fund) for FY 2007 totaled \$197.9 million, and constitute 79.8% of the total appropriated revenue. The State general fund appropriation to the University increased 7.5% over fiscal year 2006. The majority of this increase relates to salary adjustments for faculty and classified employees, additional O&M support for new space and additional funding for the School of Medicine. Other budgeted revenue sources contributing to State Supported Operating Budget include registration fees, non-resident tuition, federal and county funds, indirect cost recovery and investment income.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The University opened in August 2005, the first building of the Redfield Campus. The Redfield Campus is a collaborative effort in education and training, combining the resources of the University, Truckee Meadow Community College, the Redfield Foundation and local businesses. Located in south Reno along Mt. Rose Highway, Redfield is situated in one of the fastest-growing areas in the region. The Redfield Campus plans are for full development of six buildings by 2020, serving an anticipated 10,000 students.

The State Legislature, during the 73<sup>rd</sup> Regular Session and the 22<sup>nd</sup> Special Session, approved \$4.3 million to increase the number of medical students enrolled in the School of Medicine; \$1.5 million for advance planning of a new Academic Medical Center for the School of Medicine and \$4.0 million for the design and engineering expenses of the Academic Medical Center's Organ Transplant Center; and \$250,000 for the creation of a Basque Genealogy Center at 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.

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF NET ASSETS (UNAUDITED)  
AS OF JUNE 30, 2007 and 2006

ASSETS

	University		Component Units	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<i>Current Assets</i>				
Cash and cash equivalents	\$ 43,352,000	\$ 24,806,000	\$ 31,004,000	\$ 31,609,000
Restricted cash	-	-	-	-
Short-term investments	74,726,000	92,792,000	18,120,000	13,799,000
Accounts receivable	15,372,000	18,842,000	176,000	1,175,000
Patient accounts receivable, net of estimated uncollectibles of \$1,680,000 and \$3,018,000	-	-	8,477,000	7,509,000
Current portion of pledges receivable, net	-	-	4,292,000	3,868,000
Current portion of notes receivable	-	-	5,000	4,000
Receivable from U.S. Government	20,861,000	22,014,000	-	-
Receivable from State of Nevada	11,826,000	1,958,000	-	-
Current portion of loans receivable, net	1,911,000	1,675,000	-	-
Inventories	3,106,000	3,297,000	-	-
Current portion of deferred expenditures	5,914,000	1,066,000	-	-
Other current assets	-	-	2,011,000	866,000
Total current assets	<u>177,068,000</u>	<u>166,450,000</u>	<u>64,085,000</u>	<u>58,830,000</u>
<i>Noncurrent Assets</i>				
Restricted cash	246,000	870,000	-	-
Cash held by State Treasurer	13,639,000	23,575,000	-	-
Restricted investments	13,758,000	84,355,000	-	-
Endowment investments	128,395,000	113,444,000	96,903,000	76,908,000
Receivable from State of Nevada	26,166,000	17,685,000	-	-
Loans receivable, net of allowance of \$208,000 and \$180,000	5,584,000	5,003,000	-	-
Pledges receivable, net	-	-	6,098,000	6,825,000
Notes receivable	-	-	177,000	189,000
Residual interest-irrevocable trusts	-	-	1,616,000	345,000
Deferred expenditures	2,496,000	2,771,000	-	-
Real property	-	-	411,000	117,000
Other noncurrent assets	-	-	1,070,000	944,000
Capital assets, net	<u>483,724,000</u>	<u>403,063,000</u>	<u>3,271,000</u>	<u>2,923,000</u>
Total noncurrent assets	<u>674,008,000</u>	<u>650,766,000</u>	<u>109,546,000</u>	<u>88,251,000</u>
<b>TOTAL ASSETS</b>	<u>851,076,000</u>	<u>817,216,000</u>	<u>173,631,000</u>	<u>147,081,000</u>

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF NET ASSETS (UNAUDITED)  
AS OF JUNE 30, 2007 and 2006 (continued)

	<u>LIABILITIES</u>			
	<u>University</u>		<u>Component Units</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<i>Current Liabilities</i>				
Accounts payable	28,706,000	18,019,000	2,125,000	1,934,000
Accrued payroll and related liabilities	9,420,000	7,303,000		1,650,000
Current portion of compensated absences	10,707,000	10,768,000	-	-
Current portion of deferred revenue	12,844,000	11,745,000	-	-
Current portion of long term debt	5,139,000	4,797,000	-	218,000
Current portion of obligations under capital leases	410,000	500,000	262,000	213,000
Accrued interest payable	4,885,000	4,949,000	-	-
Funds held in trust for others	2,038,000	1,961,000	-	-
Due to the University	-	-	1,602,000	3,209,000
Accrued expenses	-	-	1,886,000	476,000
Unemployment insurance and worker's compensation liability	1,175,000	924,000	-	-
Total current liabilities	<u>75,324,000</u>	<u>60,966,000</u>	<u>5,875,000</u>	<u>7,700,000</u>
<i>Noncurrent Liabilities</i>				
Refundable advances under federal loan programs	4,718,000	4,732,000	-	-
Retentions payable	1,923,000	516,000		
Compensated absences	6,141,000	5,930,000	-	-
Deferred revenue	351,000	395,000	-	339,000
Long-term debt	203,346,000	203,961,000	-	661,000
Obligations under capital leases	3,865,000	4,614,000	342,000	406,000
Total noncurrent liabilities	<u>220,344,000</u>	<u>220,148,000</u>	<u>342,000</u>	<u>1,406,000</u>
<b>TOTAL LIABILITIES</b>	<u>295,668,000</u>	<u>281,114,000</u>	<u>6,217,000</u>	<u>9,106,000</u>
	<u>NET ASSETS</u>			
Invested in capital assets, net of related debt includes unexpended plant-funds held by others	281,323,000	268,806,000	2,667,000	2,304,000
Restricted for				
Nonexpendable:	37,498,000	36,056,000	102,614,000	80,729,000
Expendable:				
Scholarships, research, instruction & other	83,592,000	73,605,000	34,086,000	30,355,000
Loans	5,036,000	4,645,000	-	-
Capital projects	30,000,000	40,518,000	-	-
Debt service	3,265,000	4,507,000	-	-
Unrestricted	114,694,000	107,965,000	26,268,000	24,587,000
<b>TOTAL NET ASSETS</b>	<u>\$ 555,408,000</u>	<u>\$ 536,102,000</u>	<u>\$ 165,635,000</u>	<u>\$ 137,975,000</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 (UNAUDITED)  
FOR THE YEARS ENDED JUNE 30, 2007 and 2006

