



**CONDENSED FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005
(unaudited)**



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UNIVERSITY OF NEVADA, LAS VEGAS

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Introduction

The following provides an analysis and discussion of the financial position and activities of the University of Nevada, Las Vegas (the “University” or “UNLV”) for the years ended June 30, 2006 and 2005. UNLV is one of nine divisions or campuses of the Nevada System of Higher Education (“NSHE” or the “System”). The System is an agency of the State of Nevada (the “State”) and UNLV receives significant support from, and has significant assets held by, the State. This discussion has been prepared by management and supplements the audited financial statements of the Nevada System of Higher Education.

The University is a comprehensive public institution of higher learning committed to a mission of being a premier metropolitan research university. UNLV has grown to more than 28,000 students (the official fall 2005 enrollment was 28,104) and over 930 full-time instructional faculty members. UNLV offers more than 230 undergraduate, masters and doctoral degree programs. UNLV’s student population grew by 9 percent over the last two years adding nearly 1,800 full time students to the campus. The minority student population was 8,767 in fall 2005 or 31 percent of the total student body and graduate students now comprise 21 percent of the total student population.

The University continues toward its goal of becoming a major research institution and is classified as a Research University with high research according to the Carnegie Foundation for the Advancement of Teaching.

University Related Organizations

The annual financial report and statements include UNLV and the University of Nevada, Las Vegas Foundation (the “Foundation”). The Foundation, incorporated in November 1981, is a 501(c) (3) organization that serves as the primary fundraising, community relations, and gift management agency for the University. The Foundation also manages a variety of funds for the benefit of UNLV, and from time to time undertakes construction projects and other activities on behalf of the University.

The thirteen (13) elected members of the Board of Regents of NSHE serve as the members of the Foundation and appoint a Board of Trustees to oversee the management and programs of the Foundation. The membership on the Board of Trustees includes both alumni and community leaders; they generously support the University in many ways and provide important links between the University and the community.

Using the Financial Statements

The University’s Financial Report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The emphasis of discussions about these statements will be on current year data. They are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

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

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Statement of Net Assets

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

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 university system's dependency on state appropriations will 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.

Statement of Cash Flows

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

Overview of the Financial Statements and Financial Analysis

The University's financial position remained sound at June 30, 2006, with total assets of \$1 billion and liabilities of \$340 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, were \$669 million for fiscal year 2006 and \$559 million for fiscal year 2005.

Changes in net assets represent the operating activity of the University, which results from revenues, expenses, gains and losses, and are summarized below. The large increases in 2006 and 2004 net assets reflect the biennial State capital appropriations to the Public Works Board directed to UNLV from the State budgeting process. In accordance with State of Nevada operating practices, the bulk of capital appropriations arrive in the first year of the biennium. UNLV recognized no capital appropriations during 2005, which was the second year of the biennial budget. Changes in net assets for the years ended June 30 are summarized below.

	University			University Related Organization		
	2006	2005	2004	2006	2005	2004
<u>(In thousands of dollars)</u>						
Total Revenues	\$ 552,424	\$ 427,304	\$ 432,358	\$ 36,772	\$ 39,874	\$ 24,526
Total Expenses	442,719	400,257	361,392	18,319	15,258	18,382
Increase in net assets	<u>\$ 109,705</u>	<u>\$ 27,047</u>	<u>\$ 70,966</u>	<u>\$ 18,453</u>	<u>\$ 24,616</u>	<u>\$ 6,144</u>

The University had a good year. Revenues continued to grow. In 2006 tuition and fee revenue increased 18% and state appropriation revenue increased 13%. Of significance a new orthodontics program contributed \$1.6 million to tuition and fees revenue.

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Statement of Net Assets

The Statement of Net Assets is a point-of-time financial statement presenting the readers of the financial statements with the financial position of the University. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities).

