
Nevada System of Higher Education Financial Statements



June 30, 2005 and 2004

University of Nevada, Reno
Community College of Southern Nevada
Western Nevada Community College

University of Nevada, Las Vegas
Great Basin College
Desert Research Institute

Nevada State College
Truckee Meadows Community College
System Administration

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**Nevada System of Higher Education
Financial Statements and Report of Independent Auditors
As of and for the Years Ended June 30, 2005 and 2004**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Nevada System of Higher Education's (the "System"), formerly known as the University and Community College System of Nevada, Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of financial activity, identifies changes in financial position and assists the reader in focusing on significant financial issues during the years ended June 30, 2005 with comparative information as of June 30, 2004. 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 the responsibility of management.

SYSTEM RELATED ORGANIZATIONS

The annual financial report and statements include the institutions of the System and certain other organizations that have a significant relationship with the institutions. The statements also include the discretely presented system related organizations of the institutions that are related tax exempt organizations primarily founded to foster and promote the growth, progress and general welfare of the institutions and to solicit, receive and administer gifts and donations for such purposes. The System related organizations are as follows:

University of Nevada, Reno Foundation
University of Nevada School of Medicine Practice Plans
University of Nevada, Las Vegas Foundation
Nevada State College Foundation
Community College of Southern Nevada Foundation
Truckee Meadows Community College Foundation
Western Nevada Community College Foundation
Great Basin College Foundation
Desert Research Institute Foundation

FINANCIAL HIGHLIGHTS

- Total net assets increased \$33,629,000; a 2.3% increase.
- Total long-term debt increased from \$273,281,000 to \$306,242,000; a 12.1% increase.
- Operating revenues increased 9.1% to \$607,357,000.
- Operating expenses increased 8.8% to \$1,128,579,000.

USING THIS REPORT

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These statements focus on the financial condition of the System, the results of operations and cash flows of the System as a whole.

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

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. All things being equal, a public university system's dependency on state appropriations will result in operating deficits. This is because the financial reporting model classifies State appropriations as nonoperating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

CONDENSED FINANCIAL INFORMATION

System net assets (thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Assets				
Current assets	\$ 502,886	\$ 530,515	\$(27,629)	(5.2)
Capital assets, net	1,231,990	1,156,183	75,807	6.6
Other assets	<u>282,487</u>	<u>242,745</u>	<u>39,742</u>	16.4
Total assets	<u>2,017,363</u>	<u>1,929,443</u>	<u>87,920</u>	4.6
Liabilities				
Current liabilities	155,598	134,920	20,678	15.3
Noncurrent liabilities	<u>338,649</u>	<u>305,036</u>	<u>33,613</u>	11.0
Total liabilities	<u>494,247</u>	<u>439,956</u>	<u>54,291</u>	12.3
Net assets				
Invested in capital assets, net of debt	949,496	914,587	34,909	3.8
Restricted, nonexpendable	57,681	55,980	1,701	3.0
Restricted, expendable	304,647	325,094	(20,447)	(6.7)
Unrestricted	<u>211,292</u>	<u>193,826</u>	<u>17,466</u>	9.0
Total net assets	<u>\$1,523,116</u>	<u>\$1,489,487</u>	<u>\$ 33,629</u>	2.3

Total assets of the System increased by \$87.9 million. A review of the Statement of Net Assets will reveal that the increase was due to several factors. The increase is primarily due to the increase in cash held by State Treasurer, endowment investments and capital assets. The cash held by the State Treasurer increased by \$25.2 million due to the biennial appropriations approved by the legislature for capital construction. Endowment investments increased \$13.9 million primarily due to an increase in the fair value of investments. Capital assets, net of accumulated depreciation increased by \$75.8 million, which reflects the System's continuing investment in its physical facilities. The decrease in the receivable from the State of Nevada of \$39.7 million was primarily due to the release of appropriations from the State of Nevada to the Nevada Public Works Board for capital projects.

Total liabilities for the year increased \$54.3 million due to an increase of \$20.7 million in current liabilities, and an increase of \$33.6 million in noncurrent liabilities. The increase in current liabilities resulted mainly from an increase in deferred revenue and accounts payable. The increase in noncurrent liabilities was primarily due to the System issuing revenue bonds and notes payable as is further discussed under "Capital Asset and Debt Administration".

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the System's equity in property, plant and equipment owned

by the System. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the System but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the System for any lawful purpose of the institution.

Invested in capital assets

Net assets invested in capital assets, net of related debt represent the System's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The \$34.9 million increase reflects the System's expenditures for development and renewal of its capital assets in accordance with its long-range plan offset by depreciation expense on capital assets and a net increase in long-term debt. The increase indicates a continued System priority to provide new facilities to accommodate enrollment growth.

Restricted, nonexpendable/expendable

The System'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 System for long-term investment purposes, although, amounts are not subject to donor restrictions requiring the System to preserve the principal in perpetuity. Programs supported by the endowment include scholarships, fellowships, professorships, research efforts and other important programs and activities.

Unrestricted Net Assets

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

System Related Organizations net assets (thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Assets				
Current assets	\$ 64,394	\$ 56,271	\$ 8,123	14.4
Endowment assets	151,815	132,566	19,249	14.5
Other assets	<u>35,460</u>	<u>22,270</u>	<u>13,190</u>	59.2
Total assets	<u>51,669</u>	<u>211,107</u>	<u>40,562</u>	19.2
Liabilities				
Current liabilities	5,358	4,381	977	22.3
Noncurrent liabilities	<u>3,408</u>	<u>12,575</u>	<u>(9,167)</u>	(72.9)
Total liabilities	<u>8,766</u>	<u>16,956</u>	<u>(8,190)</u>	(48.3)
Net assets				
Invested in capital assets, net of debt	2,060	2,289	(229)	(10.0)
Restricted, nonexpendable	119,614	100,302	19,312	19.3
Restricted, expendable	92,558	69,458	23,100	33.3
Unrestricted	<u>28,671</u>	<u>22,102</u>	<u>6,569</u>	29.7
Total net assets	<u>\$242,903</u>	<u>\$194,151</u>	<u>\$48,752</u>	25.1

One of the critical factors in continuing the quality of the System's programs is the development and renewal of its capital assets. The System Related Organizations continue to support the campuses in their long-range plans and provide support for construction of facilities.

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the System. 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 System. 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 institution without the Legislature directly receiving commensurate goods and services for those revenues.

System Revenues, Expenses and Changes in Net Assets (thousands of dollars)

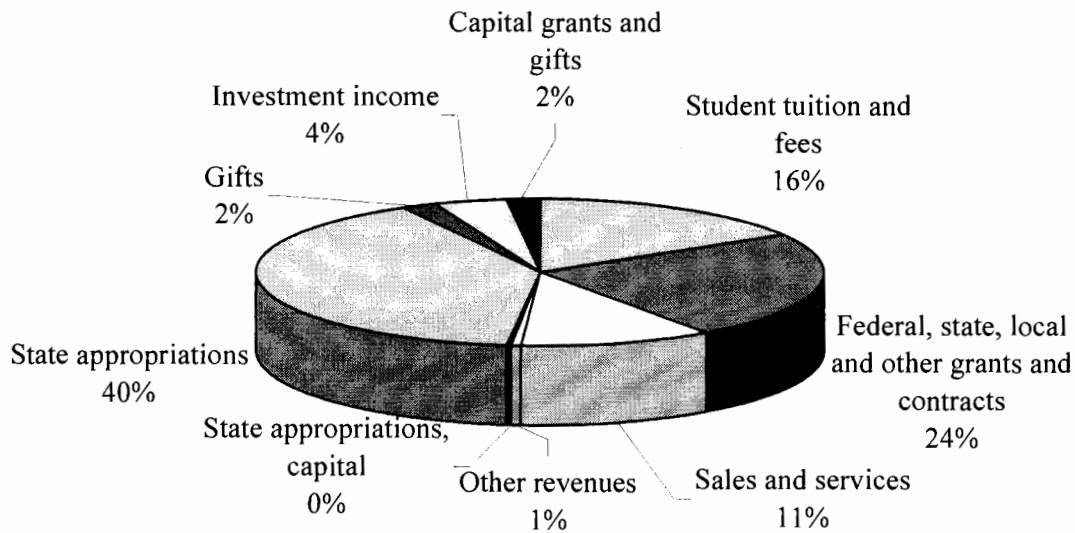
	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Operating revenues				
Student tuition and fees, net	\$ 191,908	\$ 166,107	\$ 25,801	15.5
Grants and contracts, federal	196,407	178,125	18,282	10.3
Grants and contracts, other	83,381	77,423	5,958	7.7
Sales and services	130,146	129,696	450	0.3
Other	<u>5,515</u>	<u>5,304</u>	<u>211</u>	4.0
Total operating revenues	<u>607,357</u>	<u>556,655</u>	<u>50,702</u>	9.1
Operating expenses				
Instruction	395,655	357,715	37,940	10.6
Research	117,057	110,315	6,7426	6.1
Public service	59,942	55,663	4,279	7.7
Academic support	92,930	84,568	8,362	9.9
Institutional support	124,072	114,194	9,878	8.7
Student services	82,299	73,833	8,466	11.5
Operation and maintenance of plant	87,377	77,002	10,375	13.5
Scholarships and fellowships	41,784	41,494	290	0.7
Auxiliary enterprises	63,552	63,322	230	0.4
Other expenditures	277	79	198	250.6
Depreciation	<u>63,634</u>	<u>58,789</u>	<u>4,845</u>	8.2
Total operating expenses	<u>1,128,579</u>	<u>1,036,974</u>	<u>91,605</u>	8.8
Operating loss	<u>(521,222)</u>	<u>(480,319)</u>	<u>(40,903)</u>	8.5
Nonoperating revenues and expenses				
State appropriations	512,515	499,026	13,489	2.7
Refund to state	(43,398)	(45,837)	2,439	5.3
Gifts	25,583	24,492	1,091	4.5
Investment income	47,423	56,186	(8,763)	(15.6)
Disposal of capital assets	(1,641)	(3,204)	1,563	48.8
Interest expense	(12,844)	(12,466)	(378)	(3.0)
Other nonoperating revenues	<u>680</u>	<u>1,020</u>	<u>(340)</u>	(33.3)
Net nonoperating revenues	<u>528,318</u>	<u>519,217</u>	<u>9,101</u>	(1.8)
Total other revenues	<u>26,533</u>	<u>112,006</u>	<u>(85,473)</u>	(76.3)
Increase in net assets	33,629	150,904	(117,275)	(77.7)
Net assets, beginning of year	<u>1,489,487</u>	<u>1,338,583</u>	<u>150,904</u>	11.3
Net assets, end of year	<u>\$1,523,116</u>	<u>\$1,489,487</u>	<u>\$ 33,629</u>	2.3

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year.

