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# **University and Community College System of Nevada Financial Statements**



**June 30, 2004**

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

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The University and Community College System of Nevada's (the "System") 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 year ended 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 \$150,904,000; an 11.3% increase.
- Total long-term debt increased from \$247,410,000 to \$273,281,000; a 10.5% increase.
- Operating revenues increased 9.5% to \$556,655,000.
- Operating expenses increased 10.0% to \$1,036,974,000.

## 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>2004</u>	<u>2003</u>
Assets		
Current assets	\$ 530,515	\$ 377,363
Capital assets, net	1,156,183	1,048,117
Other assets	<u>242,745</u>	<u>297,228</u>
Total assets	<u>1,929,443</u>	<u>1,722,708</u>
Liabilities		
Current Liabilities	134,920	110,978
Noncurrent Liabilities	<u>305,036</u>	<u>273,147</u>
Total Liabilities	<u>439,956</u>	<u>384,125</u>
Net assets		
Invested in capital assets, net of debt	914,587	842,722
Restricted, nonexpendable	55,980	129,461
Restricted, expendable	325,094	211,715
Unrestricted	<u>193,826</u>	<u>154,685</u>
Total net assets	<u>\$1,489,487</u>	<u>\$1,338,583</u>

Total assets of the System increased by \$206.7 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 cash and cash equivalents, short-term investments, the receivable from the State of Nevada and capital assets. Cash and cash equivalents and short-term investments increased by \$126.1 million mainly due to increased cash available for construction projects, an increase in summer school revenue, and the issuance of general revenue bonds in March 2004. The receivable from the State of Nevada increased by \$20.2 million due to the biennial appropriations approved by the legislature for capital construction. Capital assets, net of accumulated depreciation increased by \$108.1 million, which reflects the System's continuing investment in its physical facilities. The decrease in endowment investments of \$58.2 million was primarily a result of the changes in funding of the estate tax.

Total liabilities for the year increased \$55.8 million due to an increase of \$23.9 million in current liabilities, and an increase of \$31.9 million in noncurrent liabilities. The increase in current liabilities resulted mainly from an increase in accounts payable for construction projects and an increase in deferred revenue. The increase in noncurrent liabilities was primarily due to the System issuing revenue bonds and notes payable.

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 \$71.9 million decrease 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.

### **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>2004</u>
Assets	
Current assets	\$ 56,271
Endowment assets	132,566
Other assets	<u>22,270</u>
Total assets	<u>211,107</u>
Liabilities	
Current Liabilities	4,381
Noncurrent Liabilities	<u>12,575</u>
Total Liabilities	<u>16,956</u>
Net assets	
Invested in capital assets, net of debt	2,289
Restricted, nonexpendable	100,302
Restricted, expendable	69,458
Unrestricted	<u>22,102</u>
Total net assets	<u>\$194,151</u>

