
Nevada System of Higher Education Financial Statements



June 30, 2006 and 2005

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, 2006 and 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Nevada System of Higher Education's (the "System") annual financial statements presents management's discussion and analysis of System financial activity during the fiscal year July 1, 2005, to June 30, 2006. The purpose of this section is to provide an overview of financial activity, identify changes in financial position, and assist the reader in focusing on significant financial issues that occurred during the year ended June 30, 2006, with comparative information as of June 30, 2005 and June 30, 2004. Since this discussion provides summary level financial information, it should be read in conjunction with the System's financial statements and accompanying footnotes that follow this section. Responsibility for the financial statements, footnotes and this discussion rests with System management. All amounts included in this discussion are presented in thousands of dollars.

SYSTEM AND SYSTEM RELATED ORGANIZATIONS

The System is a consolidation of the following 9 public institutions of higher education in Nevada:

- University of Nevada, Reno
- University of Nevada, Las Vegas
- Nevada State College
- Community College of Southern Nevada
- Truckee Meadows Community College
- Western Nevada Community College
- Great Basin College
- Desert Research Institute
- Nevada System of Higher Education System Administration

This annual financial report and statements include the above institutions of the System as well as certain other organizations, also called component units, that have a significant relationship with the institutions. These component units are related tax exempt organizations primarily founded to foster and promote the growth, progress and general welfare of the institutions. They exist to solicit, receive and administer gifts and donations for the institutions or, in the case of the University of Nevada School of



Medicine Practice Plans, to facilitate patient care activities. The System component units are as follows:

University of Nevada, Reno Foundation
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
University of Nevada School of Medicine Practice Plans

Component units issue separate financial statements from the System.

SYSTEM FINANCIAL HIGHLIGHTS

- Total net assets increased 17% from \$1,523,116 to \$1,775,463;
- Total long-term debt increased 54% from \$317,152 to \$487,570;
- Operating revenues increased 9% from \$607,357 to \$660,513;
- Non-operating revenues increased 17% from \$528,318 to \$620,491; and
- Operating expenses increased 8% from \$1,128,579 to \$1,213,685.

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 the 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. There are three key components to answering this question. They are the Statement of Net Assets, the 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 an 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 non-operating. All things being equal, a public higher education system's dependency on state appropriations will usually result in operating deficits. This is because the financial reporting model classifies State appropriations as non-operating 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, non-capital financing, and investing activities.

CONDENSED FINANCIAL INFORMATION

ASSETS AND LIABILITIES

The Statement of Net Assets is a point-in-time financial statement presenting the financial position of the System as of June 30, 2006, with a comparison made to June 30, 2005 and June 30, 2004. This Statement presents end-of-year data for Assets (current and non-current), Liabilities (current and non-current), and Net Assets (assets minus liabilities).

System net assets (thousands of dollars)

	2006	2005*	Change	Change	2004	Change	Change
Assets							
Current Assets	\$ 521,551	\$ 422,844	\$ 98,707	23%	\$ 530,515	\$(107,671)	(20%)
Capital Assets	\$1,336,860	\$1,231,990	\$104,870	9%	\$1,156,183	\$ 75,807	7%
Other Assets	\$ 601,597	\$ 362,529	\$239,068	66%	\$ 242,745	\$ 119,784	49%
Total Assets	\$2,460,008	\$2,017,363	\$442,645	22%	\$1,929,443	\$ 87,920	5%
Liabilities							
Current Liabilities	\$ 177,204	\$ 155,598	\$ 21,606	14%	\$ 134,920	\$ 20,678	15%
Non-current Liabilities	\$ 507,341	\$ 338,649	\$168,692	50%	\$ 305,036	\$ 33,613	11%
Total Liabilities	\$ 684,545	\$ 494,247	\$190,298	39%	\$ 439,956	\$ 54,291	12%
Net Assets							
Invested in Capital Assets-							
Net of Debt	\$1,012,818	\$ 949,496	\$ 63,322	7%	\$ 914,587	\$ 34,909	4%
Restricted, Nonexpendable	\$ 56,812	\$ 57,681	\$ (869)	-2%	\$ 55,980	\$ 1,701	3%
Restricted, Expendable	\$ 417,912	\$ 304,647	\$113,265	37%	\$ 325,094	\$(20,447)	(6%)
Unrestricted	\$ 287,921	\$ 211,292	\$ 76,629	36%	\$ 193,826	\$ 17,466	9%
Total Net Assets	\$1,775,463	\$1,523,116	\$252,347	17%	\$1,489,487	\$ 33,629	2%

*Note: In FY 05, \$32 million (bond proceeds) was reclassified from Current to Other Assets. FY 04 was not reclassified.

**Assets**

Total assets of the System increased by \$442.6 million. This increase was primarily seen in four areas:

- Cash and cash equivalents;
- Receivable from the State of Nevada;
- Restricted investments; and
- Capital assets.

The combined \$337.8 million positive change in current assets (primarily in cash and cash equivalents and short term investments) and other assets (primarily in restricted investments, restricted cash, and receivable from the State of Nevada) was mainly due to proceeds received from general revenue bonds issued in 2006, from an unprecedented capital appropriation by the 2005 Legislature, and from other construction funding mechanisms. The majority of the remainder of the asset increase is reflected in capital assets, which increased by \$104.8 million from 2005 amounts. The increase in capital assets and assets restricted for capital construction is reflective of System's ongoing priority of improving and expanding facilities to meet increases in enrollment driven student demand.

Also of note in the other assets category is an increase of \$14.2 million in endowment investments, primarily due to favorable market returns, and a decrease of \$21.2 million in cash held by the State Treasurer. Cash held by the State Treasurer is generally legislatively appropriated money for Capital construction completed by the State Public Works Board, and will decrease as construction is completed.

Liabilities

Total liabilities for the year increased \$190.3 million due to an increase of \$21.6 million in current liabilities and an increase of \$168.7 million in non-current liabilities. The increase in current liabilities is distributed over a number of categories including increases of \$8 million in accounts payable, \$3.9 million in accrued interest payable, and \$2.9 million in funds held in trust for others. The increase in non-current liabilities was almost exclusively due to the System's issuance of revenue bonds and notes payable which are further discussed under "Capital Asset and Debt Administration" section.

Net Assets

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 presented as two subcategories: 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 which are assets are available to the System for any lawful purpose.

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 \$63.3 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 that 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

Unrestricted Net Assets increased by \$76.6 million in 2006. 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

Component Entity Net Assets (thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Change</u>	<u>2004</u>	<u>Change</u>	<u>Change</u>
<u>Assets</u>							
Current Assets	\$ 93,536	\$ 64,394	\$ 29,142	45%	\$ 56,271	\$ 8,123	14%
Endowment Assets	\$ 165,850	\$ 148,049	\$ 17,801	12%	\$132,566	\$15,483	12%
Other Assets	\$ 43,690	\$ 39,226	\$ 4,464	11%	\$ 22,270	\$16,956	76%
Total Assets	\$ 303,076	\$ 251,669	\$ 51,407	20%	\$211,107	\$40,562	19%
<u>Liabilities</u>							
Current Liabilities	\$ 9,177	\$ 5,358	\$ 3,819	71%	\$ 4,381	\$ 977	22%
Non-current Liabilities	\$ 2,993	\$ 3,408	\$ (415)	(12%)	\$ 12,575	\$(9,167)	(73%)
Total Liabilities	\$ 12,170	\$ 8,766	\$ 3,404	39%	\$ 16,956	\$(8,190)	(48%)
<u>Net Assets</u>							
Invested in Capital Assets							
Net of Debt	\$ 2,571	\$ 2,060	\$ 511	25%	\$ 2,289	\$ (229)	(10%)
Restricted, Nonexpendable	\$ 138,125	\$ 119,614	\$ 18,511	15%	\$100,302	\$19,312	19%
Restricted, Expendable	\$ 116,953	\$ 92,558	\$ 24,395	26%	\$ 69,458	\$23,100	33%
Unrestricted	\$ 33,257	\$ 28,671	\$ 4,586	16%	\$ 22,102	\$ 6,569	30%
Total Net Assets	\$ 290,906	\$ 242,903	\$ 48,003	20%	\$194,151	\$48,752	25%

One of the critical factors in continuing the quality of the System's programs is the development and renewal of its capital assets. The eight foundations, as System Related Organizations, continue to support the campuses in their long-range plans and provide support for construction of facilities. Changes in the above schedule primarily reflect the foundations success in increasing System support. The remaining changes can be attributed to growth in the School of Medicine Practice Plans' patient care activities.

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 non-operating, and the expenses paid by the System, operating and non-operating, as well as 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. Non-operating revenues are revenues received for which goods and services are not provided. For example state appropriations are considered non-operating 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

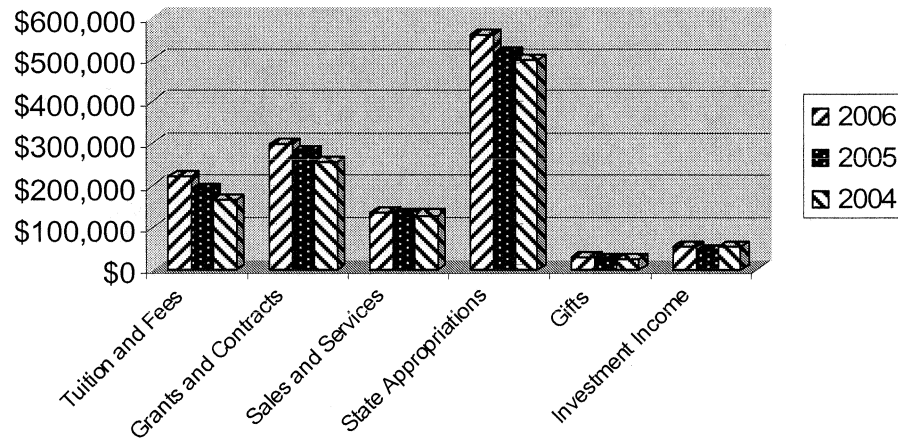
The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year.