Operating revenues increased by 9.1% and operating expenses increased by 8.8%, resulting in an increase in the operating loss of 8.5%. Student tuition and fees increased 15.5% to \$191.9 million. Federal grants and contracts increased 10.3% to \$196.4 million and other grants and contracts increased 7.7% to \$83.4 million. Operation and maintenance of plant expenses increased 13.5% to \$87,377 million. Student services expenses increased 11.5% to \$82,299 million. Instruction expenses increased 10.6% to \$395.7 million.

Nonoperating net revenues increased by 1.8% to \$528.3 million primarily due increases in state appropriations and gifts. Investment income decreased 15.6% to \$47,423 primarily due to the increase in the investment pool reserves. Total other revenues includes state appropriations for capital purposes. The decrease of \$85.5 million is due primarily to a biennium appropriation (fiscals 2004 and 2005) in which most funds were drawn down in fiscal 2004.

Revenues by Source



System Related Organizations
Revenues, Expenses and Changes in Net Assets (thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Operating revenues				
Patient revenue	\$ 43,329	\$ 38,207	\$ 5,122	13.4
Contract revenue	7,014	6,101	9131	5.0
Contributions	56,661	32,844	23,817	2.5
Campus support	1,617	1,753	(136)	(7.8)
Other operating revenue	<u>1,306</u>	<u>1,149</u>	<u>157</u>	13.7
Total operating revenues	<u>109,927</u>	<u>80,054</u>	<u>29,873</u>	37.3
Operating expenses				
Program expenses	30,604	27,828	2,837	10.0
Other operating expenses	24,064	22,338	24	7.7
Depreciation	<u>680</u>	<u>656</u>	<u>1,727</u>	3.7
Total operating expenses	<u>55,348</u>	<u>50,822</u>	<u>4,588</u>	8.9
Operating income	<u>54,579</u>	<u>29,232</u>	<u>25,285</u>	86.7
Nonoperating revenues and expenses				
Payments to NSHE institutions	(36,500)	(34,145)	2,355	6.9
Other nonoperating revenues	<u>17,606</u>	<u>14,367</u>	<u>3,301</u>	22.5
Net nonoperating revenues	<u>(18,894)</u>	<u>(19,778)</u>	<u>946</u>	(4.5)
Total other revenues	<u>13,067</u>	<u>9,525</u>	<u>3,542</u>	37.2
Increase in net assets	48,752	18,979	29,773	156.9
Net assets, beginning of year	<u>194,151</u>	<u>175,172</u>	<u>18,979</u>	10.8
Net assets, end of year	<u>\$242,903</u>	<u>\$194,151</u>	<u>\$48,752</u>	25.1

System Cash Flows

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>% Change</u>
Cash used in				
Operating activities	\$(456,163)	\$(415,543)	\$40,620	9.8
Noncapital financing activities	523,447	491,398	32,049	6.5
Capital and related financing activities	(74,680)	(58,355)	(16,325)	(28.0)
Investing activities	<u>32,422</u>	<u>(4,208)</u>	<u>36,630</u>	870.5
Net increase in cash and cash equivalents	25,026	13,292	11,734	88.8
Cash and cash equivalents, beginning of year	<u>183,888</u>	<u>170,596</u>	<u>13,292</u>	7.8
Cash and cash equivalents, end of year	<u>\$ 208,914</u>	<u>\$ 183,888</u>	<u>\$25,026</u>	13.6

Cash flows from operating activities decreased 9.8% primarily due to increases in expenses for payments for employee compensation and benefits, supplies and services and scholarships and fellowships offset by increases in receipts for student tuition and fees, grants and contracts and sales and services of educational departments. Cash flows used in capital financing activities increased by 28.0% due to increased proceeds from capital debt and decreased purchases of capital assets. Cash from investing activities increased by \$36.6 million primarily due to proceeds from sales and maturities of investments in 2005 as compared to 2004.

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2005, the System had invested \$1,232.0 million in a broad range of capital assets, including equipment, buildings, machinery and equipment, library books and media, collections and land. This represents a net increase (including additions and deletions) of \$75.8 million, or 6.6%, over last year. As of June 30, 2005 estimated costs to complete current construction projects were approximately \$428.8 million. These costs will be funded by State appropriations, private donations, available resources and/or long-term borrowings.

During fiscal 2005, the System issued \$41.0 million of new bonds and \$2.0 in new notes. New bonds were issued for the UNR Cooperative Extension building and the UNR Knowledge Center building. As of June 30, 2005 the coverage on University Revenue Bonds (pledged revenues to maximum annual debt service) was 3.13 (4.64 as of June 30, 2004). For statutory purposes, the coverage was 1.50, above the required minimum of 1.10.

In October 2005 the System issued Universities Revenue Bonds, Series 2005B in the amount of \$170,360,000. The bonds were issued primarily to finance projects on both the UNLV and UNR campuses. Additionally, certain proceeds from the 2005B revenue

bonds were used to refund \$10,990,000 of the series 2000A bonds and \$12,030,000 of the series 2000B bonds.

FUTURE FINANCIAL AFFECTS

The ever increasing population of the State of Nevada and the ongoing funding of the Millennium Scholarship program ensure a continuing increase in demand for higher education services. It is estimated that student enrollment will increase 6% - 7% in both 2005-06 and 2006-07.

The fiscal year 2005-06 operating budget for State Appropriations and Authorized Expenditures (State-Supported Operating Budget) increased by 10.2% in the authorized funding level to \$727.7 million as compared to \$660.2 million in fiscal year 2004-05. Direct State appropriations for fiscal year 2005-06 increase by 10.4% to \$559.6 million and represent 76.9% of the State-Supported Operating Budget, approximately the same percentage as fiscal year 2004-05. Other revenue sources for fiscal year 2005-06 increase by 9.5% to \$168.1 million. The total System portion of the total state budget is relatively constant at 20.1% in fiscal year 2005-06 and 19.6% in fiscal year 2006-07.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by the System, 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 System 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 System does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

Report of Independent Auditors

To the Board of Regents of the Nevada
System of Higher Education

In our opinion, based on our audits and the reports of other auditors, the statements of net assets and the related statements of revenues, expenses and changes in net assets of the Nevada System of Higher Education (the "System") and its aggregate discretely presented component units, and the statements of cash flows of the System, which collectively comprise the financial statements of the System, present fairly, in all material respects, the respective financial position of the System and its aggregate discretely presented component units at June 30, 2005 and 2004, and the respective revenues, expenses and changes in financial position, and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements at June 30, 2005 and 2004 and for the years then ended of the University of Nevada, Reno Foundation, University of Nevada, Las Vegas Foundation, Nevada State College Foundation, Community College of Southern Nevada Foundation, Inc., Truckee Meadows Community College Foundation, Western Nevada Community College Foundation, Great Basin College Foundation, and the DRI Research Foundation (collectively referred to as the "Foundations") which represent 91 percent, 93 percent and 54 percent at June 30, 2005 and for the year then ended, and 92 percent, 93 percent and 45 percent at June 30, 2004 and for the year then ended, respectively, of the assets, net assets, and operating revenues of the aggregate discretely presented component units under the caption "System Related Organizations" in the accompanying financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundations, is based on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
September 30, 2005

**NEVADA SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004**

<u>ASSETS</u>	<u>System</u>		<u>System Related Organizations</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<i>Current Assets</i>				
Cash and cash equivalents	\$ 109,337,000	\$ 109,199,000	\$ 29,514,000	\$ 34,794,000
Restricted cash and cash equivalents	142,000	1,004,000	620,000	1,372,000
Short-term investments	279,435,000	278,242,000	15,945,000	8,045,000
Accounts receivable, net	28,848,000	26,778,000	1,437,000	786,000
Receivable from U.S. Government	39,470,000	31,326,000	-	-
Receivable from State of Nevada	35,285,000	74,970,000	-	-
Current portion of pledges receivable, net	-	-	8,309,000	3,904,000
Patient accounts receivable, net	-	-	7,691,000	6,377,000
Current portion of loans receivable, net	2,453,000	2,373,000	19,000	-
Inventories	5,574,000	5,460,000	-	-
Deposits and deferred expenditures, current	2,299,000	1,163,000	237,000	346,000
Other	43,000	-	622,000	647,000
Total Current Assets	<u>502,886,000</u>	<u>530,515,000</u>	<u>64,394,000</u>	<u>56,271,000</u>
<i>Noncurrent Assets</i>				
Cash held by State Treasurer	98,844,000	73,685,000	-	-
Restricted cash and cash equivalents	591,000	-	-	-
Endowment investments	170,315,000	156,368,000	148,049,000	132,566,000
Deposits and deferred expenditures	3,730,000	3,225,000	-	-
Pledges receivable, net	-	-	28,982,000	12,680,000
Loans receivable, net	8,612,000	9,061,000	-	-
Capital assets, net	1,231,990,000	1,156,183,000	4,642,000	4,581,000
Other noncurrent assets	395,000	406,000	5,602,000	5,009,000
Total Noncurrent Assets	<u>1,514,477,000</u>	<u>1,398,928,000</u>	<u>187,275,000</u>	<u>154,836,000</u>
TOTAL ASSETS	<u>2,017,363,000</u>	<u>1,929,443,000</u>	<u>251,669,000</u>	<u>211,107,000</u>
<u>LIABILITIES</u>				
<i>Current Liabilities</i>				
Accounts payable	45,934,000	41,529,000	2,065,000	1,417,000
Accrued payroll and related liabilities	21,365,000	19,665,000	1,437,000	1,037,000
Unemployment insurance and workers' compensation liability	3,430,000	3,403,000	-	-
Current portion of compensated absences	25,266,000	22,191,000	11,000	6,000
Current portion of long-term debt	10,910,000	8,973,000	650,000	901,000
Current portion of obligations under capital leases	2,385,000	1,851,000	202,000	168,000
Accrued interest payable	6,568,000	6,118,000	-	-
Deferred revenue	33,999,000	27,083,000	47,000	-
Funds held in trust for others	5,741,000	4,107,000	-	-
Due to affiliates	-	-	946,000	728,000
Other	-	-	-	124,000
Total Current Liabilities	<u>155,598,000</u>	<u>134,920,000</u>	<u>5,358,000</u>	<u>4,381,000</u>
<i>Noncurrent Liabilities</i>				
Refundable advances under federal loan programs	7,857,000	7,586,000	-	-
Compensated absences	11,313,000	10,216,000	-	-
Deferred revenue	283,000	783,000	315,000	7,757,000
Long-term debt	306,242,000	273,281,000	2,434,000	3,084,000
Obligations under capital leases	12,954,000	13,170,000	223,000	185,000
Other noncurrent liabilities	-	-	436,000	1,549,000
Total Noncurrent Liabilities	<u>338,649,000</u>	<u>305,036,000</u>	<u>3,408,000</u>	<u>12,575,000</u>
TOTAL LIABILITIES	<u>494,247,000</u>	<u>439,956,000</u>	<u>8,766,000</u>	<u>16,956,000</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	949,496,000	914,587,000	2,060,000	2,289,000
Restricted:				
Nonexpendable	57,681,000	55,980,000	119,614,000	100,302,000
Expendable:				
Scholarships, research and instruction	137,437,000	154,267,000	92,185,000	68,618,000
Loans	4,896,000	4,706,000	-	-
Capital projects	159,019,000	164,013,000	373,000	840,000
Debt service	3,295,000	2,108,000	-	-
Unrestricted	211,292,000	193,826,000	28,671,000	22,102,000
TOTAL NET ASSETS	<u>\$1,523,116,000</u>	<u>\$1,489,487,000</u>	<u>\$242,903,000</u>	<u>\$194,151,000</u>