**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)**

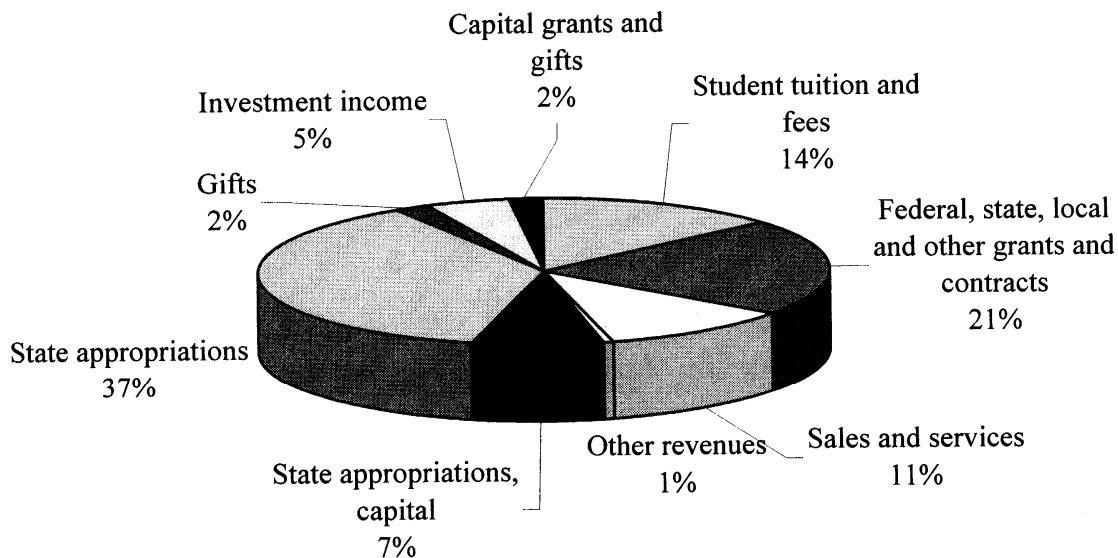
	<u>2004</u>	<u>2003</u>
Operating revenues		
Student tuition and fees, net	\$ 166,107	\$148,651
Grants and contracts, federal	178,125	162,389
Grants and contracts, other	77,423	70,298
Sales and services	129,696	122,399
Other	<u>5,304</u>	<u>4,747</u>
Total operating revenues	<u>556,655</u>	<u>508,484</u>
Operating expenses		
Instruction	357,715	333,612
Research	110,315	100,897
Public Service	55,663	49,079
Academic support	84,568	75,320
Institutional support	114,194	101,006
Student services	73,833	66,391
Operation and maintenance of plant	77,002	67,841
Scholarships and fellowships	41,494	35,004
Auxiliary enterprises	63,322	57,190
Other expenditures	79	95
Deprecation	<u>58,789</u>	<u>55,985</u>
Total operating expenses	<u>1,036,974</u>	<u>942,420</u>
Operating loss	<u>(480,319)</u>	<u>(433,936)</u>
Nonoperating revenues and expenses		
State appropriations	499,026	376,102
Refund to state	(45,837)	-
Gifts	24,492	24,686
Investment income (loss)	56,186	19,476
Disposal of capital assets	(3,204)	(6,060)
Interest expense	(12,466)	(10,828)
Other nonoperating revenues	<u>1,020</u>	<u>1,229</u>
Net nonoperating revenues	<u>519,217</u>	<u>404,605</u>
Total other revenues	<u>112,006</u>	<u>19,044</u>
Increase in net assets	150,904	(10,287)
Net assets, beginning of year	<u>1,338,583</u>	<u>1,348,870</u>
Net assets, end of year	<u>\$1,489,487</u>	<u>\$1,338,583</u>

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 9.5% and operating expenses increased by 10.0%, resulting in an increase in the operating loss of 10.7%. Student tuition and fees increased 11.7% to \$166.1 million. Federal grants and contracts increased 9.7% to \$178.1 million and other grants and contracts increased 10.1% to 77.4 million. In addition, sales and services increased 6.0% to \$129.7 million. Research expenses increased 9.3% to \$110.3 million. Operating expenses scholarships and fellowships increased 18.5% to \$41.5 million. Academic support expenses increased 12.3%, student services expenses increased 11.2%, operation and maintenance of plant increased 13.5% and auxiliary enterprises expenses increased 10.7%.

Nonoperating net revenues increased by 28.3% to \$519.2 million primarily due increases in state appropriations and investment income. Total other revenues includes state appropriations for capital purposes. The \$86.5 million appropriation is a biennium appropriation (fiscals 2004 and 2005). Investment income went from \$19.5 million to \$56.2 million due to improved investment performance. The investment returns were higher than expected and returns were better than related benchmarks upon which performance comparisons have been made.

### Revenues by Source



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

	<u>2004</u>
Operating revenues	
Patient revenue	\$ 38,207
Contract revenue	6,101
Contributions	32,844
Campus support	1,753
Other operating revenue	<u>1,149</u>
Total operating revenues	<u>80,054</u>
Operating expenses	
Program expenses, System related organizations	27,828
Other operating expenses	656
Deprecation	<u>22,338</u>
Total operating expenses	<u>50,822</u>
Operating income	<u>29,232</u>
Nonoperating revenues and expenses	
Payments to UCCSN institutions	(34,145)
Other nonoperating revenues	<u>14,367</u>
Net nonoperating revenues	<u>(19,778)</u>
Total other revenues	<u>9,525</u>
Increase in net assets	18,979
Net assets, beginning of year	<u>175,172</u>
Net assets, end of year	<u>\$194,151</u>