Condensed Statement of Net Assets

As of June 30:

	University			University Related Organization		
	2006	2005	2004	2006	2005	2004
(In thousands of dollars)						
Assets						
Current assets	\$ 195,897	\$ 154,404	\$ 137,487	\$ 25,532	\$ 11,066	\$ 12,148
Investment in plant, net of accumulated depreciation	548,658	480,734	459,218	1,979	2,491	2,507
Other assets	264,841	122,474	133,459	107,354	103,304	77,829
Total assets	1,009,396	757,612	730,164	134,865	116,861	92,484
Liabilities						
Current liabilities	81,520	56,337	48,472	226	521	414
Noncurrent liabilities	258,875	141,979	149,443	1,587	1,741	2,087
Total liabilities	340,395	198,316	197,915	1,813	2,262	2,501
Total net assets	\$ 669,001	\$ 559,296	\$ 532,249	\$ 133,052	\$ 114,599	\$ 89,983
Net assets consist of:						
Invested in capital assets, net of related debt	\$ 387,374	\$ 348,026	\$ 350,067	\$ 130	\$ 216	\$ 213
Restricted, expendable	174,922	123,181	97,868	74,837	61,945	46,361
Restricted, nonexpendable	11,604	11,529	10,524	53,235	48,248	41,561
Unrestricted	95,101	76,560	73,790	4,850	4,190	1,848
Total net assets	\$ 669,001	\$ 559,296	\$ 532,249	\$ 133,052	\$ 114,599	\$ 89,983

A review of the University's Statement of Net Assets at June 30, 2006, shows that the University continues to build upon its sound financial foundation. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Total UNLV capital assets were \$548.7 million as of June 30, 2006, an increase of \$67.9 million from fiscal 2005. This continues the institutional priority of providing first-rate facilities that create and sustain a student-centered learning environment. Total assets for the University increased by \$251.8 million during 2006 and \$27.4 million in 2005. The significant increase in 2006 was primarily due to the increase in capital assets, and other noncurrent assets related to capital projects including restricted cash and cash equivalents, other restricted investments, and State of Nevada receivables. Noncurrent receivable from State of Nevada increased \$58.3 million due to capital state appropriations are recognized in the first year of the biennium. Restricted cash and cash equivalents increased by \$20.9 million and other restricted investments increased \$65.3 million. The increase in restricted cash and cash equivalents and other restricted long-term investments is due to the general revenue bond proceeds issued in fiscal 2006 totaling \$ 95.9 million for construction of the Student Union, Recreation and Wellness Center, and Parking

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Garage. In addition UNLV issued Certificates of Participation in the amount of \$13.4 million for the Advanced Dental Education Building and bank loans for various construction projects for an additional \$16.3 million.

Total liabilities for the year increased by \$142.1 million with an increase in current liabilities of \$25.2 million and an increase in non current liabilities of \$116.9 million. The increase in current liabilities was primarily due to the increase in accounts payable caused by an increase in plant fund activity, the current portion of long term debt, accrued interest, funds held in trust for others and accrued payroll. The increase in non current liabilities reflects the increase in outstanding bonds payable due to the issuance of new bonds and related borrowing as discussed previously.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The next net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

The total net assets of the institution increased \$109.8 million during 2006. Investment in capital assets net of related debt increased \$39.3 million and restricted expendable assets increased \$59.8 million for scholarship, research and capital projects. Unrestricted net assets, which are primarily from auxiliary funds, sales and services of educational departments, and tuition and fees, increased by \$10.4 million.

Capital and Debt Activities

Capital construction activities are best understood in the context of the Campus Master Plan approved by the Board of Regents on March 18, 2004. The Maryland Parkway campus presently has approximately 4.1 million gross square feet serving more than 28,000 students. The Master Plan projects a maximum capacity of this campus of approximately 36,000 students.

UNLV has a number of major construction projects in planning and under construction. During early fiscal 2007, the expansion of a parking facility and completion of the first phase of the student union will become operational. Further information is provided below:

Capital Projects currently under construction include the following:

Cottage Grove parking structure (\$15.0 million) – The two level vertical expansion of the existing Cottage Grove parking structure is anticipated to yield approximately 845 new parking spaces for a total of approximately 2,450 spaces.

Student Recreation/Wellness Center and Student Union (\$104 million combined cost) – The University is building a new 187,000 square foot Student Recreation/Wellness Center and a new 135,000 square foot Student Union building. These two new buildings are currently under construction and are scheduled to be completed in 2007. These facilities, in conjunction with the recently completed Dayton Housing Complex, will enhance our campus community.

Science and Engineering building (SEB) – The \$113 million Science and Engineering building began construction in August, 2005, and will be a significant addition to the UNLV campus. The Science and Engineering building is the cornerstone of UNLV's goal to become a premier research institution. The 207,000 square foot building, slated

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to be completed in 2008, is designed for interdisciplinary teaching and research. It will include state-of-the-art labs, “smart” conference rooms, and integrated research space. The University currently has approximately 129,000 square feet of research space; the new building will raise this total to more than 300,000 square feet.