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

**NEVADA SYSTEM OF HIGHER EDUCATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>System</u>		<u>System Related Organizations</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<i>Operating Revenues</i>				
Student tuition and fees (net of scholarship allowances of \$48,337,000 and \$43,719,000)	\$ 191,908,000	\$ 166,107,000	\$ -	\$ -
Federal grants and contracts	196,407,000	178,125,000	-	-
State grants and contracts	47,368,000	43,093,000	-	-
Local grants and contracts	15,865,000	15,904,000	-	-
Other grants and contracts	20,148,000	18,426,000	-	-
Campus support	-	-	1,617,000	1,753,000
Sales and services of educational departments (including \$948,000 and \$ 915,000 from System related organizations)	65,315,000	60,125,000	-	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$2,599,000 and \$3,028,000)	64,831,000	69,571,000	-	-
Contributions	-	-	56,661,000	32,844,000
Patient revenue	-	-	43,329,000	38,207,000
Contract revenue	-	-	7,014,000	6,101,000
Special events and fundraising	-	-	679,000	542,000
Interest earned on loans receivable	152,000	173,000	-	-
Other operating revenues	<u>5,363,000</u>	<u>5,131,000</u>	<u>627,000</u>	<u>607,000</u>
Total operating revenues	<u>607,357,000</u>	<u>556,655,000</u>	<u>109,927,000</u>	<u>80,054,000</u>
<i>Operating Expenses</i>				
Employee compensation and benefits	738,633,000	663,587,000	21,982,000	20,436,000
Utilities	29,230,000	26,178,000	-	-
Supplies and services	255,298,000	246,926,000	2,082,000	1,902,000
Scholarships and fellowships	41,784,000	41,494,000	-	-
Program expenses, System related organizations	-	-	30,604,000	27,828,000
Depreciation	<u>63,634,000</u>	<u>58,789,000</u>	<u>680,000</u>	<u>656,000</u>
Total operating expenses	<u>1,128,579,000</u>	<u>1,036,974,000</u>	<u>55,348,000</u>	<u>50,822,000</u>
Operating (loss) income	<u>(521,222,000)</u>	<u>(480,319,000)</u>	<u>54,579,000</u>	<u>29,232,000</u>
<i>Nonoperating Revenues (Expenses)</i>				
State appropriations	512,515,000	499,026,000	-	-
Refund to State	(43,398,000)	(45,837,000)	-	-
Gifts (including \$17,204,000 and \$19,270,000 from System related organizations)	25,583,000	24,492,000	-	-
Investment income, net	47,423,000	56,186,000	14,728,000	13,621,000
Disposal of capital assets	(1,641,000)	(3,204,000)	(11,000)	-
Interest expense	(12,844,000)	(12,466,000)	-	(36,000)
Payments to System campuses and divisions	-	-	(36,500,000)	(34,145,000)
Other nonoperating revenues	<u>680,000</u>	<u>1,020,000</u>	<u>2,889,000</u>	<u>782,000</u>
Net nonoperating revenues (expenses)	<u>528,318,000</u>	<u>519,217,000</u>	<u>(18,894,000)</u>	<u>(19,778,000)</u>
Income before other revenue, expenses, gains or losses	<u>7,096,000</u>	<u>38,898,000</u>	<u>35,685,000</u>	<u>9,454,000</u>
State appropriations restricted for capital purposes	2,322,000	86,507,000	-	-
Capital grants and gifts (including \$17,399,000 and \$13,089,000 from System related organizations)	22,930,000	23,642,000	-	-
Additions to permanent endowments (including \$949,000 and \$871,000 from System related organizations)	1,781,000	1,857,000	13,067,000	9,525,000
Other expenses	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other revenues	<u>26,533,000</u>	<u>112,006,000</u>	<u>13,067,000</u>	<u>9,525,000</u>
Increase in net assets	<u>33,629,000</u>	<u>150,904,000</u>	<u>48,752,000</u>	<u>18,979,000</u>
<i>Net Assets</i>				
Net assets – beginning of year	<u>1,489,487,000</u>	<u>1,338,583,000</u>	<u>194,151,000</u>	<u>175,172,000</u>
Net assets – end of year	<u>\$1,523,116,000</u>	<u>\$1,489,487,000</u>	<u>\$242,903,000</u>	<u>\$194,151,000</u>

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

**NEVADA SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>System</u>	
	<u>2005</u>	<u>2004</u>
<i>Cash Flows from Operating Activities</i>		
Student tuition and fees	\$194,496,000	\$167,714,000
Grants and contracts	272,791,000	252,106,000
Payments for supplies and services	(257,579,000)	(240,793,000)
Payments for utilities	(28,763,000)	(25,691,000)
Payments for employee compensation and benefits	(732,527,000)	(661,536,000)
Payments for scholarships and fellowships	(41,916,000)	(41,311,000)
Loans issued to students and employees	(3,779,000)	(4,625,000)
Collection of loans to students and employees	3,018,000	3,041,000
Sales and services of educational departments	67,438,000	58,464,000
Sales and services of auxiliary enterprises	64,281,000	71,638,000
Other receipts	<u>6,377,000</u>	<u>5,450,000</u>
Net cash used by operating activities	<u>(456,163,000)</u>	<u>(415,543,000)</u>
<i>Cash Flows from Noncapital Financing Activities</i>		
State appropriations	530,304,000	503,093,000
State appropriations refunded	(36,572,000)	(38,197,000)
Gifts and grants for other than capital purposes	24,488,000	24,834,000
Gifts for endowment purposes	1,781,000	1,857,000
Receipts under federal student loan programs	92,314,000	82,065,000
Disbursements under federal student loan programs	(92,012,000)	(81,372,000)
Other	1,567,000	1,007,000
Agency transactions	<u>1,577,000</u>	<u>(1,889,000)</u>
Net cash provided by noncapital financing activities	<u>523,447,000</u>	<u>491,398,000</u>
<i>Cash Flows from Capital Financing Activities</i>		
Proceeds from capital debt	44,184,000	42,118,000
Other	(120,000)	-
Payments for debt issuance costs	(562,000)	(575,000)
Capital appropriations	23,330,000	61,720,000
Capital grants and gifts received	20,087,000	17,676,000
Purchases of capital assets	(138,019,000)	(151,960,000)
Proceeds from sale of property and equipment	52,000	2,000
Principal paid on capital debt and leases	(11,239,000)	(16,795,000)
Interest paid on capital debt and leases	<u>(12,393,000)</u>	<u>(10,541,000)</u>
Net cash used by capital financing activities	<u>(74,680,000)</u>	<u>(58,355,000)</u>
<i>Cash Flows from Investing Activities</i>		
Proceeds from sales and maturities of investments	126,273,000	76,688,000
Purchase of investments	(102,233,000)	(85,305,000)
Interest and dividends on investments	12,462,000	11,769,000
Net decrease in cash equivalents, noncurrent investments	<u>(4,080,000)</u>	<u>(7,360,000)</u>
Net cash provided (used) by investing activities	<u>32,422,000</u>	<u>(4,208,000)</u>
Net increase in cash and cash equivalents	25,026,000	13,292,000
Cash and cash equivalents, beginning of year	<u>183,888,000</u>	<u>170,596,000</u>
Cash and cash equivalents, end of year	<u>\$208,914,000</u>	<u>\$183,888,000</u>

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

**NEVADA SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2005 and 2004**

	<u>System</u>	
	<u>2005</u>	<u>2004</u>
<i>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</i>		
Operating loss	\$(521,222,000)	\$(480,319,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Supplies expense related to noncash gifts	848,000	-
Depreciation expense	63,634,000	58,789,000
Changes in assets and liabilities:		
Accounts receivable, net	(8,265,000)	(6,261,000)
Loans receivable, net	(702,000)	(1,455,000)
Inventories	(101,000)	(78,000)
Deposits and deferred expenditures	(580,000)	213,000
Accounts payable	(1,874,000)	6,711,000
Accrued payroll and related liabilities	1,839,000	466,000
Unemployment insurance and workers' compensation liability	59,000	(246,000)
Deferred revenue	5,945,000	5,001,000
Refundable advances under federal loan program	257,000	184,000
Compensated absences	3,999,000	1,452,000
Net cash used by operating activities	<u>\$(456,163,000)</u>	<u>\$(415,543,000)</u>
<i>Supplemental Noncash Activities Information</i>		
Capital assets acquired by incurring capital lease obligations and accounts payable	<u>\$7,311,000</u>	<u>\$11,526,000</u>
Loss on disposal of capital assets	<u>\$1,663,000</u>	<u>\$3,204,000</u>
Capital assets acquired by gifts	<u>\$2,426,000</u>	<u>\$6,015,000</u>
Capital lease obligations converted to an operating lease	<u>\$-</u>	<u>\$1,038,000</u>

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

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 1 – Organization:

The financial statements represent the combined financial statements of the various divisions and campuses of the Nevada System of Higher Education (the “System”), formerly known as the University and Community College System of Nevada, which include:

- University of Nevada, Reno (“UNR”)
- University of Nevada, Las Vegas (“UNLV”)
- Nevada State College (“NSC”)
- Community College of Southern Nevada (“CCSN”)
- Truckee Meadows Community College (“TMCC”)
- Western Nevada Community College (“WNCC”)
- Great Basin College (“GBC”)
- Desert Research Institute (“DRI”)
- Nevada System of Higher Education Administration

The System is an agency of the State of Nevada (the “State”) and receives significant support from, and has significant assets held by, the State, as set forth in the accompanying financial statements. The System is a component unit of the State of Nevada in accordance with the provisions of the Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*. The System Related Organizations columns in these financial statements are comprised of data of the System’s discretely presented campus foundations and medical school practice plans (see Note 15). These System Related Organizations are included as part of the System’s financial statements because of the nature and the significance of their financial relationship with the System.