**System Cash Flows**

	<u>2004</u>	<u>2003</u>
Cash Used in		
Operating activities	\$(415,543)	\$(381,317)
Non-capital financing activities	491,398	400,715
Capital and related financing activities	(58,355)	(34,406)
Investing activities	<u>(4,208)</u>	<u>23,583</u>
Net increase in cash and cash equivalents	13,292	8,575
Cash and cash equivalents – Beginning of year	<u>170,596</u>	<u>162,021</u>
Cash and cash equivalents – End of year	<u>\$ 183,888</u>	<u>\$ 170,596</u>

Cash flows from operating activities decreased 9.0% 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 and auxiliary departments.

Cash flows from non-capital financing activities increased by 22.6% primarily due to an increase in state appropriations, receipts and disbursements under federal student loan programs and agency transactions. Cash flows used in capital financing activities increased \$23.9 million due to increased expenditures of proceeds from capital debt and increased capital appropriations.

Cash from investing activities decreased by \$27.8 million primarily due to more purchases of investments in 2004 as compared to 2003.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

At June 30, 2004, the System had invested \$1,156.2 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 \$108.1 million, or 10.3%, over last year. As of June 30, 2004 estimated costs to complete current construction projects were approximately \$267.1 million. These costs will be funded by State appropriations, private donations, available resources and/or long-term borrowings.

During fiscal 2004, the System issued \$32.5million of new bonds and \$9.4 new notes. New bonds were issued for a UNLV Science, Engineering and Technology building. As of June 30, 2004 the coverage on University Revenue Bonds (pledged revenues to maximum annual debt service) was 4.64 (4.58 as of June 30, 2003). For statutory purposes, the coverage was 1.87, above the required minimum of 1.10.

## **FUTURE FINANCIAL AFFECTS**

Growth of System assets has been strong in recent years. We have seen an increase in enrollment with the funding of the Millennium Scholarship program by the State from tobacco settlement funds. State appropriations decreased from 77.4% of our budget in fiscal year 2004 to 76.8% in fiscal year 2005. The System portion of the total state budget increased from 22.6% in fiscal year 2004 to 23.3% in fiscal year 2005. The difference was mainly due to Estate Tax receipts of \$43.4 million for fiscal year 2005 replaced with State general funds in exchange for the UCCSN transferring to the State, on a monthly basis, the estate tax revenues deposited to the estate tax endowment. The UCCSN proposed and the Legislature approved shifting the risk of declining estate tax receipts to the State.

The System's 2004-05 original operating budget for State appropriation and authorized expenditures (the "State Supported Operating Budget") totals \$660.2 million. This budget represents a 17.3% increase in the authorized funding level as compared to the approved \$623.5 million budget for fiscal year 2003-4. State appropriations for fiscal year 2004-5 total \$506.7 million, representing 76.8% of the State Supported Operating Budget. This compares to \$482.7 million budgeted for fiscal year 2003-4 and represents a 5.0% increase. The percentage increase was mainly due to the appropriation of \$7.97

million for a 2.0% cost of living adjustment for UCCSN employees in fiscal year 2004-05. Other budgeted revenue sources, including student fees, tuition, federal funds, indirect cost recovery, discretionary funds, training grants and estate tax proceeds, account for the remaining budgeted amount.

Pursuant to State law, the Governor has broad authority to reduce appropriations when necessary to maintain a balanced budget. Accordingly, should the State economy experience a significant downturn and cause State revenues to decrease below predicted levels, the Governor may rescind a portion of the State appropriation for the biennium. For the 2005-07 biennium, additional funding of \$122.2 million was Legislatively approved for growth in student enrollments based on the funding formulas. The UCCSN formulas were funded at 84.45% for fiscal year 2003-04 and 84.09% for fiscal year 2004-05 compared to 80.29% in fiscal year 2002-03.