	2006	2005	Change	Change	2004	Change	Change
Operating Revenues							
Student Tuition and Fees, net	\$ 219,833	\$ 191,908	\$ 27,925	14.6%	\$ 166,107	\$ 25,801	15.5%
Grants and Contracts, Federal	\$ 210,569	\$ 196,407	\$ 14,162	7.2%	\$ 178,125	\$ 18,282	10.3%
Grants and Contracts, other	\$ 87,404	\$ 83,381	\$ 4,023	4.8%	\$ 77,423	\$ 5,958	7.7%
Sales and Services	\$ 136,285	\$ 130,146	\$ 6,139	4.7%	\$ 129,696	\$ 450	0.3%
Other	\$ 6,422	\$ 5,515	\$ 907	16.4%	\$ 5,304	\$ 211	4.0%
Total Operating Revenues	\$ 660,513	\$ 607,357	\$ 53,156	8.8%	\$556,655	\$ 50,702	9.1%
Operating Expenses							
Employee Compensation and Benefits	\$ 781,709	\$ 738,633	\$ 43,076	5.8%	\$ 663,587	\$ 75,046	11.3%
Utilities	\$ 34,137	\$ 29,230	\$ 4,907	16.8%	\$ 26,178	\$ 3,052	11.7%
Supplies and Services	\$ 287,144	\$ 255,298	\$ 31,846	12.5%	\$ 246,926	\$ 8,372	3.4%
Scholarships and Fellowships	\$ 42,088	\$ 41,784	\$ 304	0.7%	\$ 41,494	\$ 290	0.7%
Depreciation	\$ 68,607	\$ 63,634	\$ 4,973	7.8%	\$ 58,789	\$ 4,845	8.2%
Total Operating Expenses	\$1,213,685	\$1,128,579	\$ 85,106	7.5%	\$1,036,974	\$ 91,605	8.8%
Operating Loss	\$ (553,172)	\$ (521,222)	\$ (31,950)	6.1%	\$(480,319)	\$ (40,903)	8.5%
Non-operating Revenues and Expenses							
State Appropriations	\$ 557,341	\$ 512,515	\$ 44,826	8.7%	\$ 499,026	\$ 13,489	2.7%
Refunds to State	\$ -	\$ (43,398)	\$ 43,398	-100%	\$ (45,837)	\$ 2,439	(5.3)%
Gifts	\$ 30,116	\$ 25,583	\$ 4,533	17.7%	\$ 24,492	\$ 1,091	4.5%
Investment Income (net)	\$ 54,805	\$ 47,423	\$ 7,382	15.6%	\$ 56,186	\$ (8,763)	(15.6)%
Disposal of Capital Assets	\$ (6,206)	\$ (1,641)	\$ (4,565)	278.2%	\$ (3,204)	\$ 1,563	(48.8)%
Interest Expense	\$ (20,319)	\$ (12,844)	\$ (7,475)	58.2%	\$ (12,466)	\$ (378)	3.0%
Other Non-operating Revenue	\$ 4,754	\$ 680	\$ 4,074	599.1%	\$ 1,020	\$ (340)	(33.3)%
Net non-operating revenues	\$ 620,491	\$ 528,318	\$ 92,173	17.4%	\$ 519,217	\$ 9,101	1.8%
Total Other Revenues	\$ 185,028	\$ 26,533	\$ 158,495	597.4%	\$ 112,006	\$ (85,473)	(76.3)%
Increase in Net Assets	\$ 252,347	\$ 33,629	\$ 218,718	650.4%	\$ 150,904	\$(117,275)	(77.7)%
Net Assets, Beginning of Year	\$1,523,116	\$1,489,487	\$ 33,629	2.3%	\$1,338,583	\$ 150,904	11.3%
Net Assets, End of Year	\$1,775,463	\$1,523,116	\$ 252,347	16.6%	\$1,489,487	\$ 33,629	2.3%



Consistent with enrollment growth, operating revenues increased by \$53.2 million (8.8%) and operating expenses increased by \$85.1 million (7.5%), resulting in an increase in the operating loss of \$32.0 million (6.1%). Student tuition and fees increased 14.6% to \$219.8 million as a result of enrollment growth and Board of Regents approved tuition and fee increases. Federal grants and contracts also reflected growth with an increase of 7.2% to \$210.6 million while other grants and contracts increased 4.8% to \$87.4 million.

Major Components of Operating and Non-operating Revenues, FY 04, 05, and 06



Operating expenses also increased in 2006. Employee Compensation and Benefits rose by 5.8% to \$781.7 million, driven by increases in Faculty FTE as well as by a statewide 2% cost of living adjustment for eligible employees that was approved by the 2005 Legislature. Utilities increased 16.8% to \$34.1 million, primarily caused by rate and volume increases in electricity and natural gas usage. Commensurate with the enrollment increase, the System also realized an increase in supplies and services of 12.5%.

Non-operating net revenues increased by \$92.2 million through an increase in State appropriations, gifts, and investment income as well as a decrease in refunds to the State. Investment income increased 15.6% to \$54.8 million due to favorable investment performance.

Total other revenues includes \$148.3 million of state appropriations for capital purposes, which is \$145.9 million higher than FY 2005 levels. This change is due primarily to a biennium appropriation (FY 2006 and 2007) in which most funds were drawn down in FY 2006.



System Related Organizations

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

	2006	2005	Change	Change	2004	Change	Change
Operating Revenues							
Patient Revenue	\$ 45,203	\$ 43,329	\$ 1,874	4.3%	\$ 38,207	\$ 5,122	13.4%
Contracts Revenue	\$ 6,963	\$ 7,014	\$ (51)	(0.7)%	\$ 6,101	\$ 913	15.0%
Contributions	\$ 54,787	\$ 56,661	\$ (1,874)	(3.3)%	\$ 32,844	\$23,817	72.5%
Campus Support	\$ 2,214	\$ 1,617	\$ 597	36.9%	\$ 1,753	\$ (136)	(7.8)%
Other	\$ 2,184	\$ 1,306	\$ 878	67.2%	\$ 1,149	\$ 157	13.7%
Total Operating Revenues	\$ 111,351	\$ 109,927	\$ (1,424)	(1.3)%	\$ 80,054	\$29,873	37.3%
Operating Expenses							
Program Expenses	\$ 32,054	\$ 30,604	\$ 1,450	4.7%	\$ 27,828	\$ 2,776	10.0%
Other Operating Expenses	\$ 25,155	\$ 24,064	\$ 1,091	4.5%	\$ 22,338	\$ 1,726	7.7%
Depreciation	\$ 720	\$ 680	\$ 40	5.9%	\$ 656	\$ 24	3.7%
Total Operating Expenses	\$ 57,929	\$ 55,348	\$ 2,581	4.7%	\$ 50,822	\$ 4,526	8.9%
Operating Income	\$ 53,422	\$ 54,579	\$ (1,157)	(2.1)%	\$ 29,232	\$25,347	86.7%
Non-operating Revenues and Expenses							
Payments to NSHE System	\$ (32,884)	\$ (36,500)	\$ 3,616	(9.9)%	\$(34,145)	\$(2,355)	6.9%
Other Non-operating Revenues	\$ 18,434	\$ 17,606	\$ 828	4.7%	\$ 14,367	\$ 3,239	22.5%
Net non-operating revenues	\$ (15,450)	\$ (18,894)	\$ 3,444	(18.2)%	\$(19,778)	\$ 884	(4.5)%
Total Other Revenues	\$ 10,141	\$ 13,067	\$ (2,926)	(22.4)%	\$ 9,525	\$ 3,542	37.2%
Increase in Net Assets	\$ 48,113	\$ 48,752	\$ (639)	(1.3)%	\$ 18,979	\$29,773	156.9%
Net Assets, July 1	\$ 242,793	\$ 194,151	\$ 48,642	25.1%	\$175,172	\$18,979	10.8%
Net Assets, June 30	\$ 290,906	\$ 242,903	\$ 48,003	19.8%	\$194,151	\$48,752	25.1%

CASH FLOWS

Net cash flows increased - primarily due to cash generated through capital financing activities that was not yet expended on new construction. Cash used in operating activities also increased, reflecting the previously mentioned increases in payments for employee compensation and benefits, supplies and services, and scholarships and fellowships. After an accompanying offset in cash generated by increases in receipts for student tuition and fees, grants and contracts and sales and services of educational departments, cash used in operating activities increased by 6.3%. The 10.0% change in non-capital financing activities is primarily due to a \$43.4 million dollar change in refunds to the State.



System Cash Flows

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>Change</u>	<u>2004</u>	<u>Change</u>	<u>Change</u>
Cash used or generated in:							
Operating Activities	\$ (484,758)	\$ (456,163)	\$ (28,595)	6.3%	\$ (415,543)	\$ (40,620)	9.8%
Non-capital financing activities	\$ 575,833	\$ 523,447	\$ 52,386	10.0%	\$ 491,398	\$ 32,049	6.5%
Capital and related financing activities	\$ 72,639	\$ (74,680)	\$ 147,319	-197.3%	\$ (58,355)	\$ (16,325)	28.0%
Investing Activities	\$ (118,148)	\$ 32,422	\$ (150,570)	-464.4%	\$ (4,208)	\$ 36,630	(870.5)%
Net Increase in Cash and Cash Equivalents	\$ 45,566	\$ 25,026	\$ 20,540	82.1%	\$ 13,292	\$ 11,734	88.3%
Cash and Cash Equivalents, beginning of year	\$ 208,914	\$ 183,888	\$ 25,026	13.6%	\$ 170,596	\$ 13,292	7.8%
Cash and Cash Equivalents, end of year	\$ 254,480	\$ 208,914	\$ 45,566	21.8%	\$ 183,888	\$ 25,026	13.6%

CAPITAL ASSET AND DEBT ADMINISTRATION

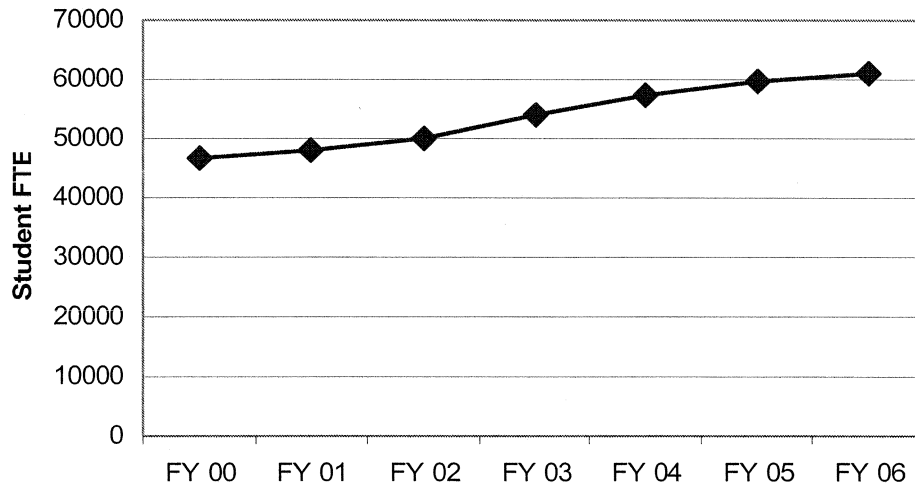
At June 30, 2006, the System had invested \$1.34 billion in a broad range of capital assets, including equipment, buildings, machinery and equipment, library books and media, collections and land. This represents a net increase (including additions and deletions) of \$104.8 million (8.5%) over the June 30, 2005, total of \$1.23 billion.