**REVENUES**

	University		Component Units	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<i>Operating Revenues</i>				
Student tuition and fees (net of scholarship allowance of \$16,361,000 and \$16,081,000)	\$ 65,235,000	\$ 59,003,000	\$ -	\$ -
Federal grants and contracts	97,340,000	106,773,000	-	-
State grants and contracts	13,954,000	15,365,000	-	-
Local grants and contracts	16,784,000	14,961,000	-	-
Other grants and contracts	9,310,000	10,236,000	-	-
Sales & services of educational departments (including \$248,000 and \$426,000 from the foundation and \$ 1,237,000 and \$1,481,000 from the practice plans)	28,331,000	28,042,000	-	-
Sales and Services of auxiliary enterprises (net of scholarship allowance of \$2,255,000 and \$2,098,000)	29,162,000	27,732,000	-	-
Other operating revenues	2,310,000	2,457,000	5,950,000	3,572,000
Interest earned on loans receivable	91,000	96,000	-	-
Gifts and contributions	-	-	11,070,000	14,069,000
University support	-	-	1,828,000	1,759,000
Special events and other income	-	-	1,333,000	1,119,000
Net patient service revenue	-	-	45,870,000	45,203,000
Contract revenue	-	-	7,082,000	6,963,000
Total operating revenues	262,517,000	264,665,000	73,133,000	72,685,000

**EXPENSES**

<i>Operating Expenses</i>				
Employee compensation and benefits	310,624,000	290,140,000	22,484,000	20,248,000
Utilities	11,757,000	11,443,000	-	-
Supplies and services	115,237,000	112,826,000	517,000	480,000
Scholarships and fellowships	14,336,000	13,342,000	-	-
Depreciation	23,027,000	22,887,000	892,000	615,000
Program expenses	-	-	37,507,000	31,980,000
Total operating expenses	474,981,000	450,638,000	61,400,000	53,323,000
Operating income (loss)	(212,464,000)	(185,973,000)	11,733,000	19,362,000

**UNIVERSITY OF NEVADA, RENO**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (UNAUDITED)  
FOR THE YEARS ENDED JUNE 30, 2007 and 2006 (continued)**

	University		Component Units	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<i>Nonoperating Revenues (Expenses)</i>				
State appropriations	196,852,000	183,254,000	-	-
Net transfers to System Administration	(11,868,000)	(3,838,000)	-	-
Gifts (including \$9,459,000 and \$11,018,000 from the foundation)	14,219,000	12,269,000	-	-
Investment income	37,031,000	22,482,000	17,113,000	7,994,000
Disposal of plant assets	(498,000)	(4,407,000)	-	-
Interest on capital asset-related debt	(7,043,000)	(10,719,000)	-	-
Payments to University	-	-	(12,016,000)	(13,566,000)
Other nonoperating revenues	(109,000)	36,000	-	-
Net nonoperating revenues (expenses)	<u>228,584,000</u>	<u>199,077,000</u>	<u>5,097,000</u>	<u>(5,572,000)</u>
Income before other revenues	<u>16,120,000</u>	<u>13,104,000</u>	<u>16,830,000</u>	<u>13,790,000</u>
<i>Other Revenues</i>				
State appropriations restricted for capital purposes	1,293,000	34,212,000	-	-
Capital grants and gifts (including \$1,071,000 and \$642,000 from the foundation)	1,383,000	8,767,000	-	-
Additions to permanent endowments (including \$- and \$800,000 from the foundation)	510,000	165,000	10,830,000	7,919,000
Withdrawal from trust	-	(970,000)	-	-
Gain on sale of land	-	20,263,000	-	-
Total other revenues	<u>3,186,000</u>	<u>62,437,000</u>	<u>10,830,000</u>	<u>7,919,000</u>
Increase in net assets	19,306,000	75,541,000	27,660,000	21,709,000
<b><u>NET ASSETS</u></b>				
Net assets- beginning of year	536,102,000	460,561,000	137,975,000	116,266,000
Net assets-end of year	<u>\$ 555,408,000</u>	<u>\$ 536,102,000</u>	<u>\$ 165,635,000</u>	<u>\$ 137,975,000</u>

The accompanying notes are an integral part of these financial statements

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<i>Cash Flows from Operating Activities</i>		
Tuition and fees	\$ 65,525,000	\$ 59,051,000
Grants and contracts	146,548,000	141,183,000
Payments to suppliers	(110,797,000)	(114,768,000)
Payments for utilities	(11,605,000)	(13,056,000)
Payments for compensation and benefits	(308,103,000)	(285,805,000)
Payments for scholarships and fellowships	(14,344,000)	(13,358,000)
Loans issued to students and employees	(2,294,000)	(1,412,000)
Collection of loans to students and employees	1,440,000	1,700,000
Sales and services of educational departments	26,163,000	28,726,000
Sales and services of auxiliary enterprises	28,507,000	27,654,000
Other receipts	2,753,000	2,297,000
Net cash used by operating activities	<u>(176,207,000)</u>	<u>(167,788,000)</u>
<i>Cash Flows from Noncapital Financing Activities</i>		
State appropriations	186,406,000	184,548,000
Net transfers to System Administration	(11,868,000)	(3,838,000)
Gifts and grants for other than capital purposes	13,485,000	11,869,000
Gifts for endowment purposes	510,000	165,000
Other	(344,000)	(100,000)
Agency transactions	77,000	86,000
Receipts under federal student loan programs	20,256,000	21,841,000
Disbursements under federal student loan programs	(20,256,000)	(21,841,000)
Net cash provided by noncapital financing activities	<u>188,266,000</u>	<u>192,730,000</u>
<i>Cash Flows from Capital Financing Activities</i>		
Proceeds from capital debt	5,845,000	71,029,000
Debt issuance costs	275,000	(964,000)
Capital appropriations	(7,187,000)	17,269,000
Capital grants and gifts received	1,620,000	1,185,000
Capital and related financing activities	(840,000)	-
Purchases of capital assets	(94,747,000)	(48,058,000)
Deposits on the acquisition of capital assets	(4,197,000)	-
Principal paid on capital debt and leases	(5,897,000)	(19,254,000)
Interest paid on capital debt and leases	(9,970,000)	(9,013,000)
Net proceeds on sale of land	-	20,263,000
Net cash used by capital financing activities	<u>(115,098,000)</u>	<u>32,457,000</u>
<i>Cash Flows from Investing Activities</i>		
Proceeds from sales and maturities of investments	140,646,000	35,706,000
Purchase of investments	(33,947,000)	(129,968,000)
Interest and dividends on investments	12,581,000	5,764,000
Net (decrease) increase in cash equivalents, noncurrent investments	(8,256,000)	2,591,000
Net cash provided by (used by) investing activities	<u>111,024,000</u>	<u>(85,907,000)</u>
Net increase (decrease) in cash and cash equivalents	7,985,000	(28,508,000)
Cash and cash equivalents - beginning of the year	49,252,000	77,760,000
Cash and cash equivalents - end of year	<u>\$ 57,237,000</u>	<u>\$ 49,252,000</u>