The System supplemented the state-supported budget with available estate taxes prior to fiscal year 2002-03. Pursuant to State statute, one-half of the estate taxes collected in the State (less administrative costs and a 5% reserve allowance) are deposited in the System's endowment funds and are authorized for expenditure by the Legislature each biennium. For the 2005-07 biennium, the Legislature authorized funding estate tax related expenditures of \$89.2 million with general fund revenues due to Federal tax legislation enacted phasing out the State's estate tax over four years beginning in fiscal year 2001-02. In exchange for State general funds the UCCSN will transfer to the State the budgeted estate tax revenues deposited in the System's endowment in fiscal years 2003-04 and 2004-05.

The 72<sup>nd</sup> regular Legislative session and the 2<sup>nd</sup> special session authorized an \$838.55 million new tax package for the 2005-07 biennium funding public schools and state government, including higher education. The two main new taxes are the general business payroll tax and the financial institutions' payroll tax.

## **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**

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

In our opinion, based on our audits and the reports of other auditors, the statements of net assets and the related statements of revenues, expenses and changes in net assets of the University and Community College System of Nevada (the "System") and its aggregate discretely presented component units, and the statement 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, 2004, and the respective revenues, expenses and changes in net assets, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the 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 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 92 percent, 93 percent and 45 percent, 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 opinions.

*PricewaterhouseCoopers LLP*

October 1, 2004

**UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA**  
**STATEMENTS OF NET ASSETS**  
**AS OF JUNE 30, 2004**

<b><u>ASSETS</u></b>	<b><u>System</u></b>	<b><u>System Related Organizations</u></b>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 109,199,000	\$ 34,794,000
Restricted cash and cash equivalents	1,004,000	1,372,000
Short-term investments	278,242,000	8,045,000
Accounts receivable, net	26,778,000	786,000
Receivable from U.S. Government	31,326,000	-
Receivable from State of Nevada	74,970,000	-
Current portion of pledges receivable, net	-	3,904,000
Patient accounts receivable, net	-	6,377,000
Current portion of loans receivable, net	2,373,000	-
Inventories	5,460,000	-
Deposits and deferred expenditures, current	1,163,000	346,000
Other	-	647,000
Total Current Assets	<u>530,515,000</u>	<u>56,271,000</u>
<i>Noncurrent Assets</i>		
Cash held by State Treasurer	73,685,000	-
Endowment investments	156,368,000	132,566,000
Deposits and deferred expenditures	3,225,000	-
Pledges receivable, net	-	12,680,000
Loans receivable, net	9,061,000	-
Capital assets, net	1,156,183,000	4,581,000
Other noncurrent assets	406,000	5,009,000
Total Noncurrent Assets	<u>1,398,928,000</u>	<u>154,836,000</u>
<b>TOTAL ASSETS</b>	<u>1,929,443,000</u>	<u>211,107,000</u>
<b><u>LIABILITIES</u></b>		
<i>Current Liabilities</i>		
Accounts payable	41,529,000	1,417,000
Accrued payroll and related liabilities	19,665,000	1,037,000
Unemployment insurance and workers' compensation liability	3,403,000	-
Current portion of compensated absences	22,191,000	6,000
Current portion of long-term debt	8,973,000	901,000
Current portion of obligations under capital leases	1,851,000	168,000
Accrued interest payable	6,118,000	-
Deferred revenue	27,083,000	-
Funds held in trust for others	4,107,000	-
Due to affiliates	-	728,000
Other	-	124,000
Total Current Liabilities	<u>134,920,000</u>	<u>4,381,000</u>
<i>Noncurrent Liabilities</i>		
Refundable advances under federal loan programs	7,586,000	-
Compensated absences	10,216,000	-
Deferred revenue	783,000	7,757,000
Long-term debt	273,281,000	3,084,000
Obligations under capital leases	13,170,000	185,000
Other noncurrent liabilities	-	1,549,000
Total Noncurrent Liabilities	<u>305,036,000</u>	<u>12,575,000</u>
<b>TOTAL LIABILITIES</b>	<u>439,956,000</u>	<u>16,956,000</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	914,587,000	2,289,000
Restricted:		
Nonexpendable	55,980,000	100,302,000
Expendable:		
Scholarships, research and instruction	154,267,000	68,618,000
Loans	4,706,000	-
Capital projects	164,013,000	840,000
Debt service	2,108,000	-
Unrestricted	<u>193,826,000</u>	<u>22,102,000</u>
<b>TOTAL NET ASSETS</b>	<u>\$1,489,487,000</u>	<u>\$ 194,151,000</u>