In October 2005, the System issued 2005B bonds totaling \$170,360. The coverage on the NSHE Revenue Bonds was 3.23. For Statutory purposes, the coverage was 1.24, above the required minimum of 1.10. (These coverage figures are based on June 30, 2006 unaudited revenues)

The System also issued over \$16.3 million in new notes during FY 2006 to fund various projects on the UNLV campus, as well as \$12.9 million in two series of Certificates of Participation for the Advanced Dental Education Building at UNLV.

FUTURE FINANCIAL AFFECTS

The 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, although there are some indications that the record growth in enrollment seen by the System in prior years may be returning to normal levels. From FY 05 to FY 06, the System realized a growth of slightly over 2% in student full time equivalent (SFTE) enrollments that are recognized by the State for funding purposes. SFTE is only one indicator of System growth, but is representative of trends seen throughout the System and account for the majority of State appropriated non-capital funding.



Funding appropriations for both FY 06 and FY 07 were made by the 2005 Legislature. Enrollment based funding levels were calculated for projected enrollments using a 3-year weighted average. The FY 07 operating budget for State Appropriations and Authorized Expenditures (State-Supported Operating Budget) increased by 7.1% from \$727.7 million to \$779.3 million. In FY 07, direct State appropriations will be \$597.9 million, an increase of 6.8% over the FY 06 amount of \$559.6 million (prior to reversions). This represents 76.7% of the State-Supported Operating Budget in FY 07, which is approximately the same percentage as FY 06. Other revenue sources in the state budget, including registration fees and non-resident tuition, increased in FY 07 from \$152.2 million to \$165.0 million. The System portion of the total state budget remains relatively constant at approximately 19.8% for the FY 06-07 biennium.

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 statements written in this discussion and analysis or made orally by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Other than statements of historical facts, all statements 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 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.

INDEPENDENT AUDITOR'S REPORT

The Board of Regents of the Nevada System of Higher Education

We have audited the accompanying statement of net assets of the Nevada System of Higher Education (the "System") as of and for the year ended June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Nevada System of Higher Education management. Our responsibility is to express an opinion on these financial statements based on our audit. 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, which represent 91 percent, 93 percent, and 53 percent at June 30, 2006 and for the year then ended, of the assets, net assets and operating revenues of the aggregate discretely presented component units, as described in Note 16 "System Related Organizations" in the accompanying financial statements. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the reports of other auditors. The financial statements of the System as of June 30, 2005, were audited by other auditors whose report dated September 30, 2005 expressed an unqualified opinion on those statements based on their audit and the reports of other auditors.

We conducted our audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the System and its discretely presented component units, as of June 30, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplemental Consolidating Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplemental consolidating statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Eugene, Oregon
October 12, 2006

NEVADA SYSTEM OF HIGHER EDUCATION
STATEMENTS OF NET ASSETS (in \$1,000)
AS OF JUNE 30, 2006 AND 2005

<u>ASSETS</u>	<u>System</u>		<u>System Related Organizations</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<i>Current Assets</i>				
Cash and cash equivalents	\$ 144,126	\$ 100,633	\$ 52,581	\$ 29,514
Restricted cash and cash equivalents	151	142	2,987	620
Short-term investments	286,473	239,091	19,592	15,945
Accounts receivable, net	32,389	28,848	1,686	1,429
Receivable from U.S. Government	37,621	39,470	-	-
Receivable from State of Nevada	9,079	4,291	-	-
Current portion of pledges receivable, net	-	-	7,073	7,951
Patient accounts receivable, net	-	-	7,509	7,691
Current portion of loans receivable, net	2,421	2,453	11	19
Inventories	6,171	5,574	-	-
Deposits and deferred expenditures	2,553	2,299	1,184	237
Other	<u>567</u>	<u>43</u>	<u>913</u>	<u>651</u>
Total Current Assets	<u>521,551</u>	<u>422,844</u>	<u>93,536</u>	<u>64,057</u>
<i>Noncurrent Assets</i>				
Cash held by State Treasurer	77,651	98,844	-	-
Restricted cash and cash equivalents	32,552	9,295	-	-
Receivable from State of Nevada	143,199	30,994	-	-
Restricted investments	149,680	40,344	-	-
Endowment investments	184,487	170,315	165,850	147,954
Deposits and deferred expenditures	5,518	3,730	-	-
Pledges receivable, net	-	-	32,168	29,339
Loans receivable, net	8,128	8,612	189	-
Capital assets, net	1,336,860	1,231,990	5,039	4,642
Other noncurrent assets	<u>382</u>	<u>395</u>	<u>6,294</u>	<u>5,602</u>
Total Noncurrent Assets	<u>1,938,457</u>	<u>1,594,519</u>	<u>209,540</u>	<u>187,537</u>
TOTAL ASSETS	<u>2,460,008</u>	<u>2,017,363</u>	<u>303,076</u>	<u>251,594</u>
<u>LIABILITIES</u>				
<i>Current Liabilities</i>				
Accounts payable	53,901	45,934	1,598	2,065
Accrued payroll and related liabilities	23,267	21,365	1,650	1,437
Unemployment insurance and workers' compensation liability	3,742	3,430	-	-
Current portion of compensated absences	27,390	25,266	11	11
Current portion of long-term debt	13,751	10,910	616	650
Current portion of obligations under capital leases	2,832	2,385	-	202
Accrued interest payable	10,475	6,568	-	-
Deferred revenue	32,833	33,999	197	82
Funds held in trust for others	8,606	5,741	-	-
Due to affiliates	-	-	4,210	946
Other	<u>407</u>	<u>-</u>	<u>895</u>	<u>-</u>
Total Current Liabilities	<u>177,204</u>	<u>155,598</u>	<u>9,177</u>	<u>5,393</u>
<i>Noncurrent Liabilities</i>				
Refundable advances under federal loan programs	7,692	7,857	-	-
Compensated absences	11,857	11,313	-	-
Deferred revenue	815	283	339	315
Long-term debt	473,819	306,242	2,187	2,434
Obligations under capital leases	12,643	12,954	99	223
Other noncurrent liabilities	<u>515</u>	<u>-</u>	<u>368</u>	<u>436</u>
Total Noncurrent Liabilities	<u>507,341</u>	<u>338,649</u>	<u>2,993</u>	<u>3,408</u>
TOTAL LIABILITIES	<u>684,545</u>	<u>494,247</u>	<u>12,170</u>	<u>8,801</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	1,012,818	949,496	2,571	2,060
Restricted:				
Nonexpendable	56,812	57,681	138,125	119,510
Expendable:				
Scholarships, research and instruction	161,268	137,437	116,244	92,184
Loans	5,457	4,896	-	-
Capital projects	239,277	159,019	709	373
Debt service	11,910	3,295	-	-
Unrestricted	<u>287,921</u>	<u>211,292</u>	<u>33,257</u>	<u>28,666</u>
TOTAL NET ASSETS	<u>\$1,775,463</u>	<u>\$1,523,116</u>	<u>\$290,906</u>	<u>\$242,793</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 (in \$1,000)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>System</u>		<u>System Related Organizations</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<i>Operating Revenues</i>				
Student tuition and fees (net of scholarship allowances of \$48,892 and \$48,337)	\$ 219,833	\$ 191,908	\$ -	\$ -
Federal grants and contracts	210,569	196,407	-	-
State grants and contracts	50,032	47,368	-	-
Local grants and contracts	17,354	15,865	-	-
Other grants and contracts	20,018	20,148	-	-
Campus support	-	-	2,214	1,617
Sales and services of educational departments (including \$2,127 and \$ 948 from System related organizations)	62,475	65,315	-	-
Sales and services of auxiliary enterprises (net of scholarship allowances of \$3,089 and \$2,599)	73,810	64,831	-	-
Contributions	-	-	54,787	56,633
Patient revenue	-	-	45,203	43,329
Contract revenue	-	-	6,963	7,014
Special events and fundraising	-	-	1,268	679
Interest earned on loans receivable	150	152	-	-
Other operating revenues	<u>6,272</u>	<u>5,363</u>	<u>916</u>	<u>608</u>
Total operating revenues	<u>660,513</u>	<u>607,357</u>	<u>111,351</u>	<u>109,880</u>
<i>Operating Expenses</i>				
Employee compensation and benefits	781,709	738,633	22,739	21,982
Utilities	34,137	29,230	2	-
Supplies and services	287,144	255,298	2,414	2,117
Scholarships and fellowships	42,088	41,784	-	-
Program expenses, System related organizations	-	-	32,054	30,604
Depreciation	<u>68,607</u>	<u>63,634</u>	<u>720</u>	<u>680</u>
Total operating expenses	<u>1,213,685</u>	<u>1,128,579</u>	<u>57,929</u>	<u>55,383</u>
Operating (loss) income	<u>(553,172)</u>	<u>(521,222)</u>	<u>53,422</u>	<u>54,497</u>
<i>Nonoperating Revenues (Expenses)</i>				
State appropriations	557,341	512,515	-	-
Refund to State	-	(43,398)	-	-
Gifts (including \$24,347 and \$17,204 from System related organizations)	30,116	25,583	-	-
Investment income, net	54,805	47,423	14,487	14,702
Disposal of capital assets	(6,206)	(1,641)	-	(11)
Interest expense	(20,319)	(12,844)	-	-
Payments to System campuses and divisions	-	-	(33,884)	(36,424)
Other nonoperating revenues	<u>4,754</u>	<u>680</u>	<u>3,947</u>	<u>2,890</u>
Net nonoperating revenues (expenses)	<u>620,491</u>	<u>528,318</u>	<u>(15,450)</u>	<u>(18,843)</u>
Income before other revenue, expenses, gains or losses	<u>67,319</u>	<u>7,096</u>	<u>37,972</u>	<u>35,654</u>
State appropriations restricted for capital purposes	148,253	2,322	-	-
Capital grants and gifts (including \$6,090 and \$17,399 from System related organizations)	16,762	22,930	-	-
Additions to permanent endowments (including \$321 and \$949 from System related organizations)	719	1,781	10,141	13,067
Gain on sale of land	20,263	-	-	-
Other expenses	<u>(969)</u>	<u>(500)</u>	<u>-</u>	<u>-</u>
Total other revenues	<u>185,028</u>	<u>26,533</u>	<u>10,141</u>	<u>13,067</u>
Increase in net assets	<u>252,347</u>	<u>33,629</u>	<u>48,113</u>	<u>48,721</u>
<i>Net Assets</i>				
Net assets – beginning of year	<u>1,523,116</u>	<u>1,489,487</u>	<u>242,793</u>	<u>194,072</u>
Net assets – end of year	<u>\$1,775,463</u>	<u>\$1,523,116</u>	<u>\$290,906</u>	<u>\$242,793</u>