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

UNIVERSITY OF NEVADA, RENO

STATEMENTS OF CASH FLOWS (UNAUDITED)  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006 (continued)

	<u>2007</u>	<u>2006</u>
<i>Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities</i>		
Operating loss	\$ (212,464,000)	\$ (185,973,000)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	23,027,000	22,887,000
Changes in assets and liabilities:		
Accounts receivable, net	4,856,000	(4,706,000)
Loans receivable	(817,000)	280,000
Inventories	190,000	(713,000)
Deferred expenditures and deposits	(651,000)	6,000
Accounts payable	6,082,000	292,000
Accrued payroll and related liabilities	2,117,000	15,000
Accrued unemployment and workers' compensation insurance	250,000	(151,000)
Refundable advances under federal loan programs		
Deferred revenue	1,054,000	(1,302,000)
Compensated absences	149,000	1,577,000
Net cash used by operating activities	<u>\$ (176,207,000)</u>	<u>\$ (167,788,000)</u>
<i>Non-cash transactions</i>		
Capital assets acquired by incurring capital lease obligations and accounts payable	<u>\$ -</u>	<u>\$ 5,415,000</u>
Loss on disposal of capital assets	<u>\$ 498,000</u>	<u>\$ 4,407,000</u>
Capital assets acquired by gift	<u>\$ 269,000</u>	<u>\$ 7,124,000</u>

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

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

**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 Nevada System of Higher Education (the "System"), formerly known as the University and Community College System of Nevada, which also includes:

- University of Nevada, Las Vegas
- Community College of Southern Nevada
- Truckee Meadows Community College
- Western Nevada College
- Great Basin College
- Desert Research Institute
- Nevada State College at Henderson
- Nevada System of Higher Education 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 units 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 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 years ended June 30, 2007 and 2006, the Foundation distributed \$10,779,000 and \$12,085,000, respectively, 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 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 years ended June 30, 2007 and 2006 the Practice Plans distributed \$1,237,000 and \$1,481,000, respectively, to the University for restricted purposes. Complete financial statements for the Practice Plans can be obtained from Vince Johnson, University of Nevada, Reno, Mail Stop 346, 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 accounting principles generally accepted in the United States of America 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*.

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.

During 2006, the University adopted GASB 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 University has determined that currently no assets are impaired.

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

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

**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.

**Reclassifications**

Certain amounts have been reclassified in the 2006 financial statements to conform to the 2007 presentation. Such reclassifications had no effect on previously recorded total net assets or changes in total net assets.

**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.

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

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

**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 to 40
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.

**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.

Foundation

Deferred revenue primarily represents 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 is comprised of:

	<u>2007</u>	<u>2006</u>
Residual interest in trust	1,505,000	57,000
Annual banquet	<u>108,000</u>	<u>282,000</u>
	<u>\$1,613,000</u>	<u>\$ 339,000</u>

**Compensated Absences**

The University accrues annual leave for employees at rates based upon length of service and job classification. 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.

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

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

**Net Assets**

Net Assets are classified as follows:

*Invested in capital assets, net of related debt:* Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt that are attributed to the acquisition, construction or improvement of those 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.

**Medical School Practice Plans 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 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 years ended June 30, 2007 and 2006 totaled \$2,643,000 and \$2,385,000, respectively.

**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.

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

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

**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 accounting principles generally accepted in the United States of America 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**

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 for governments with annual revenues of \$100 million or more are effective for fiscal years beginning after December 5, 2006. The anticipated impact on the University is unknown at this time.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance for recording and disclosing activities related to pollution remediation which becomes effective for years beginning after December 15, 2007. The anticipated impact of this pronouncement is unknown at this time.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, which expands pension disclosure requirements and is effective for years beginning after June 15, 2007. The anticipated impact is unknown at this time.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which requires most identifiable intangibles be classified as capital assets and gives guidance on amortization, when appropriate. The Statement is effective for years beginning after June 15, 2009. The anticipated impact of this pronouncement is unknown at this time.

**NOTE 3 -- CASH AND CASH EQUIVALENTS:**

University

Cash and cash equivalents of the University are stated at cost, which approximates market, and consist of deposits in money market funds, which are not federally insured, and cash in the bank. Substantially all of the University's cash and cash equivalents are pooled with that of the other campuses and divisions of the System. At June 30, 2007 and 2006 the System's deposits in money market funds totaled \$87,733,000 and \$139,263,000, respectively, and cash in bank was \$16,521,000 and \$8,133,000, respectively. Of these balances \$100,000 in fiscal year 2007 and \$200,000 in fiscal year 2006 were insured by the Federal Depository Insurance Corporation ("FDIC"), the remaining deposits are uncollateralized and uninsured. Restricted cash represents the unexpended bond proceeds held for construction of major assets. 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.

Foundation

Cash and cash equivalents at June 30 consist of:

	2007	2006
Cash	\$ 196,000	\$ 966,000
Money funds	608,000	54,000
Common fund short-term investments	21,855,000	17,669,000
Certificates of deposit	285,000	-
	\$22,944,000	\$18,689,000

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 3 -- CASH AND CASH EQUIVALENTS (continued):**

*Custodial Credit Risk – Deposits*

In the case of deposits, this is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. All cash deposits are primarily on deposit with two financial institutions and several investment companies. The Foundation does not have a deposit policy for custodial credit risk. As of June 30, 2007, the Foundation's bank balance was \$21,495,000. Of this balance \$922,000 was covered by depository insurance and/or collateralized and \$20,439,000 was held in by the Commonfund and subject to their investment policies.

Practice Plans

Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less. All deposits are carried at cost plus accrued interest.

*Custodial Credit Risk – Deposits*

Cash and cash equivalents are invested in bank accounts and certificates of deposit. Custodial credit risk is the risk that in the event of a bank failure, the Practice Plans' deposits may not be returned to it. The Practice Plans do not have a deposit policy for custodial risk. As of June 30, 2007, \$12,427,000 of the Practice Plans' bank balance was exposed to custodial credit risk.