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



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

	<u>System</u>	<u>System Related Organizations</u>
<i>Operating Revenues</i>		
Student tuition and fees (net of scholarship allowances of \$43,719,000)	\$ 166,107,000	\$ -
Federal grants and contracts	178,125,000	-
State grants and contracts	43,093,000	-
Local grants and contracts	15,904,000	-
Other grants and contracts	18,426,000	-
Campus support	-	1,753,000
Sales and services of educational departments (including \$915,000 from System related organizations)	60,125,000	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$3,028,000)	69,571,000	-
Contributions	-	32,844,000
Patient revenue	-	38,207,000
Contract revenue	-	6,101,000
Special events and fundraising	-	542,000
Interest earned on loans receivable	173,000	-
Other operating revenues	5,131,000	607,000
Total operating revenues	<u>556,655,000</u>	<u>80,054,000</u>
<i>Operating Expenses</i>		
Employee compensation and benefits	663,587,000	20,436,000
Utilities	26,178,000	-
Supplies and services	246,926,000	1,902,000
Scholarships and fellowships	41,494,000	-
Program expenses, System related organizations	-	27,828,000
Depreciation	58,789,000	656,000
Total operating expenses	<u>1,036,974,000</u>	<u>50,822,000</u>
Operating (loss) income	<u>(480,319,000)</u>	<u>29,232,000</u>
<i>Nonoperating Revenues (Expenses)</i>		
State appropriations	499,026,000	-
Refund to State	(45,837,000)	-
Gifts (including \$19,270,000 from System related organizations)	24,492,000	-
Investment income, net	56,186,000	13,621,000
Disposal of capital assets	(3,204,000)	-
Interest expense	(12,466,000)	(36,000)
Payments to System campuses and divisions	-	(34,145,000)
Other nonoperating revenues	1,020,000	782,000
Net nonoperating revenues (expenses)	<u>519,217,000</u>	<u>(19,778,000)</u>
Income before other revenue, expenses, gains or losses	<u>38,898,000</u>	<u>9,454,000</u>
State appropriations restricted for capital purposes	86,507,000	-
Capital grants and gifts (including \$13,089,000 from System related organizations)	23,642,000	-
Additions to permanent endowments (including \$871,000 from System related organizations)	1,857,000	9,525,000
Total other revenues	<u>112,006,000</u>	<u>9,525,000</u>
Increase in net assets	<u>150,904,000</u>	<u>18,979,000</u>
<i>Net Assets</i>		
Net assets – beginning of year	1,338,583,000	175,172,000
Net assets – end of year	<u>\$ 1,489,487,000</u>	<u>\$ 194,151,000</u>

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

**UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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	<b><u>System</u></b>
<i>Cash Flows from Operating Activities</i>	
Student tuition and fees	\$ 167,714,000
Grants and contracts	252,106,000
Payments for supplies and services	(240,793,000)
Payments for utilities	(25,691,000)
Payments for employee compensation and benefits	(661,536,000)
Payments for scholarships and fellowships	(41,311,000)
Loans issued to students and employees	(4,625,000)
Collection of loans to students and employees	3,041,000
Sales and services of educational departments	58,464,000
Sales and services of auxiliary enterprises	71,638,000
Other receipts	5,450,000
Net cash used by operating activities	<u>(415,543,000)</u>
<i>Cash Flows from Noncapital Financing Activities</i>	
State appropriations	503,093,000
State appropriations refunded	(38,197,000)
Gifts and grants for other than capital purposes	24,834,000
Gifts for endowment purposes	1,857,000
Receipts under federal student loan programs	82,065,000
Disbursements under federal student loan programs	(81,372,000)
Other	1,007,000
Agency transactions	(1,889,000)
Net cash provided by noncapital financing activities	<u>491,398,000</u>
<i>Cash Flows from Capital Financing Activities</i>	
Proceeds from capital debt	42,118,000
Payments for debt issuance costs	(575,000)
Capital appropriations	61,720,000
Capital grants and gifts received	17,676,000
Purchases of capital assets	(151,960,000)
Proceeds from sale of property and equipment	2,000
Principal paid on capital debt and leases	(16,795,000)
Interest paid on capital debt and leases	(10,541,000)
Net cash used by capital financing activities	<u>(58,355,000)</u>
<i>Cash Flows from Investing Activities</i>	
Proceeds from sales and maturities of investments	76,688,000
Purchase of investments	(85,305,000)
Interest and dividends on investments	11,769,000
Net decrease in cash equivalents, noncurrent investments	(7,360,000)
Net cash used by investing activities	<u>(4,208,000)</u>
Net increase in cash and cash equivalents	13,292,000
Cash and cash equivalents, beginning of year	170,596,000
Cash and cash equivalents, end of year	<u>\$ 183,888,000</u>