The System Related Organizations include campus foundations which are related tax exempt organizations founded to foster and promote the growth, progress, and general welfare of the System, and are reported in separate columns to emphasize that they are Nevada not-for-profit organizations legally separate from the System. During the years ended June 30, 2005 and 2004 the foundations distributed \$35,563,000 and \$33,261,000, respectively, to the System for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained from Sandra K. Cardinal at NSHE, 2601 Enterprise Rd., Reno, NV 89512.

The System Related Organizations also include three legally separate non-profit organizations, together known as the medical school practice plans. The practice plans include the University of Nevada School of Medicine Multispecialty Group Practice North, Inc., University of Nevada School of Medicine Group Practice South, Inc., and 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, 2005 and 2004 the practice plans distributed \$937,000 and \$884,000, respectively, to the System for restricted purposes. Complete financial statements for the practice plans can be obtained from Sandra K. Cardinal at NSHE, 2601 Enterprise Rd., Reno, NV 89512.

NOTE 2 – Summary of Significant Accounting Policies:

The significant accounting policies followed by the System 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 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 Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. Financial reporting requirements also include Management’s Discussion and Analysis of the System’s financial position and results of operations.

The System has also adopted GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Statement No. 37 clarifies guidance to be used in preparing Management’s Discussion and Analysis and Statement No. 38 modifies, adds and deletes various note disclosure requirements.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 – Summary of Significant Accounting Policies (continued):

The System has also adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which requires the System's legally separate campus foundations and medical school practice plans to be presented discretely in the System's financial statements.

The System has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. Statement No. 40 modifies or eliminates certain disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

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 incurred. All significant transactions between various divisions and campuses of the System have been eliminated. The System has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The System has elected not to apply FASB pronouncements issued after the applicable date.

CASH EQUIVALENTS

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

INVESTMENTS

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

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 calculated primarily on the first-in, first-out method.

PLEDGES

In accordance with GASB Statement No. 33, *Accounting and Reporting for Non-Exchange Transactions*, private donations are recognized when all eligibility requirements are met, provided that the promise is verifiable, the resources are measurable and collection is probable. Pledges receivable are recorded at net present value using the appropriate discount rate. An allowance for uncollectible pledges is estimated based on collection history and is netted against the gross pledges receivable.

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:

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 – Summary of Significant Accounting Policies (continued):

CAPITAL ASSETS (continued):

<u>Assets</u>	<u>Years</u>
Buildings and improvements	6 to 40
Land improvements	10 to 15
Machinery and equipment	3 to 18
Library books	5

Collections are capitalized at cost or fair value at the date of donation. The System'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 are therefore not depreciated.

DEFERRED REVENUE

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

COMPENSATED ABSENCES

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

FEDERAL REFUNDABLE LOANS

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

NET ASSETS

Net Assets are classified as follows:

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

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

Restricted net assets – expendable: Restricted expendable net assets include resources which must be expended in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources that are not subject to externally imposed restrictions. These resources are used for transactions relating to educational and general operations and may be used to meet current expenses for any purpose.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 – Summary of Significant Accounting Policies (continued):

OPERATING AND NONOPERATING REVENUES AND EXPENSES

SYSTEM

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, noncapital financing, or investing activities. Grants and contracts representing an exchange transaction are considered operating revenues.

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

PRACTICE PLANS

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 differences between established billing rates and amounts reimbursable under various contractual agreements. Normal differences between final reimbursements and estimated amounts accrued in previous years are recorded as adjustments of the current year's contractual allowances.

Substantially all of the operating expenses are directly or indirectly related to patient care.

FOUNDATIONS

Donations, gifts and pledges are recognized as income when all eligibility requirements are met, provided that the promise is verifiable, the resources are measurable and collection is probable.

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 institutions, 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.

GRANTS-IN-AID

Student tuition and fees revenue include grants-in-aid charged to scholarships and fellowships and grants-in-aid for faculty and staff benefits charged to the appropriate expenditure programs to which the applicable personnel relate. Grants-in-aid for fiscal years 2005 and 2004 were \$6,794,000 and \$6,387,000, respectively.

TAX EXEMPTION

The System and its discretely presented System related organizations are qualified 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 November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2 – Summary of Significant Accounting Policies (continued):

be recorded and that any insurance recoveries be netted with the impairment loss. The provisions of GASB Statement No. 42 are effective for fiscal years beginning after December 15, 2004.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which supersedes the interim guidance included in Statement 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans* and requires specific reporting framework and measurement parameters to be applied for defined benefit plans. The provisions of GASB Statement No. 43 for plans in which the sole or largest employer is a phase I government—with annual revenues of \$100 million or more—are effective for fiscal years beginning after December 15, 2005.

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 that were phase I governments for the purpose of implementation of Statement 34—those with annual revenues of \$100 million or more—are effective for fiscal years beginning after December 15, 2006.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, which specifies when and how the cost of termination benefits should be recognized on accrual-based financial statements. The provisions of GASB Statement No. 47 are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of GASB Statement No. 47 should be implemented simultaneously with the requirements of Statement No. 45. For all other termination benefits, the provisions of GASB Statement No. 47 are effective for financial statements for periods beginning after June 15, 2005.

NOTE 3 – System Cash and Cash Equivalents:

Cash and cash equivalents of the System are stated at cost, which approximates market, and consists of deposits in money market funds, which are not federally insured, and cash in the bank. At June 30, 2005 and 2004 the System's deposits in money market funds totaled \$67,110,000 and \$67,997,000, respectively, and cash in bank was \$7,366,000 and \$6,143,000, respectively. Of these balances, \$100,000 in both years were covered by the Federal Depository Insurance Corporation ("FDIC"), the remaining deposits are uncollateralized and uninsured. Included in cash and cash equivalents are unspent bond proceeds which do not qualify for restriction, however, these funds must be used for specific construction projects. At June 30, 2005 and 2004 \$48,918,000 and \$57,148,000, respectively, of unspent bond proceeds were included in cash and cash equivalents. Restricted cash represents the unexpended bond proceeds of certain bond issuances which are accessible only through an independent trustee. Cash held by State Treasurer represents the funds from certain state appropriations, which were enacted to provide the System with the funds necessary for the construction of major assets. Such amounts are controlled by the Nevada Public Works Board. All of the above are included in cash and cash equivalents in the Statements of Cash Flows.

NOTE 4 – System Investments:

Investments are stated at fair value. The historical cost and market value (fair value) of System investments at June 30, 2005 and 2004 is as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$270,818,000	\$298,023,000	\$276,719,000	\$288,374,000
Other partnerships	40,000,000	66,475,000	40,000,000	59,835,000
Private equity partnerships	31,827,000	44,399,000	35,227,000	49,375,000
Stocks	19,886,000	25,404,000	21,490,000	26,045,000
Endowment cash and cash equivalents	13,417,000	13,417,000	9,336,000	9,336,000
Other investments (including corporate and U.S. government bonds)	1,975,000	2,032,000	1,571,000	1,645,000
	<u>\$377,923,000</u>	<u>\$449,750,000</u>	<u>\$384,343,000</u>	<u>\$434,610,000</u>

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 4 – System Investments (continued):

Mutual funds consist of investments in shares of mutual funds with six separate fund managers. Investments held by the various mutual funds, in the approximate proportions of the System's ownership of such mutual funds, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Stocks	36%	36%
U.S. government bonds	28%	28%
International securities	23%	26%
Cash and cash equivalents	12%	9%
Corporate bonds	1%	1%

As of June 30, 2005, 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 these private equity partnerships of \$10,513,000.

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

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, 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, 2005 is as follows:

U.S. Government - Guaranteed	\$ 824,000
Corporate Bonds:	
AAA	\$ 106,000
AA	\$ 384,000
A	\$ 661,000
Not Rated	\$ 25,000
Commingled Funds:	
U.S. Bond Funds – Not Rated	\$83,731,000
Non U.S. Bond Funds – Not Rated	\$ 2,641,000
Money Market Funds – Not Rated	\$13,417,000

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, 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, 2005 is as follows:

Less than 1 year	\$28,654,000
1 to 5 years	\$37,581,000
6 to 10 years	\$19,116,000
More than 10 years	\$16,438,000

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 4 – System 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, 2005, the System's operating and endowment investments that were held by various custodial banks and are represented by the following types of investments:

Mutual Funds	\$ 1,109,000
Stocks	\$ 25,404,000
International	\$ 32,000
US Government Bonds	\$ 824,000
Corporate Bonds	\$ 1,176,000

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, 2005, 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, 2005 the System had \$69,706,000 of investments in international mutual funds subject to foreign currency risk in both the operating and endowment investment pools. The U.S. dollar balances of international mutual funds organized by the respective foreign currencies are as follows:

Euro	\$ 20,875,000
British Pound	\$ 10,749,000
Japanese Yen	\$ 9,929,000
Swiss Franc	\$ 3,586,000
South Korean Won	\$ 3,302,000
Canadian Dollar	\$ 2,486,000
Taiwan New Dollar	\$ 2,270,000
Brazilian Real	\$ 1,397,000
Mexican Peso	\$ 1,345,000
Australian Dollar	\$ 1,072,000
Other	\$ 12,695,000

NOTE 5 – System Endowment Pool:

Approximately \$160,829,000 and \$146,547,000 of endowment fund investments at June 30, 2005 and 2004, respectively, are pooled on a unit market value basis. As of June 30, 2005, the endowment pool is comprised of investments in mutual funds (61%), stocks (10%), private equity partnerships (22%), and cash and cash equivalents (7%). As of June 30, 2004, the endowment pool is comprised of investments in mutual funds (62%), stocks (10%), private equity partnerships (24%) and other investments (4%). Each individual endowment 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, 2005 and 2004 was \$432.68 and \$399.66, 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, 2005 and 2004, the endowment spending policy, as approved by the Board of Regents, authorized a distribution of 4.5% of the average unit market value for the previous twenty (20) calendar quarters. Under the provisions of this spending rule, during 2005, \$16.75 was distributed to each time-weighted unit for a total spending rule distribution of \$8,174,000 and, during 2004, \$16.68 was distributed to each time-weighted unit for a total spending rule distribution of \$9,180,000. The 2005 and 2004 distributions were made from investment income of \$3,872,000 and \$4,278,000, respectively, and \$4,303,000 and \$4,902,000, respectively from cumulative gains of pooled investments.