**NOTE 4 -- INVESTMENTS:**

University

Investments are stated at fair value. At June 30, 2007 and 2006 the University's operating and endowment investments totaled \$203,121,000 and \$206,236,000, respectively, and such investments were maintained in the System's operating and endowment investment pools. At June 30, 2007 and 2006 the System's operating and endowment investment pools totaled \$656,824,000 and \$620,640,000, respectively, and were comprised of the following:

	<u>2007</u>	<u>2006</u>
Mutual funds	58%	52%
Guaranteed investment contracts	24%	24%
Other partnerships	6%	12%
Private equity partnerships	1%	7%
Stocks	2%	4%
Endowment cash and cash equivalents	1%	1%
Other investments (including corporate and U.S. government bonds)	-	1%

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>2007</u>	<u>2006</u>
Stocks	36%	38%
U.S. government bonds	16%	25%
International securities	29%	24%
Cash and equivalents	7%	12%
Corporate bonds	12%	1%

The Board of Regents has established an investment income distribution policy for pooled investments which serve to mitigate earnings fluctuations at the campus level from year to year. In accordance with this policy, during the year ended June 30, 2007 the System Administration retained \$11,868,000 and during the year ended June 30, 2006 distributed \$1,225,000 of investment income from the University's operating fund investments. Such amounts are included in Net Transfers to System Administration in the financial statements.

As of June 30, 2007, 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 \$5,154,000.

For purposes of applying GASB Statement No. 40, certain of the System's operating and endowment investments are subject to risks as follows:

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

**NOTE 4 – INVESTMENTS (continued):**

*Credit risk and interest rate risk*

Certain securities with fixed income are subject to credit risk which is the risk that an issuer of an investment will not fulfill its obligations. Other securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. Credit quality is an assessment of the issuer's ability to pay interest on the investment, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent rating agencies, for example Moody's Investors Service or Standard and Poor's. The System's policy for reducing its exposure to credit risk is to maintain a weighted average credit rating of AA or better, and never below A, for investments with credit risk within both the endowment and operating investment pools. With regard to the trusts included in endowment investments which are solely attributable to the University of Nevada, Reno, the System is not the trustee of these investments and, therefore, it currently has no policies with regard to credit risk for these investments.

The credit risk profile for the System's operating and endowment investments at June 30, 2007 is as follows:

US Government - Guaranteed	\$1,466,000
Corporate Bonds:	
AAA	\$106,000
AA	\$506,000
A	\$370,000
Not Rated	-
Guaranteed Investment Contracts – Guaranteed	\$13,758,000
Commingled Funds:	
US Bond Funds - Not Rated	\$59,103,000
Non-US Bond Funds - Not Rated	\$47,091,000
Money Market Funds - Not Rated	\$21,409,000

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a shorter duration to maturity tend to be more sensitive to changes in interest rates, and, therefore, more volatile than those with longer investment lives. The System's policy for reducing its exposure to interest rate risk is to have an average investment life of at least two years for fixed income securities within both the endowment and operating investment pools. With regard to the trusts included in endowment investments which are solely attributable to the University of Nevada, Reno, the System is not the trustee of these investments and, therefore, it currently has no policies with regard to interest rate risk for these investments.

Investments included in the above table have been identified as having interest rate risk and are principally invested in mutual funds. The segmented time distribution for these investments at June 30, 2007 is as follows:

Less than 1 year	\$ 74,093,000
1 to 5 years	\$ 41,483,000
6 to 10 years	\$ 11,675,000
More than 10 years	\$ 16,558,000

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

**NOTE 4 – INVESTMENTS (continued):**

*Custodial credit risk*

Custodial credit risk is the risk that in the event of a failure of the custodian, the System may not be able to recover the value of the investments held by the custodian as these investments are uninsured. Currently, the System does not have a formal policy for custodial credit risk. At June 30, 2007 the System's total operating and endowment investments were held by various custodial banks and are represented by the following types of investments:

Mutual Funds	\$ 2,152,000
Stocks	\$ 12,403,000
International	\$ 37,000
US Government Bonds	\$ 1,467,000
Corporate Bonds	\$ 981,000
Guaranteed Investment Contracts	\$ 13,758,000

*Concentration of credit risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investments within any one issuer. The System's policy for reducing its exposure to concentration of credit risk is to limit the investments within any one issuer to a maximum of 5% of the System's total operating and endowment investments. At June 30, 2007, there were no investments within any one issuer in an amount that would constitute a concentration of credit risk to the System.

*Foreign currency risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At June 30, 2007, the System had \$108,238,000 of investments in international mutual funds subject to foreign currency risk in both the operating and endowment pools. The U.S. dollar balances of international mutual funds organized by the respective foreign currencies are as follows :

Euro	\$ 55,873,000
Hong Kong Dollar	\$ 1,010,000
Japanese Yen	\$ 17,242,000
Swiss Franc	\$ 4,243,000
South Korean Won	\$ 4,847,000
Canadian Dollar	\$ 4,875,000
Taiwan New Dollar	\$ 2,520,000
Brazilian Real	\$ 1,960,000
Chinese Renminbi	\$ 1,737,000
Australian Dollar	\$ 2,437,000
Other	\$ 11,494,000

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 4 – INVESTMENTS (continued):**

Foundation

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

	<u>2007</u>	<u>2006</u>
Commonfund bond	\$25,395,000	15,927,000
Commonfund global bond	-	651,000
Commonfund equity	70,997,000	59,183,000
Commonfund international equity	-	1,079,000
Commonfund emerging markets	-	1,814,000
Commonfund capital partners	1,249,000	844,000
Commonfund real estate securities	-	953,000
Commonfund realty investors	2,393,000	2,096,000
Commonfund global distress	822,000	-
Commonfund international commodities	2,976,000	-
Equity investments	698,000	357,000
Certificates of deposit	944,000	1,812,000
U.S. government securities	<u>6,121,000</u>	<u>5,237,000</u>
	<u>\$111,595,000</u>	<u>\$89,953,000</u>

At June 30, 2007, the Foundation investments had the following maturities:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>
Equity investments	\$ 698,000	\$ 698,000	\$ -	\$ -
Open ended mutual funds	103,832,000	103,832,000	-	-
Certificates of deposit	944,000	861,000	-	83,000
U.S. Government securities	6,121,000	5,647,000	474,000	-
	<u>\$111,595,000</u>	<u>\$111,038,000</u>	<u>\$474,000</u>	<u>\$83,000</u>

The Foundation's investment policy allows for investments of money market funds, certificates of deposit, commercial paper (rated P-1 and/or A-1 or better up to 10% maximum of the total cash balance), United States treasury bills or notes, mortgage backed securities, or internal loans to the University of Nevada, Reno (secured by a promissory note, with appropriate interest). Investments outside of the Commonfund are staggered in 30, 60 and 90 day investments. All investments in excess of the 90 day limit are approved individually. Justification for the time period of the investment would be that our liquid cash needs didn't exceed \$10 million and the rate of return justifies the investment.

The cumulative net appreciation of investments at June 30, 2007 and 2006 was \$27,729,000 and \$21,716,000, respectively.