Shadow Lane Campus Building B improvements (\$5.8 million) – This project includes the remodel and upgrade of Building B on UNLV’s Shadow Lane Campus (home of the School of Dental Medicine and other biomedical activities). The intent is to bring the building up to current code, create space and prepare the building so that it is more accessible for current occupants and more desirable for future tenants. This facility may play an important role in the development of the University of Nevada Academic Health Sciences initiative.

Capital Projects currently under design include:

Greenspun College of Urban Affairs building (\$83.5 million) - The Greenspun College of Urban Affairs building will be 117,500 gross square feet with five floors on the UNLV main campus. It will include faculty and graduate student offices, smart classrooms of a variety of sizes, seminar rooms, and open informal learning areas. This facility will also house new modern television studios and a radio station for student learning. The Greenspun College is made up of six academic units including the Hank Greenspun School of Communication, Department of Criminal Justice, Department of Environmental Studies, Department of Public Administration, and School of Social Work. The northwest corner of Maryland Parkway and University Road will be the “cornerstone” location in the southeastern section of campus. It is located adjacent to the primary student service corridor, including the new Student Union building, student residences, and academic buildings. The Greenspun Family Foundation has committed \$37 million to the project

Bonds Payable

Bonds payable totaled \$238.0 million at June 30, 2006, and \$134.4 million for 2005. In fiscal 2006 the university issued general revenue bonds totaling \$95.9 million for construction of the Student Union, Recreation and Wellness Center, and Parking Garage. In addition, UNLV had outstanding notes payable in the amount of \$16.2 million, primarily certificates of participation issued for the Advanced Dental Education.

Capital Campaign:

In 2006, UNLV -- through the UNLV Foundation and the University's other affiliated foundations -- completed the fourth year of a seven year comprehensive capital campaign. The campaign’s fiscal goal, which was publicly announced in September, 2005, is \$500 million. By the end of the fiscal year, the institution had received over \$325 million in gifts and gift intentions of various kinds toward that goal. Funds raised through this campaign will be used for operations, for endowment, for capital construction, and for scholarships. The institution anticipates a successful conclusion to the campaign by December 31, 2008.

Endowment Funds

Endowment funds supporting the university are comprised of institutional assets and the UNLV Foundation assets. These combined University and Foundation endowment funds consist of \$112.1 million in permanent endowments and funds functioning as endowment or quasi endowments. Programs supported by the endowment include scholarships, fellowships, professorships, research efforts and other important programs and activities.

Additional information concerning the Foundation may be found in the Discretely Presented Component Unit section (page 14) of this report.

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The University's endowment funds consist of Permanent endowments and funds functioning as an endowment (quasi endowments). These funds are further categorized as being expendable and non-expendable. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income which is to be expended for the purposes stipulated by the donor. Funds functioning as an endowment represent amounts (restricted gifts or unrestricted funds) that have been allocated by the University for long-term investment purposes, although amounts are not subject to donor restrictions requiring the University to preserve the principal in perpetuity.

The University's permanent endowment assets were \$35.9 million and \$32.2 million at June 30, 2006 and 2005, respectively. Funds functioning as endowment were \$12.2 million and \$11.2 million at June 30, 2006 and 2005, respectively. The University's permanent endowment assets which are subject to preservation of the principal in perpetuity are categorized as restricted nonexpendable net assets which amounted to \$11.6 million at June 30, 2006 and \$11.5 million in 2005.

The University's permanent endowment and quasi-endowment net assets which are expendable, but subject to externally imposed restrictions governing their use are categorized as restricted expendable net assets. This category of net assets totaled \$29.1 million at June 30, 2006 and includes \$10.9 million of funds functioning as endowment. The University's endowment funds which are expendable and are not subject to further external restriction as to use are categorized as unrestricted expendable net assets. This category of net assets totaled \$7.4 million at June 30, 2006 and includes \$1.2 million of funds functioning as endowment.