The System's policy is to retain the endowment's realized and unrealized appreciation with the endowment after the annual income distribution has been made. Such realized and unrealized appreciation retained in endowment investments was \$102,873,000 and

NEVADA SYSTEM OF HIGHER EDUCATION

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 5 – System Endowment Pool (continued):

\$91,613,000 at June 30, 2005 and 2004, respectively, and is available to meet future spending needs subject to the approval of the Board of Regents.

Nevada State law provides that a portion of total estate tax revenues collected by the State are appropriated to the System. During the years ended June 30, 2005 and 2004 the System received \$10,269,000 and \$12,273,000, respectively, from such appropriations. Effective July 1, 2003 Nevada State law was amended to no longer require estate tax receipts to be maintained in an endowment, therefore, the entire balance of the estate tax endowment investments was reclassified to short-term investments in the Statement of Net Assets as of June 30, 2005 and 2004. Also, due to the phase-out of estate taxes in the State of Nevada, effective July 1, 2003, the Legislature approved an appropriation from the State’s general fund to the System in the amount of \$43,398,000 and \$45,837,000 for expenditures for certain unrestricted purposes during the years ended June 2005 and 2004, respectively. In addition, Nevada Revised Statute 375A.705 was amended whereby the System will reimburse the State for such amounts appropriated by making specific monthly payments using funds in the estate tax endowment until the estate tax endowment fund reaches \$0. Subsequently, any estate tax distributions received by the System from the State must be reverted to the State until the remaining unpaid balance of the total appropriation has been repaid. Under the requirements of the revised statute, the System has recorded an expense of amounts repaid and accrued during the years ended June 30, 2005 and 2004 of \$43,398,00 and \$45,837,000, respectively, which is presented as Refund to State in the accompanying financial statements.

NOTE 6 – System Accounts and Loans Receivable:

System accounts receivable consist primarily of amounts due from students for tuition and fees and from local and private sources for grant and contract agreements. System accounts receivable are presented on the accompanying Statements of Net Assets net of allowances for uncollectible amounts of \$5,029,000 and \$4,853,000, respectively, as of June 30, 2005 and 2004.

Loans receivable from students bear interest primarily between 3% and 12% per annum and are generally repayable in installments to the various campuses over a five to ten year period commencing nine months from the date of separation from the institution. A provision for possible uncollectible amounts is recorded on the basis of the various institutions’ estimated future losses for such items. The loans receivable and corresponding allowance for uncollectible loan balances as of June 30, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Loans receivable	\$11,483,000	\$11,914,000
Less: Allowance for doubtful loans	<u>(418,000)</u>	<u>(480,000)</u>
Net loans receivable	11,065,000	11,434,000
Less current portion	<u>(2,453,000)</u>	<u>(2,373,000)</u>
Noncurrent loans receivable	<u>\$ 8,612,000</u>	<u>\$ 9,061,000</u>

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 7 – System Capital Assets:

System capital asset activity for the year ended June 30, 2005 and 2004 is as follows:

	<u>2005</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 116,837,000	\$ 67,506,000	\$(108,074,000)	\$ 76,269,000
Land	58,596,000	6,613,000	-	65,209,000
Collections	5,400,000	1,187,000	(35,000)	6,552,000
Total capital assets, not being depreciated	<u>180,833,000</u>	<u>75,306,000</u>	<u>(108,109,000)</u>	<u>148,030,000</u>
Capital assets, being depreciated:				
Buildings	1,171,233,000	127,705,000	-	1,298,938,000
Land improvements	75,910,000	1,540,000	-	77,450,000
Machinery and equipment	221,814,000	38,056,000	(13,445,000)	246,425,000
Library books and media	83,722,000	6,933,000	(695,000)	89,960,000
Total cost	<u>1,552,679,000</u>	<u>174,234,000</u>	<u>(14,140,000)</u>	<u>1,712,773,000</u>
Less accumulated depreciation for:				
Buildings	(318,813,000)	(31,185,000)	-	(349,998,000)
Land improvements	(51,208,000)	(4,124,000)	-	(55,332,000)
Machinery and equipment	(137,949,000)	(21,582,000)	11,452,000	(148,079,000)
Library books and media	(69,359,000)	(6,743,000)	698,000	(75,404,000)
Total accumulated depreciation	<u>(577,329,000)</u>	<u>(63,634,000)</u>	<u>12,150,000</u>	<u>(628,813,000)</u>
Total capital assets being depreciated, net	<u>975,350,000</u>	<u>110,600,000</u>	<u>(1,990,000)</u>	<u>1,083,960,000</u>
Capital assets, net	<u>\$1,156,183,000</u>	<u>\$185,906,000</u>	<u>\$(110,099,000)</u>	<u>\$1,231,990,000</u>
	<u>2004</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 62,625,000	\$102,636,000	\$(48,424,000)	\$ 116,837,000
Land	49,199,000	9,397,000	-	58,596,000
Collections	4,835,000	602,000	(37,000)	5,400,000
Total capital assets, not being depreciated	<u>116,659,000</u>	<u>112,635,000</u>	<u>(48,461,000)</u>	<u>180,833,000</u>
Capital assets, being depreciated:				
Buildings	1,106,002,000	65,231,000	-	1,171,233,000
Land improvements	72,222,000	3,688,000	-	75,910,000
Machinery and equipment	208,470,000	32,050,000	(18,706,000)	221,814,000
Library books and media	81,178,000	4,885,000	(2,341,000)	83,722,000
Total cost	<u>1,467,872,000</u>	<u>105,854,000</u>	<u>(21,047,000)</u>	<u>1,552,679,000</u>
Less accumulated depreciation for:				
Buildings	(290,768,000)	(28,045,000)	-	(318,813,000)
Land improvements	(47,166,000)	(4,042,000)	-	(51,208,000)
Machinery and equipment	(133,465,000)	(20,017,000)	15,533,000	(137,949,000)
Library books and media	(65,015,000)	(6,685,000)	2,341,000	(69,359,000)
Total accumulated depreciation	<u>(536,414,000)</u>	<u>(58,789,000)</u>	<u>17,874,000</u>	<u>(577,329,000)</u>
Total capital assets being depreciated, net	<u>931,458,000</u>	<u>47,065,000</u>	<u>(3,173,000)</u>	<u>975,350,000</u>
Capital assets, net	<u>\$1,048,117,000</u>	<u>\$159,700,000</u>	<u>\$(51,634,000)</u>	<u>\$1,156,183,000</u>

The estimated cost to complete property authorized or under construction at June 30, 2005 is \$428,763,000. These costs will be financed by State appropriations, private donations, available resources and/or long-term borrowings.

NEVADA SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 8 – System Long-Term Debt:

System long-term debt activity for the year ended June 30, 2005 and 2004 is as follows:

	Annual Interest Rate	Fiscal Year Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Current
University Superior Lien Refunding Revenue Bonds, Series 1997	4.50% to 6.00%	2007	5,040,000	-	(1,914,000)	3,126,000	2,000,000
Universities Subordinate Lien Revenue Bonds, Series 1992	3.95% to 6.70%	2008	1,150,000	-	(260,000)	890,000	280,000
Universities Revenue Bonds, Series 1995	3.95% to 5.25%	2011	775,000	-	(95,000)	680,000	100,000
Universities Revenue Bonds, Series 1992	6.20% to 6.40%	2014	380,000	-	(380,000)	-	-
Universities Revenue Bonds, Series 1998	4.00% to 5.25%	2014	6,555,000	-	(165,000)	6,390,000	580,000
Community College Revenue Bonds, Series 1996	3.80% to 5.70%	2017	895,000	-	(50,000)	845,000	50,000
Universities Revenue Bonds, Series 2003A	2.00% to 5.00%	2017	23,140,000	-	(1,311,000)	21,829,000	1,525,000
Universities Revenue Bonds, Series 2000	5.10% to 5.88%	2021	14,235,000	-	(290,000)	13,945,000	305,000
Universities Revenue Bonds, Series December 2000	5.00% to 5.375%	2021	25,515,000	-	(995,000)	24,520,000	1,045,000
Taxable University Revenue Bonds, Series 2002C	4.00% to 5.50%	2022	8,150,000	-	(325,000)	7,825,000	340,000
SNSC Phase II Lease Revenue Bonds, Series April 2000	7.58%	2023	8,370,000	-	(210,000)	8,160,000	225,000
Universities Revenue Bonds, Shadow Lane – Dental School Bond, Series 2001	5.00% to 5.88%	2030	14,175,000	-	(265,000)	13,910,000	275,000
Universities Revenue Bonds, Series 2002A	4.25% to 5.25%	2032	18,860,000	-	(345,000)	18,515,000	355,000
Universities Revenue Bonds, Series 2002B	3.87% to 5.40%	2032	31,000,000	-	-	31,000,000	-
Universities Revenue Bonds, Series 2003B	4.75% to 5.00%	2032	10,905,000	-	-	10,905,000	-
Universities Revenue Bonds, Series 2004A	2.00% to 5.00%	2034	50,890,000	-	-	50,890,000	-
Universities Revenue Bonds, Series 2004B	2.00% to 4.50%	2034	32,450,000	-	-	32,450,000	1,280,000
Universities Revenue Bonds, Series 2005A	3.00% to 4.75%	2035	-	10,000,000	-	10,000,000	-
Premiums	3.00% to 5.00%	2036	-	31,010,000	-	31,010,000	-
Total Bonds Payable			<u>2,038,000</u>	<u>1,129,000</u>	<u>(44,000)</u>	<u>3,123,000</u>	<u>36,000</u>
Notes Payable			254,523,000	42,139,000	(6,649,000)	290,013,000	8,396,000
Total			<u>27,731,000</u>	<u>2,045,000</u>	<u>(2,637,000)</u>	<u>27,139,000</u>	<u>2,514,000</u>
			<u>\$282,254,000</u>	<u>\$ 44,184,000</u>	<u>\$(9,286,000)</u>	<u>\$317,152,000</u>	<u>\$10,910,000</u>