*Investment Risk Factors*

There are many factors that can affect the value of investments. Some, such as custodial credit risk and concentrations of credit risk may affect fixed income securities, which are particularly sensitive to credit risks and changes in interest rates. The Investment Committee of the Foundation has policies regarding acceptable levels of risk. The committee meets quarterly to review the investments. Significant amounts of the investments are held with Commonfund which also has policies regarding acceptable levels of risk.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation restricts investments to financial institutions with high credit standing and The Commonfund, a nonprofit membership corporation operated by and for its member colleges, universities and independent schools. The Foundation currently purchases certificates of deposit of less than one hundred thousand dollars per bank or institution. Commercial paper is limited to a maximum of 10% of the total cash available. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents and investments.

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 4 – INVESTMENTS (continued):**

*Credit Risk*

Fixed income securities are subject to credit risk, which is the chance an issuer or other counterparty to an investment will not fulfill its obligations. It is the policy of the Foundation to manage its credit risk by limiting its fixed income securities to obligations of the U.S. Government, which are not considered to have credit risk, and to pooled fixed income funds with the Commonfund. The Commonfund is unrated by recognized statistical rating organizations.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's current policy limits U.S. Treasury instruments and certificates of deposit to no more than 90 days out unless the rate justifies the return and the current cash needs permit.

*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Foreign investments are managed by the Commonfund who has policies in place to address foreign currency risk.

*Custodial Credit Risk – Investments*

For an investment, this is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments consist primarily of open-end mutual funds through a single custodian. Debt and equity securities other than open-end mutual funds are uncollateralized.

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

Approximately \$119,597,000 and \$105,588,000 of the University's endowment fund investments at June 30, 2007 and 2006, respectively, are pooled on a unit market value basis with endowment fund investments of the other campuses and divisions of System.

The endowment pool is comprised of investments in the following at June 30, 2007 and June 30, 2006:

	<u>2007</u>	<u>2006</u>
Mutual funds	65%	67%
Stocks	4%	8%
Private equity partnerships	22%	21%
Other investments	10%	4%

Each individual fund acquires or disposes of units on the basis of the market value per unit on the preceding quarterly valuation date. The unit market value at June 30, 2007 and 2006 was \$530.31 and \$470.14, 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, 2007 and 2006 the Board of Regents' policy authorized a distribution of 4.5% of the average unit market value for the twenty (20) preceding quarters. Under the provisions of this spending rule, \$17.00 and \$17.00 was distributed to each time-weighted unit for a total distribution to the University of \$3,896,000 and \$3,816,000 during the years ended June 30, 2007 and 2006, respectively.

**NOTE 6 -- RECEIVABLES:**

University

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 5% and 10% 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, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Loans receivable	7,703,000	6,858,000
Less: Allowance for doubtful loans	<u>( 208,000)</u>	<u>(180,000)</u>
Net loans receivable	7,495,000	6,678,000
Less: current portion	<u>(1,911,000)</u>	<u>(1,675,000)</u>
Noncurrent loans receivable	<u>\$ 5,584,000</u>	<u>\$5,003,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 6 – RECEIVABLES (continued):**

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, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Athletics	\$506,000	\$2,264,000
College of Agriculture, Biotechnology and Natural Resources	60,000	190,000
College of Business	8,000	478,000
College of Education	600,000	327,000
College of Engineering	1,248,000	298,000
College of Public Health	1,000	62,000
College of Liberal Arts	225,000	624,000
College of Science	398,000	643,000
Library	2,401,000	3,697,000
Redfield Campus	-	750,000
School of Journalism	1,569,000	337,000
School of Medicine	2,000,000	2,012,000
Scholarships	2,423,000	-
Other	10,000	275,000
	<u>11,449,000</u>	<u>11,957,000</u>
Present value discount	(1,059,000)	(1,264,000)
Net pledges receivable	<u>10,390,000</u>	<u>10,693,000</u>
Less current maturities	<u>4,292,000</u>	<u>3,868,000</u>
	<u>\$6,098,000</u>	<u>\$6,825,000</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, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Medicare	18%	11%
Medicaid	17%	17%
Commercial insurance	31%	33%
Other third-party payors	3%	5%
Patients	<u>31%</u>	<u>34%</u>
	<u>100%</u>	<u>100%</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 7 – UNIVERSITY CAPITAL ASSETS:**

Capital asset activity of the University for the year ended June 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 39,133,000	\$453,000	-	\$39,586,000
Construction in progress	37,928,000	93,349,000	(10,818,000)	120,459,000
Collections	<u>1,254,000</u>	<u>115,000</u>	<u>                    </u>	<u>1,369,000</u>
Total capital assets not being depreciated	<u>78,315,000</u>	<u>93,917,000</u>	<u>(10,818,000)</u>	<u>161,414,000</u>
Capital assets being depreciated:				
Land improvements	31,104,000	68,000		31,172,000
Buildings	416,492,000	10,703,000		427,195,000
Equipment	113,932,000	8,989,000	(5,178,000)	117,743,000
Library books and media	<u>17,112,000</u>	<u>1,407,000</u>	<u>(569,000)</u>	<u>17,950,000</u>
Total capital assets being depreciated	<u>578,640,000</u>	<u>21,167,000</u>	<u>(5,747,000)</u>	<u>594,060,000</u>
Less accumulated depreciation for:				
Land improvements	( 21,488,000)	(1,223,000)		(22,711,000)
Buildings	( 143,283,000)	(10,197,000)		(153,480,000)
Equipment	( 76,329,000)	(9,706,000)	4,599,000	(81,436,000)
Library books and media	<u>( 12,792,000)</u>	<u>(1,900,000)</u>	<u>569,000</u>	<u>(14,123,000)</u>
Total accumulated depreciation	<u>( 253,892,000)</u>	<u>(23,026,000)</u>	<u>5,168,000</u>	<u>(271,750,000)</u>
Total capital assets being depreciated, net	<u>324,748,000</u>	<u>(1,859,000)</u>	<u>(579,000)</u>	<u>322,310,000</u>
Capital assets, net	<u>\$403,063,000</u>	<u>92,058,000</u>	<u>(11,397,000)</u>	<u>483,724,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 7 – UNIVERSITY CAPITAL ASSETS (continued):**