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

NEVADA SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS (in \$1,000)
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>System</u>	
	<u>2006</u>	<u>2005</u>
<i>Cash Flows from Operating Activities</i>		
Student tuition and fees	\$220,386	\$194,496
Grants and contracts	292,439	272,791
Payments for supplies and services	(287,752)	(257,579)
Payments for utilities	(33,900)	(28,763)
Payments for employee compensation and benefits	(776,210)	(732,527)
Payments for scholarships and fellowships	(42,104)	(41,916)
Loans issued to students and employees	(2,696)	(3,779)
Collection of loans to students and employees	2,956	3,018
Sales and services of educational departments	73,011	67,438
Sales and services of auxiliary enterprises	62,915	64,281
Other receipts	<u>6,197</u>	<u>6,377</u>
Net cash used by operating activities	<u>(484,758)</u>	<u>(456,163)</u>
<i>Cash Flows from Noncapital Financing Activities</i>		
State appropriations	559,190	530,304
State appropriations refunded	(14,466)	(36,572)
Gifts and grants for other than capital purposes	27,519	24,488
Gifts for endowment purposes	720	1,781
Receipts under federal student loan programs	84,629	92,314
Disbursements under federal student loan programs	(84,617)	(92,012)
Other	118	1,567
Agency transactions	<u>2,740</u>	<u>1,577</u>
Net cash provided by noncapital financing activities	<u>575,833</u>	<u>523,447</u>
<i>Cash Flows from Capital Financing Activities</i>		
Proceeds from capital debt	209,530	44,184
Other	(696)	(120)
Payments for debt issuance costs	(2,171)	(562)
Capital appropriations	36,734	23,330
Capital grants and gifts received	8,272	20,087
Purchases of capital assets	(147,714)	(138,019)
Proceeds from sale of property and equipment	31	52
Principal paid on capital debt and leases	(40,475)	(11,239)
Net proceeds on sale of land	27,610	-
Interest paid on capital debt and leases	<u>(18,482)</u>	<u>(12,393)</u>
Net cash used by capital financing activities	<u>72,639</u>	<u>(74,680)</u>
<i>Cash Flows from Investing Activities</i>		
Proceeds from sales and maturities of investments	87,467	126,273
Purchase of investments	(230,750)	(102,233)
Interest and dividends on investments	19,458	12,462
Net decrease in cash equivalents, noncurrent investments	<u>5,677</u>	<u>(4,080)</u>
Net cash provided (used) by investing activities	<u>(118,148)</u>	<u>32,422</u>
Net increase in cash and cash equivalents	45,566	25,026
Cash and cash equivalents, beginning of year	<u>208,914</u>	<u>183,888</u>
Cash and cash equivalents, end of year	<u>\$254,480</u>	<u>\$208,914</u>

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

NEVADA SYSTEM OF HIGHER EDUCATION
STATEMENTS OF CASH FLOWS (in \$1,000) (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2006 and 2005

	<u>System</u>	
	<u>2006</u>	<u>2005</u>
<i>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</i>		
Operating loss	\$(553,172)	\$(521,222)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Supplies expense related to noncash gifts	417	848
Depreciation expense	68,607	63,634
Changes in assets and liabilities:		
Accounts receivable, net	(6,365)	(8,265)
Loans receivable, net	461	(702)
Inventories	(597)	(101)
Deposits and deferred expenditures	(629)	(580)
Accounts payable	694	(1,874)
Accrued payroll and related liabilities	2,334	1,839
Unemployment insurance and workers' compensation liability	373	59
Deferred revenue	919	5,945
Refundable advances under federal loan program	(139)	257
Compensated absences	2,339	3,999
Net cash used by operating activities	<u>\$(484,758)</u>	<u>\$(456,163)</u>
<i>Supplemental Noncash Activities Information</i>		
Capital assets acquired by incurring capital lease obligations and accounts payable	<u>\$26,835</u>	<u>\$7,311</u>
Loss on disposal of capital assets	<u>\$6,322</u>	<u>\$1,663</u>
Capital assets acquired by gifts	<u>\$8,178</u>	<u>\$2,426</u>

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

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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 from 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 separate columns to emphasize that they are Nevada not-for-profit organizations legally separate from the System. During the years ended June 30, 2006 and 2005 the foundations distributed \$33,884 and \$36,424, respectively, to the System for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained from Mike Reed, Vice Chancellor for Finance 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, 2006 and 2005 the practice plans distributed \$1,701 and \$937, respectively, to the System for restricted purposes. Complete financial statements for the practice plans can be obtained from Mike Reed, Vice Chancellor for Finance 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.

During 2006, the System adopted GASB Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The System has determined that currently no assets are impaired.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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

During 2006, the System adopted GASB Statement No.47, *Accounting for Termination Benefits*, which specifies when and how the cost of termination benefits should be recognized in accrual-based financial statements. The System has determined that currently no termination benefits are required to be recorded.

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 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 (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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 (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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 2006 and 2005 were \$5,963 and \$6,794, 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 expenses during the reporting period. Actual amounts could differ from those estimates.

COMPARATIVE INFORMATION

Certain reclassifications have been made to the 2005 financial information in order to conform to the 2006 presentation.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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

NEW ACCOUNTING PRONOUNCEMENTS

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which requires accrual-based measurement, recognition and disclosure of other postemployment benefit (OPEB) expense, such as retiree medical and dental costs, over the employees' year of service, along with the related liability, net of any plan assets. The provisions of GASB Statement No. 45 for governments that were phase 1 governments, such as the Nevada System of Higher Education, 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. Management is working with the State of Nevada Public Employees Benefits Program to determine the impact to NSHE. The anticipated impact is unknown at this time.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, provides guidance when an entity exchanges its interest in the expected cash future cash flows of a settlement for cash, and is effective for years beginning after December 15, 2006. The System has no activity which would be subject to this pronouncement.

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, 2006 and 2005 the System's deposits in money market funds totaled \$139,263 and \$67,110, respectively, and cash in bank was \$8,133 and \$7,366, respectively. Of these balances, \$200 and \$100 at June 30, 2006 and 2005, respectively, are covered by the Federal Depository Insurance Corporation ("FDIC"), the remaining deposits are uncollateralized and uninsured. Restricted cash represents the unexpended bond proceeds held for construction of major assets. Cash held by State Treasurer represents the funds from certain state appropriations, which were enacted to provide the 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, 2006 and 2005 is as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$283,789	\$320,524	\$270,818	\$298,023
Guaranteed investment contracts	149,680	149,680	-	-
Other partnerships	40,000	75,570	40,000	66,475
Private equity partnerships	28,772	43,101	31,827	44,399
Stocks	18,160	21,824	19,886	25,404
Endowment cash and cash equivalents	7,728	7,728	13,417	13,417
Other investments (including corporate and U.S. government bonds)	<u>2,237</u>	<u>2,213</u>	<u>1,975</u>	<u>2,032</u>
	<u>\$530,366</u>	<u>\$620,640</u>	<u>\$377,923</u>	<u>\$449,750</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, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Stocks	38%	36%
U.S. government bonds	25%	28%
International securities	24%	23%
Cash and cash equivalents	12%	12%
Corporate bonds	1%	1%

As of June 30, 2006, 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 \$7,481.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 4 – System Investments (continued):

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, 2006 is as follows:

U.S. Government - Guaranteed	\$ 1,036
Corporate Bonds:	
AAA	\$ 52
AA	\$ 248
A	\$ 828
Not Rated	\$ 0
Guaranteed Investment Contracts – Guaranteed	\$149,680
Commingled Funds:	
U.S. Bond Funds – Not Rated	\$ 81,475
Non U.S. Bond Funds – Not Rated	\$ 3,175
Money Market Funds – Not Rated	\$ 7,729

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, 2006 is as follows:

Less than 1 year	\$ 25,080
1 to 5 years	\$174,072
6 to 10 years	\$ 34,577
More than 10 years	\$ 10,494

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, 2006 the System's operating and endowment investments that were held by various custodial banks and are represented by the following types of investments:

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 4 – System Investments (continued):