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

**UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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	<u><b>System</b></u>
<i>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</i>	
Operating loss	\$ (480,319,000)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	58,789,000
Changes in assets and liabilities:	
Accounts receivable, net	(6,261,000)
Loans receivable, net	(1,455,000)
Inventories	(78,000)
Deposits and deferred expenditures	213,000
Accounts payable	6,711,000
Accrued payroll and related liabilities	466,000
Unemployment insurance and workers' compensation liability	(246,000)
Deferred revenue	5,001,000
Refundable advances under federal loan program	184,000
Compensated absences	1,452,000
Net cash used by operating activities	<u>\$ (415,543,000)</u>
<i>Supplemental Noncash Activities Information</i>	
Capital assets acquired by incurring capital lease obligations and construction accounts payable	\$ <u>11,526,000</u>
Loss on disposal of capital assets	\$ <u>3,204,000</u>
Capital assets acquired by gifts	\$ <u>6,015,000</u>
Capital lease obligations converted to an operating lease	\$ <u>1,038,000</u>

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

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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### NOTE 1 – Organization:

The financial statements present a consolidation of the financial statements of the various divisions and campuses of the University and Community College System of Nevada (the “System”), 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”)
- University and Community College System of Nevada 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 Related Organizations column in these financial statements is comprised of data of the System’s discretely presented campus foundations and medical school practice plans (see Note 16). 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 a separate column to emphasize that they are Nevada not-for-profit organizations legally separate from the System. During the year ended June 30, 2004 the foundations distributed \$33,261,000 to the System for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained from Sandra K. Cardinal at UCCSN, 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 year ended June 30, 2004 the practice plans distributed \$884,000 to the System for restricted purposes. Complete financial statements for the practice plans can be obtained from Sandra K. Cardinal at UCCSN, 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 generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis of Public Colleges and Universities*.

Statement No. 35 established a fundamentally new financial reporting model for all public colleges and universities. The financial statements required by Statement No. 35 are the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. Financial reporting requirements also include Management’s Discussion and Analysis of the 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.

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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

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

### BASIS OF ACCOUNTING

The financial statements have been prepared on the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when incurred. All significant transactions between various divisions and campuses of the System have been eliminated in the consolidation of the financial statements. 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:

<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

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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

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.

### 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

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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

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 2004 were \$6,387,000.

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

### NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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### NOTE 3 – Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost, which approximates market, and consists primarily of deposits in money market funds, which are not federally insured. Restricted cash includes the unexpended proceeds of certain bond issuances which are accessible only through an independent trustee. These funds are periodically released by the trustee for use by the System to pay for certain assets under construction. 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 accompanying Statement 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, 2004 is as follows:

	<u>Cost</u>	<u>Market Value</u>
Mutual Funds	\$276,719,000	\$288,374,000
Stocks	21,490,000	26,045,000
U.S. Government bonds	412,000	429,000
Corporate bonds	1,159,000	1,216,000
Endowment cash and cash equivalents	9,336,000	9,336,000
Other investments (primarily private equity partnerships)	<u>75,227,000</u>	<u>109,210,000</u>
	<u>\$384,343,000</u>	<u>\$434,610,000</u>

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, as of June 30, 2004 were stocks (36%), U.S. Government bonds (28%), corporate bonds (1%), international securities (26%), and cash and equivalents (9%).

As of June 30, 2004, the System had entered into various investment agreements with private equity partnerships. Under the terms of certain of these investment agreements, the System is obligated to make additional investments in these private equity partnerships of \$13,913,000.