Capital asset activity of the University for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 41,705,000	\$ 1,427,000	(\$3,999,000)	\$ 39,133,000
Construction in progress	26,573,000	33,801,000	( 22,446,000)	37,928,000
Collections	1,233,000	21,000	-	1,254,000
	<u>69,511,000</u>	<u>35,249,000</u>	<u>( 26,445,000)</u>	<u>78,315,000</u>
Capital assets being depreciated:				
Land improvements	29,381,000	1,723,000	-	31,104,000
Buildings	385,394,000	31,098,000	-	416,492,000
Equipment	106,466,000	13,302,000	( 5,836,000)	113,932,000
Library books and media	16,177,000	1,164,000	( 229,000)	17,112,000
	<u>537,418,000</u>	<u>47,287,000</u>	<u>( 6,065,000)</u>	<u>578,640,000</u>
Less accumulated depreciation for:				
Land improvements	(20,056,000)	( 1,432,000)	-	( 21,488,000)
Buildings	( 133,823,000)	( 9,460,000)	-	( 143,283,000)
Equipment	( 71,703,000)	( 9,801,000)	5,175,000	( 76,329,000)
Library books and media	(10,827,000)	( 2,194,000)	229,000	( 12,792,000)
	<u>( 236,409,000)</u>	<u>( 22,887,000)</u>	<u>5,404,000</u>	<u>( 253,892,000)</u>
Total capital assets being depreciated, net	<u>301,009,000</u>	<u>24,400,000</u>	<u>( 661,000)</u>	<u>324,748,000</u>
Capital assets, net	<u>\$370,520,000</u>	<u>\$59,649,000</u>	<u>(\$27,106,000)</u>	<u>\$403,063,000</u>

The estimated cost to complete University property authorized or under construction at June 30, 2007 is \$139,542,000. These costs will be financed by state appropriations, available resources and/or long-term borrowings.

Capitalized interest in the amounts of \$2,864,000 and \$(970,000) was recorded for the fiscal years ended June 30, 2007 and June 30, 2006, respectively.

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 8 – UNIVERSITY LONG-TERM DEBT**

Long-term debt of the University at June 30, 2007 consists of the following:

BONDS	Annual Interest Rate	Fiscal Year Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Current
Universities Revenue Bonds, Series September 1, 1995	3.90% to 5.25%	2011	\$ 580,000	-	\$ (105,000)	\$ 475,000	\$ 110,000
Universities Refunding Revenue Bonds, Series January 1, 1997	4.5% to 6.00%	2007	559,000	-	(559,000)	-	-
Universities Revenue Bonds, Series September 1, 1998	4.00% to 5.25%	2014	1,230,000	-	(130,000)	1,100,000	135,000
Universities Revenue Bonds, Series January 1, 2000	5.10% to 5.875%	2021	2,650,000	-	(610,000)	2,040,000	645,000
Universities Revenue Bonds, Series 2002A	3.875% to 5.4%	2032	27,110,000	-	-	27,110,000	-
Universities Revenue Bonds, Series 2002B & C	4.0% to 5.5 %	2032	18,390,000	-	(260,000)	18,130,000	220,000
Universities Refunding Revenue Bonds, Series 2003A	2.0% to 4.25%	2016	6,878,000	-	(1,418,000)	5,460,000	1,750,000
Universities Revenue Bonds, Series 2003B	2.0% to 5.0%	2034	28,750,000	-	(495,000)	28,255,000	505,000
Universities Revenue Bonds, Series 2004B	3.0% to 4.75%	2030	10,000,000	-	-	10,000,000	-
Universities Revenue Bonds, Series 2005A	3.0% to 5.0%	2036	31,010,000	-	-	31,010,000	-
Universities Revenue Bonds, Series 2005B	3.25% to 5.0%	2036	67,245,000	-	-	67,245,000	15,000
Premiums			<u>5,710,000</u>	-	<u>(221,000)</u>	<u>5,489,000</u>	<u>220,000</u>
Total Bonds Payable			200,112,000	-	(3,798,000)	196,314,000	3,600,000
Notes Payable			<u>8,646,000</u>	<u>5,845,000</u>	<u>(2,320,000)</u>	<u>12,171,000</u>	<u>1,539,000</u>
<b>TOTAL</b>			<u>\$208,758,000</u>	<u>\$5,845,000</u>	<u>\$(6,118,000)</u>	<u>\$208,485,000</u>	<u>\$5,139,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 8 – UNIVERSITY LONG-TERM DEBT (continued):**

Long-term debt of the University at June 30, 2006 consists of the following:

BONDS	Annual Interest Rate	Fiscal Year Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Current
Universities Revenue Bonds, Series September 1, 1995	3.90% to 5.25%	2011	\$ 680,000	-	(\$ 100,000)	\$ 580,000	\$ 105,000
Universities Refunding Revenue Bonds, Series January 1, 1997	4.5% to 6.00%	2007	1,553,000	-	( 994,000)	559,000	559,000
Universities Revenue Bonds, Series September 1, 1998	4.00% to 5.25%	2014	1,355,000	-	( 125,000)	1,230,000	130,000
Universities Revenue Bonds, Series January 1, 2000	5.10% to 5.875%	2021	13,945,000	-	( 11,295,000)	2,650,000	610,000
Universities Revenue Bonds, Series 2002A	3.875% to 5.4%	2032	31,000,000	-	( 3,890,000)	27,110,000	-
Universities Revenue Bonds, Series 2002B & C	4.0% to 5.5 %	2032	18,730,000	-	( 340,000)	18,390,000	260,000
Universities Refunding Revenue Bonds, Series 2003A	2.0% to 4.25%	2016	7,471,000	-	( 593,000)	6,878,000	1,418,000
Universities Revenue Bonds, Series 2003B	2.0% to 5.0%	2034	28,750,000	-	-	28,750,000	495,000
Universities Revenue Bonds, Series 2004B	3.0% to 4.75%	2030	10,000,000	-	-	10,000,000	-
Universities Revenue Bonds, Series 2005A	3.0% to 5.0%	2036	31,010,000	-	-	31,010,000	-
Universities Revenue Bonds, Series 2005B	3.25% to 5.0%	2036		67,245,000		67,245,000	-
Premiums			<u>2,104,000</u>	<u>3,784,000</u>	<u>( 179,000)</u>	<u>5,710,000</u>	<u>-</u>
Total Bonds Payable			146,598,000	71,029,000	( 17,515,000)	200,112,000	3,577,000
Notes Payable			<u>10,047,000</u>	<u>-</u>	<u>(1,401,000)</u>	<u>8,646,000</u>	<u>1,220,000</u>
<b>TOTAL</b>			<u>\$156,645,000</u>	<u>\$71,029,000</u>	<u>(\$18,916,000)</u>	<u>\$208,758,000</u>	<u>\$4,797,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 8 – UNIVERSITY LONG-TERM DEBT (continued):**

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.

On November 1, 2006, the System entered into a promissory note with Banc of America in the amount of \$6,599,000 of which \$5,845,000 of the proceeds was for the University. \$845,000 of the note was used to refinance the 2000 Research loan. The reacquisition price exceeds the carrying value of the old note by \$5,000, which was expensed.