Mutual Funds	\$ 823
Stocks	\$ 21,824
International	\$ 46
Guaranteed Investment Contracts	\$ 149,680
US Government Bonds	\$ 1,036
Corporate Bonds	\$ 1,129

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, 2006 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, 2006 the System had \$75,966 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	\$ 20,423
United Kingdom Pound	\$ 12,272
Japanese Yen	\$ 13,316
Swiss Franc	\$ 3,883
South Korean Won	\$ 4,279
Canadian Dollar	\$ 3,376
Taiwan New Dollar	\$ 2,361
Brazilian Real	\$ 2,040
Chinese Renminbi	\$ 1,614
Australian Dollar	\$ 1,438
Other	\$ 10,964

NOTE 5 – System Endowment Pool:

Approximately \$176,632 and \$160,829 of endowment fund investments at June 30, 2006 and 2005, respectively, are pooled on a unit market value basis. As of June 30, 2006, the endowment pool is comprised of investments in mutual funds (67%), stocks (8%), private equity partnerships (21%), and cash and cash equivalents (4%). As of June 30, 2005, the endowment pool is comprised of investments in mutual funds (61%), stocks (10%), private equity partnerships (22%) and other investments (7%). 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, 2006 and 2005 was \$470.14 and \$432.68, 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, 2006 and 2005, 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 2006, \$17.00 was distributed to each time-weighted unit for a total spending rule distribution of \$7,364 and, during 2005, \$16.75 was distributed to each time-weighted unit for a total spending rule distribution of \$8,174. The 2006 and 2005 distributions were made from investment income of \$1,769 and \$3,872, respectively, and \$5,596 and \$4,303, 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 \$110,297 and \$102,873 at June 30, 2006 and 2005, 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, 2006 and 2005 the System received \$3,219 and \$10,269, 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, 2006 and 2005. Also, due to the phase-out of estate taxes in the State of Nevada, effective July 1, 2003, the Legislature approved an

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 5 – System Endowment Pool (continued):

appropriation from the State's general fund to the System in the amount of \$0 and \$43,398 for expenditures for certain unrestricted purposes during the years ended June 30, 2006 and 2005. 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 June 30, 2005. Under the requirements of the revised statute, the System has recorded an expense of amounts repaid and accrued during the year ended June 30, 2005 of \$43,398 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 \$6,980 and \$5,029, respectively, as of June 30, 2006 and 2005.

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, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Loans receivable	\$11,054	\$11,483
Less: Allowance for doubtful loans	<u>(505)</u>	<u>(418)</u>
Net loans receivable	10,559	11,065
Less current portion	<u>(2,421)</u>	<u>(2,453)</u>
Noncurrent loans receivable	<u>\$ 8,128</u>	<u>\$ 8,612</u>

NOTE 7 – System Capital Assets:

System capital asset activity for the year ended June 30, 2006 and 2005 is as follows:

	<u>Beginning Balance</u>	<u>2006 Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 76,269	\$115,581	\$(55,269)	\$ 136,581
Land	63,662	4,226	(7,667)	60,221
Collections	<u>8,099</u>	<u>624</u>	<u>-</u>	<u>8,723</u>
Total capital assets, not being depreciated	<u>148,030</u>	<u>120,431</u>	<u>(62,936)</u>	<u>205,525</u>
Capital assets, being depreciated:				
Buildings	1,298,938	43,772	28,081	1,370,791
Land improvements	77,449	2,394	344	80,187
Machinery and equipment	246,425	36,694	(18,891)	264,228
Library books and media	<u>89,960</u>	<u>7,189</u>	<u>(348)</u>	<u>96,801</u>
Total cost	<u>1,712,772</u>	<u>90,049</u>	<u>9,186</u>	<u>1,812,007</u>
Less accumulated depreciation for:				
Buildings	(353,357)	(33,365)	2,351	(384,371)
Land improvements	(55,332)	(4,052)	-	(59,384)
Machinery and equipment	(144,719)	(24,417)	14,048	(155,088)
Library books and media	<u>(75,404)</u>	<u>(6,771)</u>	<u>346</u>	<u>(81,829)</u>
Total accumulated depreciation	<u>(628,812)</u>	<u>(68,605)</u>	<u>16,745</u>	<u>(680,672)</u>
Total capital assets being depreciated, net	<u>1,083,960</u>	<u>21,444</u>	<u>25,931</u>	<u>1,131,335</u>
Capital assets, net	<u>\$1,231,990</u>	<u>\$141,875</u>	<u>\$(37,005)</u>	<u>\$1,336,860</u>

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 7 – System Capital Assets (continued):

	Beginning Balance	2005 Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 116,837	\$ 67,506	\$(108,074)	\$ 76,269
Land	58,596	5,066	-	63,662
Collections	5,400	2,734	(35)	8,099
Total capital assets, not being depreciated	<u>180,833</u>	<u>75,306</u>	<u>(108,109)</u>	<u>148,030</u>
Capital assets, being depreciated:				
Buildings	1,171,233	127,705	-	1,298,938
Land improvements	75,910	1,540	-	77,450
Machinery and equipment	221,814	38,056	(13,445)	246,425
Library books and media	83,722	6,933	(695)	89,960
Total cost	<u>1,552,679</u>	<u>174,234</u>	<u>(14,140)</u>	<u>1,712,773</u>
Less accumulated depreciation for:				
Buildings	(318,813)	(34,545)	-	(353,358)
Land improvements	(51,208)	(4,124)	-	(55,332)
Machinery and equipment	(137,949)	(18,222)	11,452	(144,719)
Library books and media	(69,359)	(6,743)	698	(75,404)
Total accumulated depreciation	<u>(577,329)</u>	<u>(63,634)</u>	<u>12,150</u>	<u>(628,813)</u>
Total capital assets being depreciated, net	<u>975,350</u>	<u>110,600</u>	<u>(1,990)</u>	<u>1,083,960</u>
Capital assets, net	<u>\$1,156,183</u>	<u>\$185,906</u>	<u>\$(110,099)</u>	<u>\$1,231,990</u>

The estimated cost to complete property authorized or under construction at June 30, 2006 is \$505,066. 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 (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 8 – System Long-Term Debt:

System long-term debt activity for the year ended June 30, 2006 and 2005 is as follows:

	Annual Interest Rate	Fiscal Year Final Payment Due	2006 Beginning Balance	Additions	Reductions	Ending Balance	Current
University Superior Lien Refunding Revenue Bonds, Series 1997	4.50% to 6.00%	2007	3,125	-	(2,000)	1,125	1,125
Universities Subordinate Lien Revenue Bonds, Series 1992	3.95% to 6.70%	2008	890	-	(280)	610	295
Certificates of Participation, Series 2006B	4.81% to 4.98%	2010	-	1,925	-	1,925	-
Universities Revenue Bonds, Series 1995	3.95% to 5.25%	2011	680	-	(100)	580	105
Universities Revenue Bonds, Series 1998	4.00% to 5.25%	2014	6,390	-	(580)	5,810	610
Community College Revenue Bonds, Series 1996	3.80% to 5.70%	2017	845	-	(50)	795	55
Universities Revenue Bonds, Series 2003A	2.00% to 5.00%	2017	21,830	-	(1,525)	20,305	2,480
Universities Revenue Bonds, Series 2000	5.10% to 5.88%	2021	13,945	-	(11,295)	2,650	610
Universities Revenue Bonds, Series December 2000	5.00% to 5.375%	2021	24,520	-	(1,045)	23,475	1,090
Taxable University Revenue Bonds, Series 2002C	4.00% to 5.50%	2022	7,825	-	(340)	7,485	260
SNSC Phase II Lease Revenue Bonds	7.58%	2023	8,160	-	(225)	7,935	245
Certificates of Participation, Series 2006A	4.00% to 5.00%	2025	-	11,015	-	11,015	-
Universities Revenue Bonds, Series April 2000	5.00% to 5.88%	2030	13,910	-	(12,305)	1,605	290
Shadow Lane – Dental School Bond, Series 2001	4.25% to 5.25%	2032	18,515	-	(355)	18,160	370
Universities Revenue Bonds, Series 2002A	3.87% to 5.40%	2032	31,000	-	(3,890)	27,110	-
Universities Revenue Bonds, Series 2002B	4.75% to 5.00%	2032	10,905	-	-	10,905	-
Universities Revenue Bonds, Series 2003B	2.00% to 5.00%	2034	50,890	-	-	50,890	860
Universities Revenue Bonds, Series 2004A	2.00% to 4.50%	2034	32,450	-	(1,280)	31,170	1,310
Universities Revenue Bonds, Series 2004B	3.00% to 4.75%	2035	10,000	-	-	10,000	-
Universities Revenue Bonds, Series 2005A	3.00% to 5.00%	2035	31,010	-	-	31,010	-
Universities Revenue Bonds, Series 2005B	3.25% to 5.00%	2035	-	170,360	-	170,360	-
Prepaid Interest in Advance of Refunding Premiums			-	(704)	101	(603)	(151)
Total Bonds Payable			3,123	9,833	(429)	12,527	250
Notes Payable			290,013	192,429	(35,598)	446,844	9,804
Total			27,139	16,325	(2,738)	40,726	3,947
			\$317,152	\$208,754	\$(38,336)	\$487,570	\$13,751

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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

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

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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>
2007	\$ 13,751	\$ 22,306
2008	15,188	21,600
2009	15,196	20,976
2010	16,033	20,315
2011	16,079	18,981
2012-2016	87,405	84,083
2017-2021	89,068	63,964
2022-2026	75,437	44,488
2027-2031	82,035	26,378
2032-2036	<u>77,378</u>	<u>7,077</u>
Total	<u>\$487,570</u>	<u>\$330,168</u>

In October 2006 the System secured a bank loan in the amount of \$1,500 to partially fund a building at DRI. A loan in the amount of \$1,700 was secured from a private foundation to fund a solar energy array for a new building on the UNLV campus. UNR secured financing up to \$6,615 for the acquisition of a new telephone system and to refinance certain outstanding loans/bonds for UNR and TMCC.