UNLV participates with the other NHSE institutions in following Board approved investment policies for managing all public funds, including operating funds and endowment funds handled by the System (NHSE). The System currently utilizes several external investment managers to manage the operating funds and the endowment funds. The investment objective of the endowment funds is to attain an inflation-adjusted total return, net of fees, at least equal to the University's contemplated spending/distribution rate of 4.5% (based upon a 20-quarter moving average as set forth in Board policy). This NHSE policy is subject to periodic reviews. The Foundation maintains its own investment policy to administer the investments controlled by the Foundation.

The endowment fund is allocated between an equity portfolio that provides long-term capital appreciation and a growing income stream; a fixed income portfolio to provide a hedge against extended deflation, to provide higher current income than equities and to diversify the portfolio. Board policy sets normal allocation and ranges for each type of portfolio.

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. 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 institution. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

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Condensed Statement of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30:

	University			University Related Organization		
	2006	2005	2004	2006	2005	2004
(In thousands of dollars)						
Operating revenues						
Student tuition and fees, net	\$ 107,020	\$ 90,910	\$ 74,680	\$ -	\$ -	\$ -
Donor contributions - cash and noncash	-	-	-	28,630	26,921	14,061
Grants and contracts	90,069	77,765	72,138	-	-	-
Sales and services of educational departments	25,958	30,485	26,428	-	-	-
Sales and services of auxiliary enterprises, net	41,806	35,818	34,144	-	-	-
Other	976	760	1,404	137	405	368
Total operating revenues	265,829	235,738	208,794	28,767	27,326	14,429
Operating expenses						
Operating revenue (loss)	(162,948)	(153,300)	(142,968)	25,791	24,374	10,721
Nonoperating revenues (expenses)						
State appropriations	175,772	155,262	147,884	-	-	-
Gifts	14,342	10,278	9,709	-	-	-
Investment income	20,700	15,812	14,324	5,975	6,873	3,365
Interest expense and disposal of plant assets	(8,934)	(6,115)	(5,869)	-	-	-
Other nonoperating revenues (expenses)	4,581	401	41	352	-	(2,485)
Capital state appropriations	63,733	-	40,879	-	-	-
Capital and endowment gifts and grants	7,467	9,813	10,727	1,678	5,675	6,732
Net transfers (to) from System Administration	(5,008)	(5,104)	(3,761)	-	-	-
Payments to University of Nevada, Las Vegas	-	-	-	(15,343)	(12,306)	(12,189)
Net nonoperating revenues (expenses)	272,653	180,347	213,934	(7,338)	242	(4,577)
Increase in net assets	109,705	27,047	70,966	18,453	24,616	6,144
Net assets, beginning of year	559,296	532,249	461,283	114,599	89,983	83,839
Net assets, end of year	\$ 669,001	\$ 559,296	\$ 532,249	\$ 133,052	\$ 114,599	\$ 89,983

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in net assets at the end of the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and fees revenues for FY 2006 were \$107.0 million, an increase of 18% over 2005. The increase is due to several factors. UNLV's student population continues to grow with over 28,000 students attending in fall 2005. Annual FTE enrollment increased by 1.7%, and registration fees increased 7%. In addition UNLV's School of Dental Medicine, which accepted its first 75 dental students in the fall of 2002, increased its revenue by \$1 million from tuition and fees and the number of students to 300 in the fall 2005.