For purposes of applying GASB Statement No. 3, the majority of the System's investments (other than mutual fund investments, which are not categorized) are uninsured and unregistered, with the securities held by the System's agents.

### NOTE 5 – System Endowment Pool:

Approximately \$146,547,000 of endowment fund investments at June 30, 2004 are pooled on a unit market value basis. 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, 2004 was \$399.66.

The System utilizes a spending rule for its pooled endowments, which determines the endowment income to be distributed currently for spending. For the year ended June 30, 2004 the 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 calendar quarters. Under the provisions of this spending rule, during 2004, \$16.68 was distributed to each time-weighted unit for a total spending rule distribution of \$9,180,000. The 2004 distributions were made from investment income of \$4,278,000 and \$4,902,000 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 \$91,613,000 at June 30, 2004 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 year ended June 30, 2004 the System received \$12,273,000 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, 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



# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

### NOTE 5 – System Endowment Pool (continued):

the amount of \$45,837,000 for expenditures for certain unrestricted purposes during the year ending June 30, 2004. 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 year ended June 30, 2004 of \$45,837,000, 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 \$4,853,000 as of June 30, 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, 2004 are as follows:

Loans receivable	\$ 11,914,000
Less: Allowance for doubtful loans	<u>(480,000)</u>
Net loans receivable	11,434,000
Less current portion	<u>(2,373,000)</u>
Noncurrent loans receivable	<u>\$ 9,061,000</u>

### NOTE 7 – System Capital Assets:

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

	Beginning Balance	Increases	Decreases	Ending Balance
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, 2004 is \$267,134,000. These costs will be financed by State appropriations, private donations, available resources and/or long-term borrowings.

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

### NOTE 8 – System Long-Term Debt:

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

	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%	2034	50,890,000	-	-	50,890,000	-
Universities Revenue Bonds, Series 2004A	2.00% to 4.50%	2034	-	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			\$255,160,000	\$ 42,118,000	\$(15,024,000)	\$282,254,000	\$8,973,000

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 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>
2005	\$ 8,973,000	\$ 13,496,000
2006	10,812,000	12,949,000
2007	12,073,000	12,563,000
2008	12,215,000	11,952,000
2009	11,008,000	11,428,000
2010-2014	59,254,000	49,002,000
2015-2019	51,921,000	35,891,000
2020-2024	41,803,000	22,442,000
2025-2029	38,292,000	12,763,000
2030-2034	<u>35,903,000</u>	<u>3,152,000</u>
Total	<u>\$282,254,000</u>	<u>\$185,638,000</u>

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

### NOTE 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 2005 to 2019. Annual lease payments under these capital lease agreements range from \$2,000 to \$486,000.

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	<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>

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

Buildings and improvements	\$ 4,906,000
Machinery and equipment	<u>9,981,000</u>
Total	14,887,000
Less accumulated depreciation	<u>(2,342,000)</u>
Total	<u>\$12,545,000</u>

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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

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

2005	\$ 2,584,000
2006	2,582,000
2007	2,032,000
2008	1,819,000
2009	1,792,000
2010-2114	6,566,000
2015-2019	<u>966,000</u>
Total minimum lease payments	18,341,000
Less amount representing interest	<u>(3,320,000)</u>
Obligations under capital leases	<u>\$15,021,000</u>

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

### NOTE 10 – System Other Noncurrent Liability Activity:

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

	<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 – Extinguishment of Debt:

At June 30, 2004, debt in the amount of \$235,000 is considered to be extinguished through refunding of prior issues by a portion of the current issues. Sufficient proceeds were invested in state and local government securities and placed in escrow to assure the timely payment of the maturities of prior issues. Neither the debt nor the escrowed assets are reflected on the financial statements.

### NOTE 12 – Irrevocable Letter of Credit:

In connection with its workers compensation liability coverage, the System is required to maintain a \$2,125,000 standby letter of credit. There have been no advances under the letter of credit during the year ended June 30, 2004. In September 2004, the amount of the required letter of credit was reduced to \$1,280,000.

An additional letter of credit was established in April 2004 in connection with the System's self-insured workers' compensation liability coverage. The amount of this letter of credit is \$2,893,000. No advances were made under this letter of credit during the year ended June 30, 2004.