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

	<u>Principal</u>	<u>Interest</u>
2008	\$ 5,139,000	\$ 9,628,000
2009	5,639,000	9,399,000
2010	5,946,000	9,172,000
2011	6,022,000	8,941,000
2012	6,428,000	8,696,000
2013-2017	33,726,000	38,919,000
2018-2022	35,287,000	30,784,000
2023-2027	36,209,000	22,389,000
2028-2032	45,439,000	12,580,000
2033-2037	<u>28,650,000</u>	<u>2,550,000</u>
	<u>\$208,485,000</u>	<u>\$153,058,000</u>

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

Obligations under capital leases were as follows for the year ending June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	\$5,114,000	\$ -	(\$ 839,000)	\$4,275,000	\$410,000

Obligations under capital leases were as follows for the year ending June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	\$5,632,000	\$ -	(\$ 518,000)	\$5,114,000	\$500,000

The following capital assets of the University included in the accompanying financial statements were leased under capital leases as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Machinery and equipment	\$ 1,165,000	\$1,165,000
Buildings	5,821,000	5,821,000
Construction in progress	-	-
Subtotal	<u>6,986,000</u>	<u>6,986,000</u>
Less accumulated depreciation	<u>(2,142,000)</u>	<u>(1,386,000)</u>
Total	<u>\$4,844,000</u>	<u>\$5,600,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 9 – UNIVERSITY OBLIGATIONS UNDER CAPITAL LEASES (continued):**

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

2008	\$ 592,000
2009	610,000
2010	628,000
2011	647,000
2012	666,000
2013-2017	<u>1,974,000</u>
Total minimum lease payments	5,117,000
Less amount representing interest	<u>(842,000)</u>
Obligations under capital leases	<u>\$ 4,275,000</u>

Total interest expense of the University under capital leases included in the accompanying financial statements was \$214,000 and \$240,000 during the years ended June 30, 2007 and 2006, respectively.

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

The activity with respect to other noncurrent liabilities of the University for the years ended June 30, 2007 and 2006 was as follows:

	<u>Beginning Balance</u>	<u>2007</u>		<u>Ending Balance</u>	<u>Current</u>
		<u>Increases</u>	<u>Decreases</u>		
Refundable advances under federal loan programs	\$ 4,732,000	\$ 86,000	(\$ 100,000)	\$4,718,000	\$ -
Retentions payable	516,000	2,763,000	( 1,356,000)	1,923,000	-
Compensated absences	16,698,000	10,918,000	( 10,768,000)	16,848,000	10,707,000
Deferred revenue	<u>12,140,000</u>	<u>12,800,000</u>	<u>( 11,745,000)</u>	<u>13,195,000</u>	<u>12,844,000</u>
Total	<u>\$34,086,000</u>	<u>\$26,567,000</u>	<u>(\$23,969,000)</u>	<u>\$36,684,000</u>	<u>\$23,551,000</u>

	<u>Beginning Balance</u>	<u>2006</u>		<u>Ending Balance</u>	<u>Current</u>
		<u>Increases</u>	<u>Decreases</u>		
Refundable advances under federal loan programs	\$ 4,761,000	\$ 83,000	(\$ 112,000)	\$ 4,732,000	\$ -
Retentions payable	-	516,000	-	516,000	-
Compensated absences	15,121,000	11,205,000	( 9,628,000)	16,698,000	10,768,000
Deferred revenue	<u>13,442,000</u>	<u>12,140,000</u>	<u>( 13,442,000)</u>	<u>12,140,000</u>	<u>11,745,000</u>
Total	<u>\$33,324,000</u>	<u>\$23,944,000</u>	<u>(\$23,182,000)</u>	<u>\$34,086,000</u>	<u>\$22,513,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

**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 19.75% 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, 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, 2007, 2006 and 2005 was approximately \$24,642,000, \$23,096,000, \$21,182,000, respectively, equal to the required contribution for each 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 years ended June 30, 2007 and June 30, 2006, the Company made a \$50 per month Qualified Non-Elective Contribution (QNEC) for each eligible employee for a total of \$203,700 and 174,400, respectively.

**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.

Practice Plans

*Leases*

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

Year ending June 30,	2008	\$3,062,000
	2009	2,969,000
	2010	2,245,000
	2011	1,645,000
	2012	<u>3,886,000</u>
		<u>\$13,807,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

---

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

*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 \$6,250 per participant per year self-insurance retention plan. The new plan design has a maximum claims exposure to the Practice Plans of \$6,250 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. At June 30, 2006, 164 members were enrolled in the plan. The Practice Plans have the option to revert to a fully insured health benefit plan with their current health insurance carrier at anytime at the current market rate.

**NOTE 13 – SUBSEQUENT EVENTS:**

On July 10, 2007, the System entered into a \$3,400,000 promissory note with SunTrust Leasing Corporation, of which \$3,400,000 is the obligation of the University. Proceeds will be used for the new Marguerite Petersen Foundation Athletic Academic Center. The interest on the note is 4.04% and the final payment is June 1, 2016.

**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 years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Instruction	\$163,465,000	\$153,175,000
Research	71,177,000	69,860,000
Public service	43,364,000	43,530,000
Academic support	38,373,000	32,105,000
Institutional support	33,501,000	33,215,000
Student services	27,785,000	24,776,000
Operation and maintenance of plant	31,814,000	28,628,000
Scholarships and fellowships	14,334,000	13,342,000
Auxiliary enterprises	28,141,000	29,120,000
Depreciation	<u>23,027,000</u>	<u>22,887,000</u>
Total	<u>\$474,981,000</u>	<u>\$450,638,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

**NOTE 15 – COMPONENT UNITS:**

As further described in Note 1, the financial statements of the University include a component units 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, 2007

<u>ASSETS</u>	<u>Foundation</u>	<u>Practice Plans</u>	<u>Total</u>
<i>Current Assets</i>			
Cash and cash equivalents	\$ 22,944,000	\$8,060,000	\$ 31,004,000
Short-term investments	14,134,000	3,986,000	18,120,000
Patient accounts receivable, net	-	8,477,000	8,477,000
Pledges receivable	4,292,000	-	4,292,000
Other current assets	210,000	1,982,000	2,192,000
Total Current Assets	<u>41,580,000</u>	<u>22,505,000</u>	<u>64,085,000</u>
<i>Noncurrent Assets</i>			
Endowment investments	96,903,000	-	96,903,000
Pledges receivable	6,098,000	-	6,098,000
Capital assets, net	12,000	3,259,000	3,271,000
Other noncurrent assets	3,274,000	-	3,274,000
Total Noncurrent Assets	<u>106,287,000</u>	<u>3,259,000</u>	<u>109,546,000</u>
 TOTAL ASSETS	 <u>147,867,000</u>	 <u>25,764,000</u>	 <u>173,631,000</u>
 <u>LIABILITIES</u>			
<i>Current Liabilities</i>			
Due to university	1,799,000	(197,000)	1,602,000
Current portion of long term debt	-	-	-
Other current liabilities	1,642,000	4,410,000	6,052,000
Total Current Liabilities	<u>3,441,000</u>	<u>4,213,000</u>	<u>7,654,000</u>
<i>Noncurrent Liabilities</i>			
Deferred revenues	-	-	-
Long term debt	-	-	-
Obligations under capital leases	-	342,000	342,000
Total Noncurrent Liabilities	<u>-</u>	<u>342,000</u>	<u>342,000</u>
 TOTAL LIABILITIES	 <u>3,441,000</u>	 <u>4,555,000</u>	 <u>7,996,000</u>
 NET ASSETS CONSIST OF:			
Investment in capital assets, net of related debt	12,000	2,655,000	2,667,000
Restricted			
Nonexpendable	102,614,000	-	102,614,000
Expendable	34,086,000	-	34,086,000
Unrestricted	7,714,000	18,554,000	26,268,000
 TOTAL NET ASSETS	 <u>\$ 144,426,000</u>	 <u>\$21,209,000</u>	 <u>\$165,635,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