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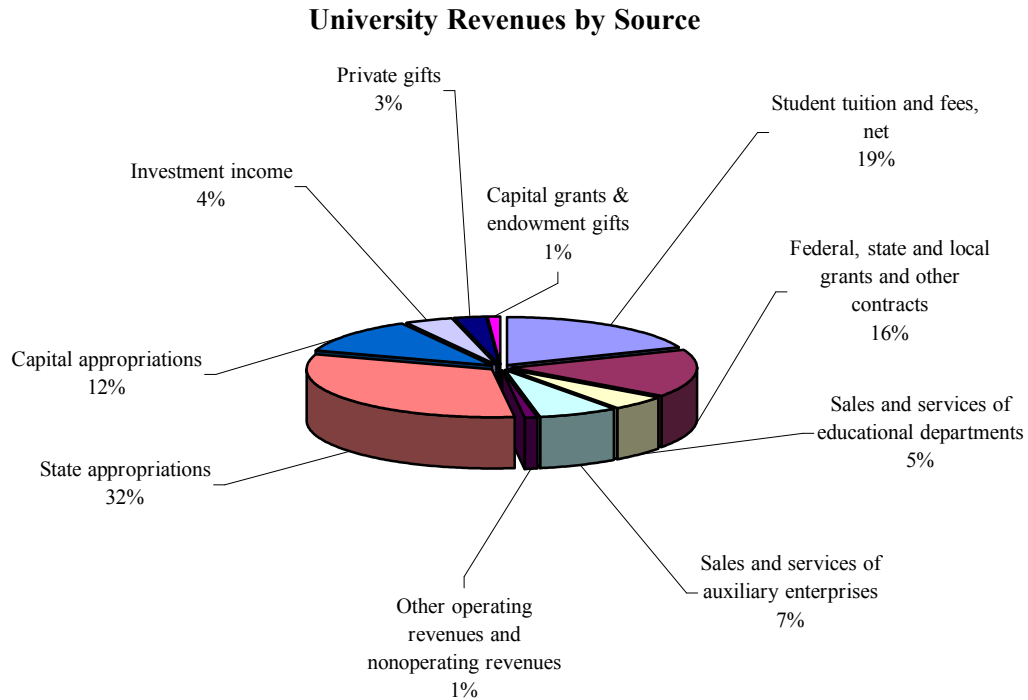
- Grants and Contracts revenue for 2006 was \$90.1 million, an increase of 15.8% over 2005. This is due to increased federal and state awards. Federal grants and contracts increased \$8.3 million.
- Sales and Services of Education Departments decreased by \$4.5 million, or 14.8%, due to a change in the UNLV School of Dental Medicine's contracts. Effective July 1, 2005, the UNLV School of Dental Medicine's contracts with the two HMOs for Medicaid changed from a capitation program to a fee-for-service contract. Prior to this change in the contract, UNLV SDM was receiving the revenue and would contract with sub-providers (community dentists). The revenue would then "flow-through" UNLV SDM in the form of revenue and expenses. As of July 1, 2005, the HMOs contract directly with community dental providers and pay them directly thus reducing the SDM's revenue and expenses.
- Revenue from State appropriations increased by 13% or \$20.5 million. In 2006 a significant portion of the increase in state appropriation revenue is a result of the increase in state formula funding driven by the historical enrollment increases as well as budgeted cost of living increases to staff salaries approved in the 2005 legislative session.
- Investment income increased from \$15.8 million to \$20.7 million during fiscal year 2006 due to favorable market conditions. The market values of the various investment pools are subject to change depending upon conditions beyond the control of the System, including general economic conditions and general financial conditions. In addition, the System is subject to the same risks as other investors in the market including but not limited to adverse market conditions and ability of fund managers to maintain a solvent fund.
- Capital state appropriations are recognized in the first year of the biennium. The \$63.7 million reflected in 2006 is due to UNLV capital appropriations for the Greenspun College of Urban Affairs of \$34 million, the SEB complex of \$15.8 million, an addition to the Student Services building of \$9 million, and various campus improvements of \$5 million as approved in the 2005 legislative session.

Tuition and state appropriations are the primary source of funding for the University's academic programs. Student tuition and fees, net of allowances for scholarships and fellowships, are \$107.0 million or 19% of total revenues in 2006. State general fund appropriations are \$175.8 million, or 32% of total revenues of \$552.4 million.

The University receives revenues for sponsored programs from government and private sources, which normally provide for the recovery of direct and indirect costs. Grant activity will continue to increase as the University works towards becoming a major research university.

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The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund UNLV's operating activities for the year ended June 30, 2006 (amounts are presented in thousands of dollars). Significant recurring sources of UNLV's revenues, such as State appropriations and investment income, are considered nonoperating, as defined by GASB Statement No.35.



University Revenues by Source (in thousands of dollars)	Amount	%
Student tuition and fees, net	\$ 107,020	19%
Federal, state and local grants and other contracts	90,069	16%
Sales and services of educational departments	25,958	5%
Sales and services of auxiliary enterprises	41,806	7%
Other nonoperating and operating revenues	5,557	1%
State appropriations	175,772	32%
Capital appropriations	63,733	12%
Investment income	20,700	4%
Private gifts	14,342	3%
Capital grants & endowment gifts	7,467	1%
Total Revenues by Source	\$ 552,424	100%

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The following is a summary of the University's expenses for the years ended June 30:

	University			University Related Organization		
	2006	2005	2004	2006	2005	2004
(In thousands of dollars)						
Operating Expenses:						
Compensation and benefits	\$ 274,872	\$ 256,260	\$ 225,071	\$ 2,003	\$ 1,937	\$ 1,672
Utilities	11,202	10,442	9,700	-	-	-
Supplies and services	102,143	85,661	83,256	828	866	896
Scholarships and fellowships	15,125	13,755	12,472	-	-	-
Program expenses	-	-	-	40	64	1,060
Depreciation	25,435	22,920	21,263	105	85	80
	<u>428,777</u>	<u>389,038</u>	<u>351,762</u>	<u>2,976</u>	<u>2,952</u>	<u>3,708</u>
Nonoperating:						
Interest and other	<u>13,942</u>	<u>11,219</u>	<u>9,630</u>	<u>15,343</u>	<u>12,306</u>	<u>14,674</u>
Total expenses	<u>\$ 442,719</u>	<u>\$ 400,257</u>	<u>\$ 361,392</u>	<u>\$ 18,319</u>	<u>\$ 15,258</u>	<u>\$ 18,382</u>

- Compensation and employee benefits expenses were approximately \$275 million for 2006, an increase of 7.2% over fiscal year 2005. The increase reflects a 2% cost of living increase (COLA), merit and classified step increases. An increase in the number of Faculty (6.8%), Professional employees (8.7%) and number of Classified employees (4.8%) contributed to this increase in FY06.
- Scholarships and fellowships expense totaled \$15.1 million in 2006, an increase of \$1.4 million over fiscal year 2005.

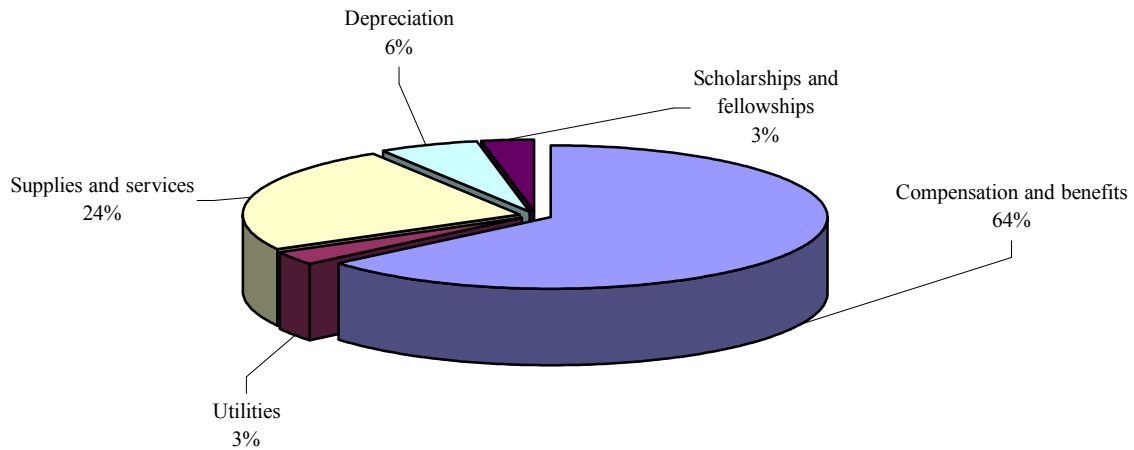
The University is committed to recruiting and retaining an outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The University encourages and rewards faculty members who best integrate teaching, scholarship, and service in support of student learning and the creation of new knowledge. Dedicating resources to instructional salaries promotes UNLV's goal of becoming a premier metropolitan research university. UNLV has added new faculty with degrees from the nation's most prestigious universities.

Substantially all permanent employees of the University are covered by retirement plans. All classified and some professional employees are covered under Public Employee's Retirement System ("PERS"), administered by the State. Those professionals not covered by PERS, are covered by four alternative plans that are defined contribution plans, and hence have no unfunded liability.