NEVADA SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 8 – System Long-Term Debt (continued):

	2004							
	Annual Interest Rate	Fiscal Year Final Payment Due	Beginning Balance	Additions	Reductions	Ending Balance	Current	
Universities Refunding Revenue Bonds, Series 1994	4.00% to 5.60%	2004	\$ 935,000	\$ -	\$ (935,000)	\$ -	\$ -	
Universities Refunding Revenue Bonds, Series 1993	4.12% to 5.00%	2004	355,000	-	(355,000)	-	-	
University Superior Lien Refunding Revenue Bonds, Series 1997	4.50% to 6.00%	2007	6,865,000	-	(1,825,000)	5,040,000	1,915,000	
Universities Subordinate Lien Revenue Bonds, Series 1992	3.95% to 6.70%	2008	1,395,000	-	(245,000)	1,150,000	260,000	
Universities Revenue Bonds, Series 1995	3.95% to 5.25%	2011	865,000	-	(90,000)	775,000	95,000	
Universities Revenue Bonds, Series 1992	6.20% to 6.40%	2014	740,000	-	(360,000)	380,000	380,000	
Universities Revenue Bonds, Series 1998	4.00% to 5.25%	2014	6,715,000	-	(160,000)	6,555,000	165,000	
Community College Revenue Bonds, Series 1996	3.80% to 5.70%	2017	940,000	-	(45,000)	895,000	50,000	
Universities Revenue Bonds, Series 2003A	2.00% to 5.00%	2017	23,140,000	-	-	23,140,000	1,310,000	
Universities Revenue Bonds, Series 2000	5.10% to 5.88%	2021	14,380,000	-	(145,000)	14,235,000	290,000	
Universities Revenue Bonds, Series December 2000	5.00% to 5.375%	2021	26,470,000	-	(955,000)	25,515,000	995,000	
Taxable University Revenue Bonds, Series 2002C	4.00% to 5.50%	2022	8,150,000	-	-	8,150,000	325,000	
SNSC Phase II Lease Revenue Bonds	7.58%	2023	8,460,000	-	(90,000)	8,370,000	210,000	
Universities Revenue Bonds, Series April 2000	5.00% to 5.88%	2030	14,430,000	-	(255,000)	14,175,000	265,000	
Shadow Lane – Dental School Bond, Series 2001	4.25% to 5.25%	2032	19,200,000	-	(340,000)	18,860,000	345,000	
Universities Revenue Bonds, Series 2002A	3.87% to 5.40%	2032	31,000,000	-	-	31,000,000	-	
Universities Revenue Bonds, Series 2002B	4.75% to 5.00%	2032	10,905,000	-	-	10,905,000	-	
Universities Revenue Bonds, Series 2003B	2.00% to 5.00%	2035	50,890,000	-	-	50,890,000	-	
Universities Revenue Bonds, Series 2004A	2.00% to 4.50%	2036	-	32,450,000	-	32,450,000	-	
Premiums			1,911,000	263,000	(136,000)	2,038,000	-	
Total Bonds Payable			227,746,000	32,713,000	(5,936,000)	254,523,000	6,605,000	
Notes Payable			27,414,000	9,405,000	(9,088,000)	27,731,000	2,368,000	
Total			<u>\$255,160,000</u>	<u>\$ 42,118,000</u>	<u>\$(15,024,000)</u>	<u>\$282,254,000</u>	<u>\$8,973,000</u>	

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 8 – System Long-Term Debt (continued):

The revenue bonds are collateralized by tuition and fees, auxiliary enterprises revenues and certain other revenues as defined in the bond indentures.

There are a number of limitations and restrictions contained in the various bond indentures. The System 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 covenants of the various bond indentures require the various divisions and campuses of the System to maintain minimum levels of revenues, as defined in the indentures.

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

	<u>Principal</u>	<u>Interest</u>
2006	\$10,910,000	\$14,003,000
2007	12,174,000	14,143,000
2008	12,352,000	13,567,000
2009	11,386,000	13,074,000
2010	11,826,000	12,582,000
2011-2015	63,667,000	54,861,000
2016-2020	57,408,000	40,598,000
2021-2025	45,829,000	27,130,000
2026-2030	49,527,000	15,753,000
2031-2035	38,905,000	3,902,000
2036-2040	<u>3,168,000</u>	<u>-</u>
Total	<u>\$317,152,000</u>	<u>\$209,613,000</u>

In October 2005 the System issued Universities Revenue Bonds, Series 2005B in the amount of \$170,360,000. The bonds bear interest from 3.25% to 5.00% and mature on various dates from 2007 to 2035. The bonds were issued primarily to finance projects on both the UNLV and UNR campuses. Additionally, certain proceeds from the 2005B revenue bonds were used to refund \$10,990,000 of the series 2000A bonds and \$12,030,000 of the series 2000B bonds.

NOTE 9 – System Obligations Under Capital Leases:

The System has entered into various non-cancellable lease agreements of land, buildings and improvements, and machinery and equipment expiring at various dates from fiscal year 2006 to 2019.

System obligations under capital leases were as follows for the year ending June 30, 2005 and 2004:

	Beginning Balance	Additions	2005		Ending Balance	Current
			Reductions			
Capital lease obligations	<u>\$15,021,000</u>	<u>\$2,308,000</u>	<u>(\$1,990,000)</u>		<u>\$15,339,000</u>	<u>\$2,385,000</u>
			2004			
	Beginning Balance	Additions	Reductions		Ending Balance	Current
Capital lease obligations	<u>\$10,408,000</u>	<u>\$7,458,000</u>	<u>(\$2,845,000)</u>		<u>\$15,021,000</u>	<u>\$1,851,000</u>

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 9 – System Obligations Under Capital Leases (continued):

The following System property included in the accompanying financial statements was leased under capital leases as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Buildings and improvements	\$ 10,421,000	\$ 4,906,000
Machinery and equipment	<u>10,435,000</u>	<u>9,981,000</u>
Total	20,856,000	14,887,000
Less accumulated depreciation	<u>(3,655,000)</u>	<u>(2,342,000)</u>
Total	<u>\$17,201,000</u>	<u>\$12,545,000</u>

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

2006	\$ 3,132,000
2007	2,582,000
2008	2,371,000
2009	2,342,000
2010	2,138,000
2011-2015	<u>5,713,000</u>
Total minimum lease payments	18,278,000
Less amount representing interest	<u>(3,043,000)</u>
Obligations under capital leases	<u>\$15,235,000</u>

Total interest expense under the System capital leases and included in the accompanying financial statements was \$457,000 and \$843,000, respectively, during the years ended June 30, 2005 and 2004.

NOTE 10 – System Other Noncurrent Liability Activity:

The activity with respect to System other noncurrent liabilities for the years ended June 30, 2005 and 2004 was as follows:

	<u>2005</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Refundable advances under federal loans program	\$ 7,586,000	\$ 869,000	\$ (598,000)	\$ 7,857,000	\$ -
Compensated absences	32,407,000	29,321,000	(25,149,000)	36,579,000	25,266,000
Deferred revenue	<u>27,866,000</u>	<u>33,499,000</u>	<u>(27,083,000)</u>	<u>34,282,000</u>	<u>33,999,000</u>
Total	<u>\$67,859,000</u>	<u>\$63,689,000</u>	<u>\$(52,830,000)</u>	<u>\$78,718,000</u>	<u>\$59,265,000</u>
	<u>2004</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Refundable advances under federal loans program	\$ 7,378,000	\$ 741,000	\$ (533,000)	\$ 7,586,000	\$ -
Compensated absences	30,735,000	24,046,000	(22,374,000)	32,407,000	22,191,000
Deferred revenue	<u>22,491,000</u>	<u>27,667,000</u>	<u>(22,292,000)</u>	<u>27,866,000</u>	<u>27,083,000</u>
Total	<u>\$60,604,000</u>	<u>\$52,454,000</u>	<u>\$(45,199,000)</u>	<u>\$67,859,000</u>	<u>\$49,274,000</u>

NOTE 11 – Irrevocable Letter of Credit:

In connection with its workers compensation liability coverage, the System is required to maintain a \$1,280,000 standby letter of credit. An additional letter of credit was established in April 2004 in connection with the System's self-insured workers' compensation liability coverage in the amount of \$2,893,000. A letter of credit was established in July 2003 in connection with the DRI Lease Revenue Bond in the amount of \$2,100,000. No advances were made under the letters of credit during the years ended June 30, 2005 and 2004.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 12 – System Pension Plans:

Substantially all permanent employees of the System 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 System 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 employees’ average compensation is the average of the employee’s highest compensation for 36 consecutive months. A diminished benefit is provided to all eligible employees upon early retirement, if such employees have achieved the years of service required for regular retirement. PERS also provides death and disability benefits. Benefits are established by State statute.

The authority for establishing and amending the obligation to make contributions is provided by statute. Contribution rates are also established by statute. Active employees contribute to PERS at a rate of either 10.5% or 0% of annual covered wages depending on the contribution option selected. The System is required to contribute to PERS at a rate of either 10.5% or 20.25% of annual covered wages, depending on the option selected by the employee. The System 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 W. Nye Lane, Carson City, NV 89703-1599

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

The System’s contribution to all retirement plans for the years ended June 30, 2005, 2004 and 2003 was approximately \$55,728,000, \$45,434,000 and \$41,357,000, respectively, equal to the required contribution for each year.

NOTE 13 – System Contingent Liabilities:

The System is a defendant or co-defendant in legal actions. Based on present knowledge and advice of legal counsel, System 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 System.