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

NET ASSETS AS OF JUNE 30, 2006

<u>ASSETS</u>	Foundation	Practice Plans	Total
<i>Current Assets</i>			
Cash and cash equivalents	\$ 18,689,000	\$12,921,000	\$ 31,610,000
Short-term investments	12,471,000	1,328,000	13,799,000
Patient accounts receivable, net	-	7,509,000	7,509,000
Pledges receivable	3,868,000	-	3,868,000
Other current assets	62,000	1,982,000	2,044,000
Total Current Assets	35,090,000	23,740,000	58,830,000
<i>Noncurrent Assets</i>			
Endowment investments	76,908,000	-	76,908,000
Pledges receivable	6,825,000	-	6,825,000
Capital assets, net	39,000	2,884,000	2,923,000
Other noncurrent assets	1,595,000	-	1,595,000
Total Noncurrent Assets	85,367,000	2,884,000	88,251,000
TOTAL ASSETS	120,457,000	26,624,000	147,081,000
<u>LIABILITIES</u>			
<i>Current Liabilities</i>			
Due to university	2,877,000	333,000	3,210,000
Current portion of long term debt	218,000	213,000	218,000
Other current liabilities	21,000	4,038,000	4,272,000
Total Current Liabilities	3,116,000	4,584,000	7,700,000
<i>Noncurrent Liabilities</i>			
Deferred revenues	339,000	-	339,000
Long term debt	661,000	-	661,000
Obligations under capital leases	-	406,000	406,000
Total Noncurrent Liabilities	1,000,000	406,000	1,406,000
TOTAL LIABILITIES	4,116,000	4,990,000	9,106,000
NET ASSETS CONSIST OF:			
Investment in capital assets, net of related debt	39,000	2,265,000	2,304,000
Restricted			
Nonexpendable	80,729,000	-	80,729,000
Expendable	30,355,000	-	30,355,000
Unrestricted	5,218,000	19,369,000	24,587,000
TOTAL NET ASSETS	\$ 116,341,000	\$21,634,000	\$137,975,000

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

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

REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2007

	Foundation	Practice Plans	Total
<i>Operating Revenues</i>			
Contributions	\$11,070,000	\$ -	\$ 11,070,000
University support	1,828,000	-	1,828,000
Special events and other income	1,333,000	-	1,333,000
Net patient service revenue	-	45,870,000	45,870,000
Other operating income	-	5,950,000	5,950,000
Contract revenue	-	7,082,000	7,082,000
	<u>14,231,000</u>	<u>58,902,000</u>	<u>73,133,000</u>
<i>Operating Expenses</i>			
Depreciation	27,000	864,000	891,000
Program expenses	349,000	37,159,000	37,508,000
Other operating expenses	2,495,000	20,506,000	23,001,000
	<u>2,871,000</u>	<u>58,529,000</u>	<u>61,400,000</u>
Operating Income	<u>11,360,000</u>	<u>373,000</u>	<u>11,733,000</u>
<i>Nonoperating Revenue (Expenses)</i>			
Investment income	16,674,000	439,000	17,113,000
Payments to university	( 10,779,000)	( 1,237,000)	( 12,016,000)
Other nonoperating revenues, net	-	-	-
	<u>5,895,000</u>	<u>(798,000)</u>	<u>5,097,000</u>
Income Before Other Revenue, Expenses, Gains or Losses	<u>17,255,000</u>	<u>(425,000)</u>	<u>16,830,000</u>
<i>Other Revenue, Expenses, Gains or Losses</i>			
Additions to permanent endowments	<u>10,830,000</u>	<u>-</u>	<u>10,830,000</u>
Total other revenues	<u>10,830,000</u>	<u>-</u>	<u>10,830,000</u>
Increase (decrease) in net assets	<u>28,085,000</u>	<u>(425,000)</u>	<u>27,660,000</u>
<i>Net Assets</i>			
Net assets, beginning of year	116,341,000	21,634,000	137,975,000
Net assets, end of year	<u>\$144,426,000</u>	<u>\$21,209,000</u>	<u>\$165,635,000</u>

**UNIVERSITY OF NEVADA, RENO**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

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

REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2006

	Foundation	Practice Plans	Total
<i>Operating Revenues</i>			
Contributions	\$14,069,000	\$ -	\$ 14,069,000
University support	1,759,000	-	1,759,000
Special events and other income	1,119,000	-	1,119,000
Net patient service revenue	-	45,203,000	45,203,000
Other operating income	-	3,572,000	3,572,000
Contract revenue	-	6,963,000	6,963,000
Total Operating Revenues	16,947,000	55,738,000	72,685,000
<i>Operating Expenses</i>			
Depreciation	21,000	594,000	615,000
Program expenses	291,000	31,689,000	31,980,000
Other operating expenses	2,141,000	18,587,000	20,728,000
Total Operating Expenses	2,453,000	50,870,000	53,323,000
Operating Income	14,494,000	4,868,000	19,362,000
<i>Nonoperating Revenue (Expenses)</i>			
Investment income	7,681,000	313,000	7,994,000
Payments to university	( 12,085,000)	( 1,481,000)	( 13,566,000)
Other nonoperating revenues, net	-	-	-
Net nonoperating revenues (expenses)	( 4,404,000)	(1,168,000)	(5,572,000)
Income Before Other Revenue, Expenses, Gains or Losses	10,090,000	3,700,000	13,790,000
<i>Other Revenue, Expenses, Gains or Losses</i>			
Additions to permanent endowments	7,919,000	-	7,919,000
Total other revenues	7,919,000	-	7,919,000
Increase in net assets	18,009,000	3,700,000	21,709,000
<i>Net Assets</i>			
Net assets, beginning of year	98,332,000	17,934,000	116,266,000
Net assets, end of year	\$116,341,000	\$21,634,000	\$137,975,000