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The following is a graphic illustration of total operating expenses by “natural classification” (in thousands of dollars) for the year ended June 30, 2006:

University Operating Expenses by Natural Classification



University Operating Expenses by Natural Classification (in thousands of dollars)		
	Amount	%
Compensation and benefits	\$ 274,872	64%
Utilities	11,202	3%
Supplies and services	102,143	24%
Depreciation	25,435	6%
Scholarships and fellowships	15,125	3%
Total	\$ 428,777	100%

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In addition to their natural classification, it is also informative to review operating expenses by functions, which were as follows for the years ended June 30:

	University		
	2006	2005	2004
(In thousands of dollars)			
Operating Expenses:			
Instruction	\$ 143,545	\$ 129,504	\$ 116,298
Research	40,785	35,229	32,899
Public service	12,640	17,141	15,951
Academic support	49,519	42,608	39,328
Institutional support	27,274	23,816	21,319
Student services	43,440	39,071	35,140
Auxiliary enterprises	32,891	32,118	29,672
Operations and maintenance of plant	38,063	32,599	27,342
Depreciation	25,435	22,920	21,263
Loans	60	277	78
Scholarships and fellowships	15,125	13,755	12,472
Total operating	428,777	389,038	351,762
Nonoperating:			
Interest and other	13,942	11,219	9,630
Total expenses	\$ 442,719	\$ 400,257	\$ 361,392

Instruction expenses increased by \$14.0 million or 10.8% this year. This is mainly due to increases in state appropriations including support for the Dental and Law Schools. The Dental School additional expenses in 2006 included \$1.4 million for the new orthodontics program.

Research increased by \$5.5 million or 15.8 % due to increased federal awards.

Public Service decreased by \$4.5 million due to a change in dental clinics billing practice to a fee for services basis versus the previous capitation model.

Academic support increased by 16.2 % due to Library expenses and salary and fringe benefits expense.

Institutional support expenses increased by \$3.4 million or 14.5%. This was primarily due to the increase in salary and benefits and increased state appropriation for retired employee group health insurance.

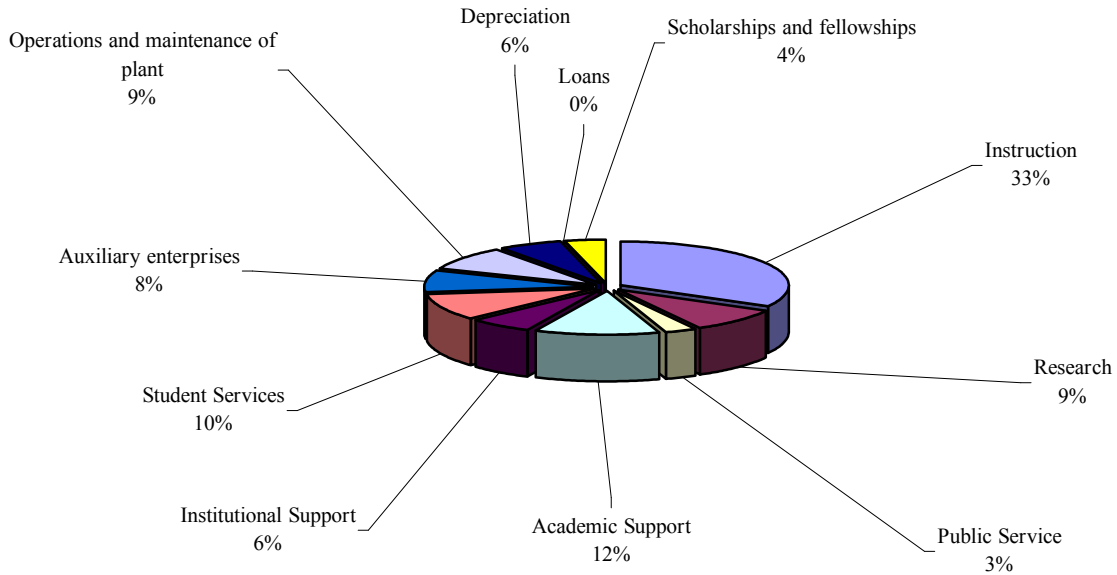
Student services increased 11.2% or \$4.4 million. This is attributable to increased federal funding for the Gear Up program.

Operations and maintenance of plant increased 16.8% which includes support for athletic facilities previously accounted for in auxiliary enterprises.

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The following graphic illustrations present total operating expenses by function (in thousands of dollars) for the year ended June 30, 2006:

University Operating Expenses by Function



University Operating Expenses by Function (in thousands of dollars)	Amount	%
Instruction	\$ 143,545	33%
Research	40,785	9%
Public Service	12,640	3%
Academic Support	49,519	12%
Institutional Support	27,274	6%
Student Services	43,440	10%
Auxiliary enterprises	32,891	8%
Operations and maintenance of plant	38,063	9%
Depreciation	25,435	6%
Loans	60	0%
Scholarships and fellowships	15,125	4%
Total Operating Expenses by Function	\$ 428,777	100%

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Statement of Cash Flows

The final statement presented by the University of Nevada, Las Vegas, is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes.