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, 2006 and 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>2006 Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	<u>\$15,339</u>	<u>\$2,604</u>	<u>(\$2,468)</u>	<u>\$15,475</u>	<u>\$2,832</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>2005 Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Capital lease obligations	<u>\$15,021</u>	<u>\$2,308</u>	<u>(\$1,990)</u>	<u>\$15,339</u>	<u>\$2,385</u>

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Buildings and improvements	\$ 5,765	\$10,421
Machinery and equipment	<u>16,745</u>	<u>0,435</u>
Total	22,510	20,856
Less accumulated depreciation	<u>(5,363)</u>	<u>(3,655)</u>
Total	<u>\$17,147</u>	<u>\$17,201</u>

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

2007	\$ 3,425
2008	3,235
2009	3,214
2010	2,151
2011	1,932
2012-2016	<u>3,874</u>
Total minimum lease payments	17,831
Less amount representing interest	<u>(2,356)</u>
Obligations under capital leases	<u>\$15,475</u>

Total interest expense under the System capital leases and included in the accompanying financial statements was \$729 and \$457, respectively, during the years ended June 30, 2006 and 2005.

NOTE 10 – System Other Noncurrent Liability Activity:

The activity with respect to System other noncurrent liabilities for the years ended June 30, 2006 and 2005 was as follows:

	<u>2006</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current</u>
Refundable advances under federal loans program	\$ 7,857	\$ 670	\$ (835)	\$ 7,692	\$ -
Compensated absences	36,579	28,240	(25,572)	39,247	27,390
Retentions payable	-	515	-	515	-
Deferred revenue	<u>34,282</u>	<u>33,363</u>	<u>(33,997)</u>	<u>33,648</u>	<u>32,833</u>
Total	<u>\$78,718</u>	<u>\$62,788</u>	<u>\$(60,404)</u>	<u>\$81,102</u>	<u>\$60,223</u>

	<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	\$ 869	\$ (598)	\$ 7,857	\$ -
Compensated absences	32,407	29,321	(25,149)	36,579	25,266
Deferred revenue	<u>27,866</u>	<u>33,499</u>	<u>(27,083)</u>	<u>34,282</u>	<u>33,999</u>
Total	<u>\$67,859</u>	<u>\$63,689</u>	<u>\$(52,830)</u>	<u>\$78,718</u>	<u>\$59,265</u>

NOTE 11 – Extinguishment of Debt:

At June 30, 2006, debt in the amount of \$23,100 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.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 12 – Irrevocable Letter of Credit:

In connection with its workers compensation liability coverage, the System is required to maintain a \$1,080 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 \$2,009. A letter of credit was established in July 2003 in connection with the DRI Lease Revenue Bond in the amount of \$2,100. No advances were made under the letters of credit during the years ended June 30, 2006 and 2005.

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

The authority for establishing and amending the obligation to make contributions is provided by statute. Contribution rates are also established by statute. Active employees contribute to PERS at a rate of either 10.5% or 0% of annual covered wages depending on the contribution option selected. The System is required to contribute to PERS at a rate of either 10.5% or 19.75% of annual covered wages, depending on the option selected by the employee. The 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, 2006, 2005 and 2004 was approximately (in thousands) \$60,369, \$55,728 and \$45,434, 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.

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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 years ended June 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Instruction	\$ 419,928	\$ 395,655
Research	128,221	117,057
Public service	59,022	59,942
Academic support	104,532	92,930
Institutional support	133,892	124,072
Student services	92,380	82,299
Operation and maintenance of plant	99,807	87,377
Scholarships and fellowships	42,106	41,784
Auxiliary enterprises	65,130	63,552
Other expenses	60	277
Depreciation	<u>68,607</u>	<u>63,634</u>
Total	<u>\$1,213,685</u>	<u>\$1,128,579</u>

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 16 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, 2006

	UNR Foundation	Practice Plans	DRI Foundation	TMCC Foundation	WNCC Foundation	GBC Foundation	UNLV Foundation	CCSN Foundation	NSC Foundation	Total System Related Organizations
ASSETS										
<i>Current Assets</i>										
Cash and cash equivalents	\$ 19,581	\$12,921	\$540	\$239	\$ 487	\$1,120	\$ 17,857	\$2,458	\$ 365	\$ 55,568
Short-term investments	12,152	1,328	-	-	-	-	5,056	-	1,056	19,592
Other current assets	3,931	9,491	12	23	1,220	137	2,619	848	95	18,376
Total Current Assets	35,664	23,740	552	262	1,707	1,257	25,532	3,306	1,516	93,536
<i>Noncurrent Assets</i>										
Capital assets, net	156	2,884	16	-	-	4	1,979	-	-	5,039
Endowment investments	76,908	-	-	223	1,702	3,129	83,262	-	626	165,850
Other noncurrent assets	7,729	-	-	-	356	194	24,092	593	5,687	38,651
Total Noncurrent Assets	84,793	2,884	16	223	2,058	3,327	109,333	593	6,313	209,540
TOTAL ASSETS	120,457	26,624	568	485	3,765	4,584	134,865	3,899	7,829	303,076
LIABILITIES										
<i>Current Liabilities</i>										
Due to affiliates	2,877	333	-	-	-	-	-	1,000	-	4,210
Current portion of long-term debt	218	213	-	-	-	-	185	-	-	616
Other current liabilities	21	4,038	60	144	-	47	41	-	-	4,351
Total Current Liabilities	3,116	4,584	60	144	-	47	226	1,000	-	9,177
<i>Noncurrent Liabilities</i>										
Long-term debt	661	406	-	-	-	-	1,120	-	-	2,187
Other noncurrent liabilities	339	0	-	-	-	-	467	-	-	806
Total Noncurrent Liabilities	1,000	406	-	-	-	-	1,587	-	-	2,993
TOTAL LIABILITIES	4,116	4,990	60	144	-	47	1,813	1,000	-	12,170
NET ASSETS	156	2,265	16	-	-	4	130	-	-	2,571
Invested in capital assets, net of related debt										
Restricted	80,681	-	-	218	582	2,783	53,235	-	626	138,125
Nonexpendable	30,290	-	96	-	2,055	1,188	74,837	1,458	7,029	116,953
Expendable	5,214	19,369	396	123	1,128	562	4,850	1,441	174	33,257
Unrestricted	\$116,341	\$21,634	\$508	\$341	\$3,765	\$4,537	\$133,052	\$2,899	\$ 7,829	\$290,906
TOTAL NET ASSETS										

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 16- System Related Organizations (continued):

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

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	\$10,705	\$10,371	\$460	\$142	\$ -	\$ 918	\$ 5,382	\$2,059	\$ 97	\$ 30,134
Short-term investments	11,544	-	-	-	-	-	3,361	-	1,040	15,945
Other current assets	6,127	9,231	29	8	141	119	2,323	-	-	17,978
Total Current Assets	28,376	19,602	489	150	141	1,037	11,066	2,059	1,137	64,057
<i>Noncurrent Assets</i>										
Capital assets, net	53	2,077	16	-	-	5	2,491	-	-	4,642
Endowment investments	64,063	-	-	178	2,613	3,020	77,391	581	108	147,954
Other noncurrent assets	8,470	-	-	-	357	201	25,913	-	-	34,941
Total Noncurrent Assets	72,586	2,077	16	178	2,970	3,226	105,795	581	108	187,537
TOTAL ASSETS	100,962	21,679	505	328	3,111	4,263	116,861	2,640	1,245	251,594
<i>LIABILITIES</i>										
<i>Current Liabilities</i>										
Due to affiliates	767	179	-	-	-	-	-	-	-	946
Current portion of long-term debt	400	-	-	-	-	-	250	-	-	650
Other current liabilities	19	3,343	63	47	-	54	271	-	-	3,797
Total Current Liabilities	1,186	3,522	63	47	-	54	521	-	-	5,393
<i>Noncurrent Liabilities</i>										
Long-term debt	1,129	-	-	-	-	-	1,305	-	-	2,434
Other noncurrent liabilities	315	223	-	-	-	-	436	-	-	974
Total Noncurrent Liabilities	1,444	223	-	-	-	-	1,741	-	-	3,408
TOTAL LIABILITIES	2,630	3,745	63	47	-	54	2,262	-	-	8,801
NET ASSETS										
Invested in capital assets, net of related debt	171	1,652	16	-	-	5	216	-	-	2,060
Restricted										
Nonexpendable	67,606	-	-	181	550	2,793	48,248	24	108	119,510
Expendable	26,243	-	103	-	2,473	725	61,945	37	1,031	92,557
Unrestricted	4,312	16,282	323	100	88	686	4,190	2,579	106	28,666
TOTAL NET ASSETS	\$98,332	\$17,934	\$442	\$281	\$3,111	\$4,209	\$114,599	\$2,640	\$1,245	\$242,793

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 16- 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, 2006

	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	\$ -	\$45,203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,203
Contract revenue	-	6,963	-	-	-	-	-	-	-	6,963
Contributions	14,069	-	792	999	2,039	484	28,630	1,696	6,078	54,787
Campus support	1,759	-	324	108	-	23	-	-	-	2,214
Other operating revenue	1,119	-	218	34	129	120	137	427	-	2,184
Total operating revenues	16,947	52,166	1,334	1,141	2,168	627	28,767	2,123	6,078	111,351
<i>Operating Expenses</i>										
Program expenses	291	31,404	-	-	-	319	40	-	-	32,054
Depreciation	21	594	-	-	-	-	105	-	-	720
Other operating expenses	2,141	18,652	754	141	471	-	2,831	159	6	25,155
Total operating expenses	2,453	50,650	754	141	471	319	2,976	159	6	57,929
Operating income	14,494	1,516	580	1,000	1,697	308	25,791	1,964	6,072	53,422
<i>Nonoperating Revenues (Expenses)</i>										
Payments to System campuses and divisions	(12,085)	(1,701)	(514)	(978)	(1,184)	(250)	(15,343)	(1,784)	(45)	(33,884)
Other nonoperating revenues (expenses)	7,681	3,885	-	38	141	243	6,327	79	40	18,434
Total nonoperating expenses	(4,404)	2,184	(514)	(940)	(1,043)	(7)	(9,016)	(1,705)	(5)	(15,450)
Income (loss) before other revenue, expenses gains or losses	10,090	3,700	66	60	654	301	16,775	259	6,067	37,972
Additions to permanent endowments	7,919	-	-	-	-	27	1,678	-	517	10,141
Total other revenues	7,919	-	-	-	-	27	1,678	-	517	10,141
Increase (decrease) in net assets	18,009	3,700	66	60	654	328	18,453	259	6,584	48,113
Net assets - beginning of year	98,332	17,934	442	281	3,111	4,209	114,599	2,640	1,245	242,793
Net assets - end of year	\$116,341	\$21,634	\$ 508	\$ 341	\$3,765	\$4,537	\$133,052	\$2,899	\$7,829	\$290,906