NOTE 14 – Functional Classification of System Expenses:

The following is the functional classifications of expenses as reported on the Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Instruction	\$ 395,655,000	\$ 357,715,000
Research	117,057,000	110,315,000
Public service	59,942,000	55,663,000
Academic support	92,930,000	84,568,000
Institutional support	124,072,000	114,194,000
Student services	82,299,000	73,833,000
Operation and maintenance of plant	87,377,000	77,002,000
Scholarships and fellowships	41,784,000	41,494,000
Auxiliary enterprises	63,552,000	63,322,000
Other expenditures	277,000	79,000
Depreciation	<u>63,634,000</u>	<u>58,789,000</u>
Total	<u>\$1,128,579,000</u>	<u>\$1,036,974,000</u>

NEVADA SYSTEM OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15 – System Related Organizations:

As described in Note 1, the System Related Organizations columns in the financial statements includes the financial data of the System’s discretely presented campus foundations and medical school practice plans. Condensed combining financial data of the System related organizations is as follows:

**NEVADA SYSTEM OF HIGHER EDUCATION SYSTEM RELATED ORGANIZATIONS
NET ASSETS AS OF JUNE 30, 2005**

	UNR Foundation	Practice Plans	DRI Foundation	TMCC Foundation	WNCC Foundation	GBC Foundation	UNLV Foundation	CCSN Foundation	NSC Foundation	Total System Related Organizations
<i>Current Assets</i>										
Cash and cash equivalents	\$10,705,000	\$10,371,000	\$460,000	\$142,000	\$ -	\$ 918,000	\$ 5,382,000	\$2,059,000	\$ 97,000	\$ 30,134,000
Short-term investments	11,544,000	-	-	-	-	-	3,361,000	-	1,040,000	15,945,000
Other current assets	6,127,000	9,231,000	-	8,000	507,000	119,000	2,323,000	-	-	18,315,000
Total Current Assets	28,376,000	19,602,000	460,000	150,000	507,000	1,037,000	11,066,000	2,059,000	1,137,000	64,394,000
<i>Noncurrent Assets</i>										
Capital assets, net	53,000	2,077,000	16,000	-	-	5,000	2,491,000	-	-	4,642,000
Endowment investments	64,063,000	-	-	178,000	2,708,000	3,020,000	77,391,000	581,000	108,000	148,049,000
Other noncurrent assets	8,470,000	-	-	-	-	201,000	25,913,000	-	-	34,584,000
Total Noncurrent Assets	72,586,000	2,077,000	16,000	178,000	2,708,000	3,226,000	105,795,000	581,000	108,000	187,275,000
TOTAL ASSETS	100,962,000	21,679,000	476,000	328,000	3,215,000	4,263,000	116,861,000	2,640,000	1,245,000	251,669,000
<i>LIABILITIES</i>										
<i>Current Liabilities</i>										
Due to affiliates	767,000	179,000	-	-	-	-	-	-	-	946,000
Current portion of long-term debt	400,000	-	-	-	-	-	250,000	-	-	650,000
Other current liabilities	19,000	3,343,000	28,000	47,000	-	54,000	271,000	-	-	3,762,000
Total Current Liabilities	1,186,000	3,522,000	28,000	47,000	-	54,000	521,000	-	-	5,358,000
<i>Noncurrent Liabilities</i>										
Long-term debt	1,129,000	-	-	-	-	-	1,305,000	-	-	2,434,000
Other noncurrent liabilities	315,000	223,000	-	-	-	-	436,000	-	-	974,000
Total Noncurrent Liabilities	1,444,000	223,000	-	-	-	-	1,741,000	-	-	3,408,000
TOTAL LIABILITIES	2,630,000	3,745,000	28,000	47,000	-	54,000	2,262,000	-	-	8,766,000
NET ASSETS										
Invested in capital assets, net of related debt	171,000	1,652,000	16,000	-	-	5,000	216,000	-	-	2,060,000
Restricted	67,606,000	-	-	181,000	654,000	2,793,000	48,248,000	24,000	108,000	119,614,000
Expendable	26,243,000	-	103,000	-	2,474,000	725,000	61,945,000	37,000	1,031,000	92,558,000
Unrestricted	4,312,000	16,282,000	329,000	100,000	87,000	686,000	4,190,000	2,579,000	106,000	28,671,000
TOTAL NET ASSETS	\$98,332,000	\$17,934,000	\$448,000	\$281,000	\$3,215,000	\$4,209,000	\$114,599,000	\$2,640,000	\$ 1,245,000	\$242,903,000

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15 – System Related Organizations (continued):

NEVADA SYSTEM OF HIGHER EDUCATION SYSTEM RELATED ORGANIZATIONS
NET ASSETS AS OF JUNE 30, 2004

ASSETS	UNR	Practice	DRI	TMCC	WNCC	GBC	UNLV	CCSN	NSC	Total
	Foundation	Plans	Foundation	Foundation	Foundation	Foundation	Foundation	Foundation	Foundation	System Related Organizations
<i>Current Assets</i>										
Cash and cash equivalents	\$19,853,000	\$8,050,000	\$36,000	\$123,000	\$	\$599,000	\$4,418,000	\$1,613,000	\$102,000	\$34,794,000
Short-term investments	7,795,000	-	250,000	-	-	-	-	-	-	8,045,000
Other current assets	1,814,000	7,275,000	-	23,000	361,000	1,115,000	2,416,000	396,000	32,000	13,432,000
Total Current Assets	29,462,000	15,325,000	286,000	146,000	361,000	1,714,000	6,834,000	2,009,000	134,000	56,271,000
<i>Noncurrent Assets</i>										
Capital assets, net	36,000	2,008,000	16,000	-	-	14,000	2,507,000	-	-	4,581,000
Endowment investments	54,759,000	-	-	68,000	2,347,000	2,685,000	70,894,000	688,000	1,125,000	132,566,000
Other noncurrent assets	5,311,000	-	-	-	-	129,000	12,249,000	-	-	17,689,000
Total Noncurrent Assets	60,106,000	2,008,000	16,000	68,000	2,347,000	2,828,000	85,650,000	688,000	1,125,000	154,836,000
TOTAL ASSETS	89,568,000	17,333,000	302,000	214,000	2,708,000	4,542,000	92,484,000	2,697,000	1,259,000	211,107,000
<i>LIABILITIES</i>										
<i>Current Liabilities</i>										
Due to affiliates	602,000	126,000	-	-	-	-	-	-	-	728,000
Current portion of long-term debt	373,000	213,000	-	-	-	-	315,000	-	-	901,000
Other current liabilities	16,000	2,554,000	-	51,000	-	14,000	99,000	-	18,000	2,752,000
Total Current Liabilities	991,000	2,893,000	-	51,000	-	14,000	414,000	-	18,000	4,381,000
<i>Noncurrent Liabilities</i>										
Long-term debt	1,529,000	-	-	-	-	-	1,555,000	-	-	3,084,000
Other noncurrent liabilities	7,757,000	185,000	-	-	-	-	532,000	-	1,017,000	9,491,000
Total Noncurrent Liabilities	9,286,000	185,000	-	-	-	-	2,087,000	-	1,017,000	12,575,000
TOTAL LIABILITIES	10,277,000	3,078,000	-	51,000	-	14,000	2,501,000	-	1,035,000	16,956,000
NET ASSETS										
Invested in capital assets, net of related debt	603,000	1,443,000	16,000	-	-	14,000	213,000	-	-	2,289,000
Restricted										
Nonexpendable	55,608,000	-	-	67,000	230,000	2,667,000	41,561,000	61,000	108,000	100,302,000
Expendable	19,031,000	36,000	65,000	1,000	2,386,000	1,162,000	46,361,000	384,000	32,000	69,458,000
Unrestricted	4,049,000	12,776,000	221,000	95,000	92,000	685,000	1,848,000	2,252,000	84,000	22,102,000
TOTAL NET ASSETS	\$79,291,000	\$14,255,000	\$302,000	\$163,000	\$2,708,000	\$4,528,000	\$89,983,000	\$2,697,000	\$224,000	\$194,151,000

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15 – System Related Organizations (continued):

NEVADA SYSTEM OF HIGHER EDUCATION SYSTEM RELATED ORGANIZATIONS
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	UNR Foundation	Practice Plans	DRI Foundation	TMCC Foundation	WNCC Foundation	GBC Foundation	UNLV Foundation	CCSN Foundation	NSC Foundation	Total System Related Organizations
<i>Operating Revenues</i>										
Patient revenue	\$ -	\$43,329,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$43,329,000
Contract revenue	-	7,014,000	-	-	-	-	-	-	-	7,014,000
Contributions	24,724,000	-	1,433,000	182,000	1,275,000	294,000	26,921,000	762,000	1,070,000	56,661,000
Campus support	1,077,000	-	371,000	98,000	-	71,000	-	-	-	1,617,000
Other operating revenue	652,000	-	153,000	41,000	-	55,000	405,000	-	-	1,306,000
Total operating revenues	26,453,000	50,343,000	1,957,000	321,000	1,275,000	420,000	27,326,000	762,000	1,070,000	109,927,000
<i>Operating Expenses</i>										
Program expenses	227,000	29,938,000	-	-	-	375,000	64,000	-	-	30,604,000
Depreciation	13,000	582,000	-	-	-	-	85,000	-	-	680,000
Other operating expenses	1,832,000	18,148,000	717,000	161,000	365,000	-	2,803,000	31,000	7,000	24,064,000
Total operating expenses	2,072,000	48,668,000	717,000	161,000	365,000	375,000	2,952,000	31,000	7,000	55,348,000
Operating income	24,381,000	1,675,000	1,240,000	160,000	910,000	45,000	24,374,000	731,000	1,063,000	54,579,000
<i>Nonoperating Revenues (Expenses)</i>										
Payments to System campuses and divisions	(19,974,000)	(937,000)	(1,095,000)	(156,000)	(493,000)	(676,000)	(12,306,000)	(817,000)	(46,000)	(36,500,000)
Other nonoperating revenues (expenses)	7,458,000	2,941,000	1,000	25,000	90,000	185,000	6,873,000	29,000	4,000	17,606,000
Total nonoperating expenses	(12,516,000)	2,004,000	(1,094,000)	(131,000)	(403,000)	(491,000)	(5,433,000)	(788,000)	(42,000)	(18,894,000)
Income (loss) before other revenue, expenses gains or losses	11,865,000	3,679,000	146,000	29,000	507,000	(446,000)	18,941,000	(57,000)	1,021,000	35,685,000
Additions to permanent endowments	7,176,000	-	-	89,000	-	127,000	5,675,000	-	-	13,067,000
Total other revenues	7,176,000	-	-	89,000	-	127,000	5,675,000	-	-	13,067,000
Increase (decrease) in net assets	19,041,000	3,679,000	146,000	118,000	507,000	(319,000)	24,616,000	(57,000)	1,021,000	48,752,000
Net assets - beginning of year	79,291,000	14,255,000	302,000	163,000	2,708,000	4,528,000	89,983,000	2,697,000	224,000	194,151,000
Net assets - end of year	\$98,332,000	\$17,934,000	\$ 448,000	\$281,000	\$3,215,000	\$4,209,000	\$114,599,000	\$2,640,000	\$1,245,000	\$242,903,000