### NOTE 13 – 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.

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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### NOTE 13 – System Pension Plans (continued):

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, 2004, 2003 and 2002 was approximately \$50,712,000, \$45,434,000 and \$41,357,000, respectively, equal to the required contribution for each year.

### NOTE 14 – 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 15 – 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 year ended June 30, 2004:

Instruction	\$357,715,000
Research	110,315,000
Public service	55,663,000
Academic support	84,568,000
Institutional support	114,194,000
Student services	73,833,000
Operation and maintenance of plant	77,002,000
Scholarships and fellowships	41,494,000
Auxiliary enterprises	63,322,000
Other expenditures	79,000
Depreciation	58,789,000
Total	<u>\$1,036,974,000</u>

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

### NOTE 16 – System Related Organizations:

As described in Note 1, the System Related Organizations column in these 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:

#### UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA SYSTEM RELATED ORGANIZATIONS NET ASSETS AS OF JUNE 30, 2004

ASSETS	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	\$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

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

### NOTE 16 – 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
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

# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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### NOTE 16 – 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 \$19,853,000 of which \$1,290,000 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, 2004, consists of:

Cash	\$ 883,000
Money Funds	8,000
Common Fund Short-term Investments	9,850,000
Certificates of Deposit	980,000
Treasury Bills	<u>8,132,000</u>
	<u>\$19,853,000</u>

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

Commonfund Bond	\$14,056,000
Commonfund Global Bond	638,000
Commonfund Equity	39,265,000
Commonfund International Equity	1,230,000
Commonfund Emerging Markets	1,079,000
Commonfund Capital Partners	167,000
Commonfund Real Estate Securities	574,000
Commonfund Realty Investors	1,804,000
Certificates of Deposit	2,149,000
U.S. Government Securities	<u>1,592,000</u>
	<u>\$62,554,000</u>

Investments are recorded in the following funds at June 30, 2004:

Unrestricted Fund	\$ 2,894,000
Restricted Fund	4,901,000
Endowment Fund	<u>54,759,000</u>
	<u>\$62,554,000</u>

The cumulative net appreciation of investments at June 30, 2004 is as follows:

Unrestricted Fund	\$ 68,000
Restricted Fund	94,000
Endowment Fund	<u>13,925,000</u>
	<u>\$14,087,000</u>



# UNIVERSITY AND COMMUNITY COLLEGE SYSTEM OF NEVADA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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### NOTE 16 – System Related Organizations (continued):

#### UNLV Foundation:

The UNLV Foundation discloses its deposits with financial institutions, investments, and reverse repurchase agreements in accordance with GASB Statement No. 3.

Investments include the following at June 30, 2004:

Cash and cash equivalents	\$ 3,961,000
Current investments in securities	1,353,000
Common Stock	26,357,000
U.S. government obligations	11,834,000
Corporate obligations	20,304,000
Asset-backed securities	<u>4,320,000</u>
Total marketable securities at cost	68,131,000
Net unrealized gain (loss) on noncurrent investments	<u>2,763,000</u>
Total fair value of noncurrent investments	<u>\$70,894,000</u>

In accordance with GASB Statement No. 3, securities must be segregated into the following three categories of credit risk:

1. Insured, registered, or held in the UNLV Foundation's name.
2. Uninsured, unregistered, and held in the UNLV Foundation's name.
3. Uninsured, unregistered, and not held in the UNLV Foundation's name.

Current investment in securities with a fair value of \$1,353,000 at June 30, 2004 consists of one treasury note, one government bond, and two corporate bonds. These securities are carried at cost, which approximates fair value.

During the year ended June 30, 2004, the UNLV Foundation realized a net gain of \$561,000 from the sale of investments. The calculation of realized losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments during the year ended June 30, 2004 was \$1,173,000. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end was \$2,763,000.

At June 30, 2004, the carrying amount of the UNLV Foundation's cash and cash equivalents was \$8,379,000, of which \$3,961,000 is endowment. Of the balance, \$117,000 was covered by federal depository insurance, and \$928,000 in cash as uninsured and uncollateralized. The amount of \$3,594,000 represents cash equivalents held in money market accounts, which are primarily invested in U.S. treasury bills and treasury notes. The remaining balance of \$3,741,000 represents fixed-income mutual funds and equity mutual funds.