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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, 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,329
Contract revenue	-	7,014	-	-	-	-	-	-	-	7,014
Contributions	24,724	-	1,405	182	1,275	294	26,921	762	1,070	56,633
Campus support	1,077	-	371	98	-	71	-	-	-	1,617
Other operating revenue	652	-	134	41	-	55	405	-	-	1,287
Total operating revenues	26,453	50,343	1,910	321	1,275	420	27,326	762	1,070	109,880
<i>Operating Expenses</i>										
Program expenses	227	29,938	-	-	-	375	64	-	-	30,604
Depreciation	13	582	-	-	-	-	85	-	-	680
Other operating expenses	1,832	18,148	676	161	441	-	2,803	31	7	24,099
Total operating expenses	2,072	48,668	676	161	441	375	2,952	31	7	55,383
Operating income	24,381	1,675	1,234	160	834	45	24,374	731	1,063	54,497
<i>Nonoperating Revenues (Expenses)</i>										
Payments to System campuses and divisions	(19,974)	(937)	(1,095)	(156)	(417)	(676)	(12,306)	(817)	(46)	(36,424)
Other nonoperating revenues (expenses)	7,458	2,941	1	25	65	185	6,873	29	4	17,581
Total nonoperating expenses	(12,516)	2,004	(1,094)	(131)	(352)	(491)	(5,433)	(788)	(42)	(18,843)
Income (loss) before other revenue, expenses gains or losses	11,865	3,679	140	29	482	(446)	18,941	(57)	1,021	35,654
Additions to permanent endowments	7,176	-	-	89	-	127	5,675	-	-	13,067
Total other revenues	7,176	-	-	89	-	127	5,675	-	-	13,067
Increase (decrease) in net assets	19,041	3,679	140	118	482	(319)	24,616	(57)	1,021	48,721
Net assets - beginning of year	79,291	14,255	302	163	2,629	4,528	89,983	2,697	224	194,072
Net assets - end of year	\$98,332	\$17,934	\$ 442	\$281	\$3,111	\$4,209	\$114,599	\$2,640	\$1,245	\$242,793

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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 \$19,582 and \$10,705, respectively, at June 30, 2006 and 2005, of which \$17,522 and \$15,198, 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, 2006 and 2005, consists of:

	<u>2006</u>	<u>2005</u>
Cash	\$ 966	\$ 1,011
Money Funds	54	1,534
Common Fund Short-term Investments	17,669	3,475
Certificates of Deposit	390	190
Treasury Bills	<u>502</u>	<u>4,495</u>
	<u>\$19,581</u>	<u>\$10,705</u>

The fair value of investments at June 30, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Equity Investments	\$ 357	\$ 277
Commonfund Bond	15,927	16,259
Commonfund Global Bond	651	671
Commonfund Equity	59,183	45,811
Commonfund International Equity	1,079	1,363
Commonfund Emerging Markets	1,814	1,420
Commonfund Capital Partners	844	411
Commonfund Real Estate Securities	953	776
Commonfund Realty Investors	2,096	1,908
Certificates of Deposit	1,423	2,184
U.S. Government Securities	<u>4,733</u>	<u>4,527</u>
	<u>\$89,060</u>	<u>\$75,607</u>

At June 30, 2006, the Foundation investments had the following maturities:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>
Equity investments	\$ 357	\$ 357	\$ -	\$ -
Open ended mutual funds	82,547	82,547	-	-
Certificates of deposit	1,423	1,331	-	92
U.S. Government securities	<u>4,733</u>	<u>4,249</u>	<u>484</u>	<u>-</u>
	<u>\$89,060</u>	<u>\$88,484</u>	<u>\$ 484</u>	<u>\$ 92</u>

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

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 16 System Related Organizations (continued):

The cumulative net appreciation of investments at June 30, 2006 and 2005 was \$21,716 and \$18,007, 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, 2006, \$109 was covered by the FDIC and \$147 was uninsured. Of the cash equivalent balance, \$200 was covered by Securities Investor Protection Corporation ("SIPC") and \$2,974 was covered by the Customer Asset Protection Company ("CAPCO"), excess protection provided by two brokerages. In addition, \$644 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 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 (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 16 System Related Organizations (continued):

Investments include the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Mutual funds	\$ 2,462	\$ 3,247
Common Stock	39,763	35,708
U.S. government obligations	28,376	13,314
Corporate obligations	10,854	15,957
Asset-backed securities	<u>12,288</u>	<u>4,646</u>
Total marketable securities at cost	93,743	72,872
Net unrealized gain (loss) on noncurrent investments	<u>6,690</u>	<u>7,141</u>
Total fair value of noncurrent investments	<u>\$100,433</u>	<u>\$80,013</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 –						
Schater Cullen	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ 20
Payden & Rygel	2,591	-	260	925	1,406	-
Endowment fund:						
Wachovia	1,823	199	504	920	201	-
Loomis Sayles	5,877	-	78	1,139	2,679	1,981
Tradewinds-NWQ	202	-	-	-	-	202

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 Aggregate Index average maturity as of June 30, 2006, was 7.20 years. The fixed-income portfolio's average maturity was 6.90 years. Interest rates range from 3.5% to 9.125%.

Maturity Under 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity Over 10 Years	Total
\$13,533	\$4,921	\$5,650	\$6,119	\$30,222

For the endowment fund, the Lehman Aggregate Bond Index average maturity as of June 30, 2006, was 6.83 years. The fixed-income portfolio's average maturity was 8.73 years. Interest rates range from 2.375% to 8.875%.

Maturity Under 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity Over 10 Years	Total
\$1,197	\$6,547	\$1,828	\$10,442	\$20,014

NEVADA SYSTEM OF HIGHER EDUCATION

NOTES TO FINANCIAL STATEMENTS (in \$1,000) FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

NOTE 16 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, 2006, the UNLV Foundation had \$653 in foreign bonds.

During the year ended June 30, 2006, the UNLV Foundation recognized \$5,975 in investment income. Earnings included \$3,017 from interest and dividends, \$3,921 from net realized gains on the sale of investments, and \$(451) from the change in investment fair value. Investment expenses of \$480 and amortization of bond discounts of \$32 were netted against earnings.

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SUPPLEMENTAL INFORMATION

NEVADA SYSTEM OF HIGHER EDUCATION
CONSOLIDATING STATEMENT OF NET ASSETS (in \$1,000)
AS OF JUNE 30, 2006

<u>ASSETS</u>	<u>UNR</u>	<u>System</u>	<u>DRI</u>	<u>TMCC</u>	<u>WNCC</u>
Current Assets					
Cash and cash equivalents	\$ 24,806	\$31,502	\$ 4,101	\$ 5,654	\$ 2,225
Restricted cash and cash equivalents	-	-	151	-	-
Short-term investments	92,792	40,309	7,882	9,087	3,516
Accounts receivable, net	18,842	116	3,770	663	75
Receivable from U.S. Government	22,014	990	4,578	616	215
Receivable from State of Nevada	1,958	665	289	538	4
Current portion of loans receivable, net	1,675	-	-	38	5
Inventories	3,297	217	-	25	-
Deposits and deferred expenditures	1,066	875	80	-	78
Other	-	-	521	46	-
Total Current Assets	<u>166,450</u>	<u>74,674</u>	<u>21,372</u>	<u>16,667</u>	<u>6,118</u>
Noncurrent Assets					
Cash held by State Treasurer	23,575	-	2,383	1,886	543
Restricted cash and cash equivalents	870	-	-	-	84
Receivable from State of Nevada	17,685	-	-	-	-
Restricted investments	84,355	-	-	-	-
Endowment investments	113,444	3,652	6,696	7,909	190
Deposits and deferred expenditures	2,771	432	-	-	-
Loans receivable, net	5,003	-	-	298	7
Capital assets, net	403,063	9,286	48,043	66,887	35,999
Other noncurrent assets	-	382	-	-	-
Total Noncurrent Assets	<u>650,766</u>	<u>13,752</u>	<u>57,122</u>	<u>76,980</u>	<u>36,823</u>
TOTAL ASSETS	<u>817,216</u>	<u>88,426</u>	<u>78,494</u>	<u>93,647</u>	<u>42,941</u>
<u>LIABILITIES</u>					
Current Liabilities					
Accounts payable	18,019	3,199	988	882	414
Accrued payroll and related liabilities	7,303	433	712	1,095	464
Unemployment insurance and workers' compensation liability	924	25	51	253	83
Current portion of compensated absences	10,768	1,306	3,282	1,176	551
Current portion of long-term debt	4,797	-	475	653	167
Current portion of obligations under capital leases	500	854	64	-	-
Accrued interest payable	4,949	-	86	108	-
Deferred revenue	11,745	1,447	1,237	1,655	129
Funds held in trust for others	1,961	-	545	58	41
Other	-	-	152	255	-
Total Current Liabilities	<u>60,966</u>	<u>7,264</u>	<u>7,592</u>	<u>6,135</u>	<u>1,849</u>
Noncurrent Liabilities					
Refundable advances under federal loan programs	4,732	-	-	264	-
Compensated absences	5,930	151	-	398	192
Deferred revenue	395	-	-	-	-
Long-term debt	203,961	-	10,120	9,350	1,672
Obligations under capital leases	4,614	1,588	185	-	-
Other noncurrent liabilities	516	-	-	-	-
Total Noncurrent Liabilities	<u>220,148</u>	<u>1,739</u>	<u>10,305</u>	<u>10,012</u>	<u>1,864</u>
TOTAL LIABILITIES	<u>281,114</u>	<u>9,003</u>	<u>17,897</u>	<u>16,147</u>	<u>3,713</u>
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	268,806	6,844	37,350	56,884	34,160
Restricted:					
Nonexpendable	36,056	779	2,062	3,851	120
Expendable:					
Scholarships, research and instruction	73,605	34,080	6,443	4,531	300
Loans	4,645	-	-	92	17
Capital projects	40,518	-	3,591	4,608	1,630
Debt service	4,507	-	-	(81)	174
Unrestricted	<u>107,965</u>	<u>37,720</u>	<u>11,151</u>	<u>7,615</u>	<u>2,827</u>
TOTAL NET ASSETS	<u>\$536,102</u>	<u>\$79,423</u>	<u>\$60,597</u>	<u>\$77,500</u>	<u>\$39,228</u>