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15 -- System Related Organizations (continued):

UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA SYSTEM RELATED ORGANIZATIONS
REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

	UNR Foundation	Practice Plans	DRI Foundation	TMCC Foundation	WNCC Foundation	GBC Foundation	UNLV Foundation	CCSN Foundation	NSC Foundation	Total System Related Organizations
<i>Operating Revenues</i>										
Patient revenue	\$ -	\$38,207,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$38,207,000
Contract revenue	-	6,101,000	-	-	-	-	-	-	-	6,101,000
C contributions	15,389,000	-	988,000	283,000	913,000	210,000	14,061,000	768,000	232,000	32,844,000
Campus support	1,313,000	-	217,000	91,000	-	132,000	-	-	-	1,753,000
Other operating revenue	515,000	-	139,000	35,000	-	68,000	368,000	24,000	-	1,149,000
Total operating revenues	17,217,000	44,308,000	1,344,000	409,000	913,000	410,000	14,429,000	792,000	232,000	80,054,000
<i>Operating Expenses</i>										
Program expenses	251,000	26,212,000	-	1,000	-	304,000	1,060,000	-	-	27,828,000
Depreciation	12,000	564,000	-	-	-	-	80,000	-	-	656,000
Other operating expenses	1,882,000	16,714,000	516,000	155,000	351,000	-	2,568,000	124,000	28,000	22,338,000
Total operating expenses	2,145,000	43,490,000	516,000	156,000	351,000	304,000	3,708,000	124,000	28,000	50,822,000
Operating income	15,072,000	818,000	828,000	253,000	562,000	106,000	10,721,000	668,000	204,000	29,232,000
<i>Nonoperating Revenues (Expenses)</i>										
Payments to System campuses and divisions	(17,643,000)	(884,000)	(1,914,000)	(237,000)	(166,000)	(292,000)	(12,189,000)	(625,000)	(195,000)	(34,145,000)
Other nonoperating revenues (expenses)	10,037,000	3,231,000	4,000	1,000	92,000	99,000	880,000	21,000	2,000	14,367,000
Total nonoperating expenses	(7,606,000)	2,347,000	(1,910,000)	(236,000)	(74,000)	(193,000)	(11,309,000)	(604,000)	(193,000)	(19,778,000)
Income (loss) before other revenue, expenses gains or losses	7,466,000	3,165,000	(1,082,000)	17,000	488,000	(87,000)	(588,000)	64,000	11,000	9,454,000
Additions to permanent endowments	2,497,000	-	-	67,000	-	229,000	6,732,000	-	-	9,525,000
Total other revenues	2,497,000	-	-	67,000	-	229,000	6,732,000	-	-	9,525,000
Increase (decrease) in net assets	9,963,000	3,165,000	(1,082,000)	84,000	488,000	142,000	6,144,000	64,000	11,000	18,979,000
Net assets - beginning of year	69,328,000	11,090,000	1,384,000	79,000	2,220,000	4,386,000	83,839,000	2,633,000	213,000	175,172,000
Net assets - end of year	\$79,291,000	\$14,255,000	\$ 302,000	\$163,000	\$2,708,000	\$4,528,000	\$89,983,000	\$2,697,000	\$224,000	\$194,151,000

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15 – System Related Organizations (continued):

UNR Foundation:

The UNR Foundation cash deposits are primarily on deposit with two financial institutions and several investment companies and are carried at fair value at \$10,705,000 and \$19,853,000, respectively, at June 30, 2005 and 2004, of which \$15,198,000 and \$1,290,000, respectively, is insured by the FDIC. The remaining balance is uncollateralized and is a category 3 level of risk, based on risk categories established by GASB.

Investments consist primarily of open-ended mutual funds through a single custodian. Debt and equity securities other than open-ended mutual funds are uncollateralized and are a category 3 level of risk, based on risk categories established by GASB.

Cash and cash equivalents at June 30, 2005 and 2004, consists of:

	<u>2005</u>	<u>2004</u>
Cash	\$ 1,011,000	\$ 883,000
Money Funds	1,534,000	8,000
Common Fund Short-term Investments	3,475,000	9,850,000
Certificates of Deposit	190,000	980,000
Treasury Bills	<u>4,495,000</u>	<u>8,132,000</u>
	<u>\$10,705,000</u>	<u>\$19,853,000</u>

The fair value of investments at June 30, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
Equity Investments	\$ 277,000	\$ -
Commonfund Bond	16,259,000	14,056,000
Commonfund Global Bond	671,000	638,000
Commonfund Equity	45,811,000	39,265,000
Commonfund International Equity	1,363,000	1,230,000
Commonfund Emerging Markets	1,420,000	1,079,000
Commonfund Capital Partners	411,000	167,000
Commonfund Real Estate Securities	776,000	574,000
Commonfund Realty Investors	1,908,000	1,804,000
Certificates of Deposit	2,184,000	2,149,000
U.S. Government Securities	<u>4,527,000</u>	<u>1,592,000</u>
	<u>\$75,607,000</u>	<u>\$62,554,000</u>

At June 30, 2005, the Foundation investments had the following maturities:

	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 – 5	6 – 10
Equity investments	\$ 277,000	\$ 277,000	\$ -	\$ -
Open ended mutual funds	68,618,000	68,618,000	-	-
Certificates of deposit	2,184,000	891,000	1,197,000	96,000
U.S. Government securities	<u>4,528,000</u>	<u>3,534,000</u>	<u>495,000</u>	<u>499,000</u>
	<u>\$75,607,000</u>	<u>\$73,320,000</u>	<u>\$1,692,000</u>	<u>\$595,000</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

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15– System Related Organizations (continued):

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, 2005 and 2004 was \$18,007,000 and \$14,087,000, 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.

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 investment of cash and cash equivalents and 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.

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.

UNLV Foundation:

The UNLV Foundation discloses its deposits with financial institutions, investments, and reverse repurchase agreements in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3*.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the UNLV Foundation will not be able to recover deposits or collateral securities that are in the possession of an outside party. The UNLV Foundation does not have a deposit policy for custodial credit risk. Of the cash balances held by custodians at June 30, 2005, \$114,008 was covered by the FDIC and \$119,273 was uninsured. Of the cash equivalent balance, \$811,011 was covered by Securities Investor Protection Corporation ("SIPC") and \$1,862,557 was covered by the Customer Asset Protection Company ("CAPCO"), excess protection provided by the two brokerages. In addition, \$515,233 is held in a bank and is uninsured, however, the cash and cash equivalents are invested in a money market account that is backed by the full faith and credit of the U.S. Government.

Investments in the custody of the two brokerages are covered by CAPCO. Investments in the custody of the bank are in the nominee name of the bank and held by the Depository Trust Company.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15- System Related Organizations (continued):

Investments include the following at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Endowment cash and cash equivalents	\$ 3,986,000	\$ 3,961,000
Investments in securities	4,242,000	1,353,000
Common Stock	35,708,000	26,357,000
U.S. government obligations	10,517,000	11,834,000
Corporate obligations	14,512,000	20,306,000
Asset-backed securities	<u>4,646,000</u>	<u>4,320,000</u>
Total marketable securities at cost	73,611,000	68,131,000
Net unrealized gain (loss) on noncurrent investments	<u>7,141,000</u>	<u>2,763,000</u>
Total fair value of noncurrent investments	<u>\$80,752,000</u>	<u>\$70,894,000</u>

Credit Risk

Credit risk is the risk that an issuer will not fulfill its obligations. The UNLV Foundation reduces its exposure to credit risk with policy guidelines that instruct money managers to purchase securities rated investment grade or better. However, up to 15% (+/-5%) of the fixed-income portfolios may be allocated to below-investment-grade securities.

Corporate Bonds	Total	AAA	AA	A	BBB	Below Investment Grade
Restricted fund - Payden & Rygel	\$5,566,000	\$ 77,000	\$247,000	\$1,849,000	\$2,483,000	\$ 910,000
Endowment fund: Wachovia	\$1,688,000	\$105,000	\$625,000	\$ 744,000	\$ 214,000	\$ -
Loomis Sayles	\$9,089,000	\$303,000	\$347,000	\$2,300,000	\$2,978,000	\$3,161,000

Note: U.S. Government obligations, asset-backed securities, and mutual funds are not included.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The UNLV Foundation's policy guidelines on maturity parameters state that the fixed-income portfolio's average weighted duration is to remain within 20% of the benchmark duration.

For the restricted fund, the Lehman Intermediate Govt/Corp Index average maturity as of June 30, 2005, was 3.60 years. The fixed-income portfolio's average maturity was 3.70 years. Interest rates range from 1.875% to 9.125%.

Maturity Under 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity Over 10 Years	Total
\$4,844,000	\$5,462,000	\$7,272,000	\$388,000	\$17,966,000

For the endowment fund, the Lehman Aggregate Bond Index average maturity as of June 30, 2005, was 6.22 years. The fixed-income portfolio's average maturity was 6.40 years. Interest rates range from 1.625% to 8.750%.

Maturity Under 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity Over 10 Years	Total
\$2,160,000	\$6,999,000	\$4,179,000	\$5,812,000	\$19,150,000

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15– System Related Organizations (continued):

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. The UNLV Foundation's policy guidelines instruct managers to purchase sovereign debt rated "A" or better and may not invest in excess of 20% of the total fixed-income portfolio, of which no more than 5% of the total fixed-income portfolio may be invested in the debt of any one foreign country.

At June 30, 2005, the UNLV Foundation had \$1,049,000 in foreign bonds.

During the year ended June 30, 2005, the UNLV Foundation recognized \$6,873,088 in investment income. Earnings included \$2,561,834 from interest and dividends, \$354,985 from net realized gains on the sale of investments, \$4,378,254 from the change in investment fair value, and \$10,693 from an inflation index adjustment. Investment expenses of \$409,284 and amortization of bond discounts of \$23,395 were netted against earnings.