<u>GBC</u>	<u>UNLV</u>	<u>CCSN</u>	<u>NSC</u>	<u>Total</u>
\$ 759	\$ 64,396	\$ 9,842	\$ 841	\$ 144,126
-	-	-	-	151
1,770	109,214	19,951	1,952	286,473
304	5,950	2,432	237	32,389
373	8,431	339	65	37,621
-	5,435	175	15	9,079
5	598	100	-	2,421
-	1,795	615	222	6,171
22	78	280	74	2,553
-	-	-	-	567
<u>3,233</u>	<u>195,897</u>	<u>33,734</u>	<u>3,406</u>	<u>521,551</u>
1,337	25,440	11,357	11,130	77,651
-	31,598	-	-	32,552
13,023	89,284	23,207	-	143,199
-	65,325	-	-	149,680
200	48,090	4,306	-	184,487
-	2,315	-	-	5,518
-	2,789	27	4	8,128
30,257	548,658	191,493	3,174	1,336,860
-	-	-	-	382
<u>44,817</u>	<u>813,499</u>	<u>230,390</u>	<u>14,308</u>	<u>1,938,457</u>
<u>48,050</u>	<u>1,009,396</u>	<u>264,124</u>	<u>17,714</u>	<u>2,460,008</u>
346	27,992	1,936	125	53,901
347	10,835	2,046	32	23,267
69	1,926	411	-	3,742
403	7,707	2,071	126	27,390
130	7,529	-	-	13,751
-	1,077	337	-	2,832
14	5,318	-	-	10,475
128	13,823	2,426	243	32,833
48	5,313	631	9	8,606
-	-	-	-	407
<u>1,485</u>	<u>81,520</u>	<u>9,858</u>	<u>535</u>	<u>177,204</u>
-	2,669	26	-	7,691
208	3,870	954	154	11,857
-	420	-	-	815
2,050	246,666	-	-	473,819
-	5,250	1,006	-	12,643
-	-	-	-	516
<u>2,258</u>	<u>258,875</u>	<u>1,986</u>	<u>154</u>	<u>507,341</u>
<u>3,743</u>	<u>340,395</u>	<u>11,844</u>	<u>689</u>	<u>684,545</u>
28,077	387,374	190,149	3,174	1,012,818
48	11,604	2,292	-	56,812
340	38,475	3,494	-	161,268
11	688	-	4	5,457
14,787	128,449	34,564	11,130	239,277
-	7,310	-	-	11,910
1,044	95,101	21,781	2,717	287,921
<u>\$44,307</u>	<u>\$ 669,001</u>	<u>\$252,280</u>	<u>\$17,025</u>	<u>\$1,775,463</u>

NEVADA SYSTEM OF HIGHER EDUCATION
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
ASSETS (in \$1,000)
FOR THE YEAR ENDED JUNE 30, 2006

	<u>UNR</u>	<u>System</u>	<u>DRI</u>	<u>TMCC</u>	<u>WNCC</u>
Operating Revenues					
Student tuition and fees (net of scholarship allowances of \$48,892 and \$48,337)	\$ 59,003	\$ -	\$ -	\$10,853	\$ 3,263
Federal grants and contracts	106,773	1,343	30,346	5,544	1,833
State grants and contracts	15,365	-	52	1,522	1,223
Local grants and contracts	14,961	-	663	-	-
Other grants and contracts	10,236	131	3,794	25	81
Sales and services of educational departments (including \$426 and \$ 948 from System related organizations)	28,042	3,540	498	718	574
Sales and services of auxiliary enterprises (net of scholarship allowances of \$3,089 and \$2,599)	27,732	-	-	1,354	504
Interest earned on loans receivable	96	-	-	3	-
Other operating revenues	<u>2,457</u>	<u>436</u>	<u>1,653</u>	<u>488</u>	<u>-</u>
Total operating revenues	<u>264,665</u>	<u>5,450</u>	<u>37,006</u>	<u>20,507</u>	<u>7,478</u>
Operating Expenses					
Employee compensation and benefits	287,281	15,831	29,023	39,298	19,922
Utilities	12,777	1,989	1,111	1,532	722
Supplies and services	114,351	12,896	10,678	9,164	5,002
Scholarships and fellowships	13,342	118	-	2,925	1,435
Depreciation	<u>22,887</u>	<u>1,304</u>	<u>3,520</u>	<u>2,705</u>	<u>1,403</u>
Total operating expenses	<u>450,638</u>	<u>32,138</u>	<u>44,332</u>	<u>55,624</u>	<u>28,484</u>
Operating (loss) income	<u>(185,973)</u>	<u>(26,688)</u>	<u>(7,326)</u>	<u>(35,117)</u>	<u>(21,006)</u>
Nonoperating Revenues (Expenses)					
State appropriations	183,254	29,204	7,807	35,570	18,771
Transfers to/from System Administration	(3,838)	9,853	1,062	(489)	(98)
Gifts (including \$23,725 and \$17,204 from System related organizations)	12,269	50	468	160	568
Investment income, net	22,482	3,939	1,699	1,906	366
Disposal of capital assets	(4,407)	(434)	(90)	(277)	(29)
Interest expense	(10,719)	-	(747)	(473)	(94)
Other nonoperating revenues	<u>37</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>139</u>
Net nonoperating revenues (expenses)	<u>199,078</u>	<u>42,613</u>	<u>10,199</u>	<u>36,397</u>	<u>19,623</u>
Income before other revenue, expenses, gains or losses	<u>13,105</u>	<u>15,925</u>	<u>2,873</u>	<u>1,280</u>	<u>(1,383)</u>
State appropriations restricted for capital purposes	34,212	-	1,276	1,910	1,072
Capital grants and gifts (including \$6,090 and \$17,399 from System related organizations)	8,767	-	-	-	572
Additions to permanent endowments (including \$321 and \$949 from System related organizations)	165	-	77	249	53
Gain on sale of land	20,263	-	-	-	-
Other expenses	<u>(969)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other revenues	<u>62,438</u>	<u>-</u>	<u>1,353</u>	<u>2,159</u>	<u>1,697</u>
Increase in net assets	<u>75,543</u>	<u>15,925</u>	<u>4,226</u>	<u>3,439</u>	<u>314</u>
Net Assets					
Net assets – beginning of year	<u>460,561</u>	<u>63,496</u>	<u>56,371</u>	<u>74,060</u>	<u>38,914</u>
Net assets – end of year	<u>\$536,104</u>	<u>\$79,421</u>	<u>\$60,597</u>	<u>\$77,499</u>	<u>\$39,228</u>

<u>GBC</u>	<u>UNLV</u>	<u>CCSN</u>	<u>NSC</u>	<u>Eliminations</u>	<u>Total</u>
\$ 1,953	\$107,020	\$ 34,942	\$ 2,799	\$ -	\$ 219,833
2,033	57,995	10,936	695	(6,929)	210,569
116	25,009	6,399	346	-	50,032
-	1,403	327	-	-	17,354
-	5,662	89	-	-	20,018
406	25,958	2,729	10	-	62,475
556	41,806	1,115	743	-	73,810
-	48	3	-	-	150
-	928	222	88	-	6,272
<u>5,064</u>	<u>265,829</u>	<u>56,762</u>	<u>4,681</u>	<u>(6,929)</u>	<u>660,513</u>
14,706	274,872	93,413	7,363	-	781,709
748	11,202	3,964	92	-	34,137
3,346	102,143	32,901	3,592	(6,929)	287,144
608	15,125	7,827	708	-	42,088
1,532	25,435	9,520	301	-	68,607
<u>20,940</u>	<u>428,777</u>	<u>147,625</u>	<u>12,056</u>	<u>(6,929)</u>	<u>1,213,685</u>
<u>(15,876)</u>	<u>(162,948)</u>	<u>(90,863)</u>	<u>(7,375)</u>	<u>-</u>	<u>(553,172)</u>
14,021	175,772	84,576	8,366	-	557,341
(111)	(5,008)	(1,045)	(126)	-	-
967	14,342	1,070	222	-	30,116
249	20,700	3,029	235	-	54,805
(13)	(888)	(68)	-	-	(6,206)
(88)	(8,046)	(152)	-	-	(20,319)
-	4,581	-	(4)	-	4,754
<u>15,025</u>	<u>201,453</u>	<u>87,410</u>	<u>8,693</u>	<u>-</u>	<u>620,491</u>
<u>(851)</u>	<u>38,505</u>	<u>(3,453)</u>	<u>1,318</u>	<u>-</u>	<u>67,319</u>
14,904	63,733	31,146	-	-	148,253
38	7,385	-	-	-	16,762
-	82	93	-	-	719
-	-	-	-	-	20,263
-	-	-	-	-	(969)
<u>14,942</u>	<u>71,200</u>	<u>31,239</u>	<u>-</u>	<u>-</u>	<u>185,028</u>
<u>14,091</u>	<u>109,705</u>	<u>27,786</u>	<u>1,318</u>	<u>-</u>	<u>252,347</u>
30,216	559,296	224,494	15,708	-	1,523,116
<u>\$44,307</u>	<u>\$669,001</u>	<u>\$252,280</u>	<u>\$17,026</u>	<u>\$ -</u>	<u>\$1,775,463</u>