The third section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Cash Flows for the Years ended June 30:

	University		
	2006	2005	2004
(In thousands of dollars)			
Cash provided (used) by:			
Operating activities	\$ (138,159)	\$ (126,309)	\$ (113,204)
Noncapital financing activities	186,176	162,280	155,434
Investing activities	(47,634)	(3,915)	(15,308)
Capital and related financing activities	50,581	(40,569)	(14,984)
Net change in cash	50,964	(8,513)	11,938
Cash, beginning of year	70,470	78,983	67,045
Cash, end of year	<u>\$ 121,434</u>	<u>\$ 70,470</u>	<u>\$ 78,983</u>

The University's significant sources of cash provided by noncapital financing activities, as defined by GASB Statement No. 35, include state appropriations and private gifts. Increase in cash from capital and related financing activities is due to the issuance of bonds as previously discussed.

Discretely Presented Component Unit

University of Nevada, Las Vegas Foundation

The Foundation total assets grew to \$134.8 million at June 30, 2006, an increase of \$18.0 million from 2005. This is attributable to an increase in cash donations and the addition of gifts, net of distributions, and investment income. Investment decisions are made by the UNLV Foundation portfolio managers within overall asset allocation and policy parameters set by the Board.

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Total liabilities decreased from \$2.3 million at June 20, 2005 to \$1.8 million at June 30, 2006 primarily due to scheduled debt payments in the amount of \$250,000 and a decrease in accounts payable of \$230,000. Total net assets increased from \$114.6 million at June 30, 2005, to \$133.1 million at June 30, 2006, as a result of an excess of revenues over expenses of approximately 18.5 million.

Total contributions increased in fiscal 2006 to \$28.6 million, an increase over 2005 of \$1.7 million. The receipt of cash gifts increased \$4.9 million while non-cash contributions decreased by \$3.2 million during 2006 principally due to a large gift received in 2005 of a charitable remainder trust.

Investment income decreased from \$6.9 million at June 30, 2005, to \$6.0 million at June 30, 2006. Interest income increased \$347,000 as a result of rising interest rates in the fixed-income portfolios. The performance of the investment portfolios resulted in an increase of realized capital gains of \$3.6 million and a decrease in investment fair value of \$4.8 million.

Payments to the University totaled \$15.3 million, which have been adjusted to reflect different accounting principles applicable to non-cash donations. The Foundation transfers funds for programs and scholarships only when requested by the University in order to cover current obligations.

Economic Outlook

The increasing population of the State of Nevada and the ongoing funding of the Millennium Scholarship program ensure a continuing increase in the demand for higher education services. Between 1990 and 2000, Nevada's population grew by 66%, outpacing that of any state in the nation. The growth rate of Nevada high school graduates has also surpassed that of other states, and is projected to grow by 104% between 2001 and 2017. The greatest share of this growth is attributable to southern Nevada, where Clark County alone accounts for approximately 75% of the state population. Similarly, UNLV's fall FTE increased by more than 5.5% per year during the last four years, outpacing the System projections for UNLV by more than 3% per year. Given campus space constraints and new admission standards, we expect the rate of enrollment growth to subside and level off to provide an opportunity to develop resources to keep pace with the community's growth.

Research continues to be a priority for UNLV with several large projects such as the US Department of Energy project for Scientific and Engineering Studies for material at High Pressures for Stockpile Stewardship under the direction of UNLV Department of Physics. The project focuses on cutting-edge experimental, computational and engineering studies related to high pressure on various materials. Other federal projects such as the U.S. Army Medical Research and Materiel Command to support breast cancer research, administered by the UNLV Department of Chemistry; and funding to support Forest and Rangeland Renewal Resources Research from the U.S. Department of Agriculture, Forest Service, administered by the UNLV Harry Reid Center, reflect this commitment.

In addition to our commitment to research UNLV is committed to the advancement of health services provided to Nevadans. During fiscal 2006, the School of Dental Medicine began offering classes in advanced dental education programs for Orthodontics and will expand the advanced dental education programs to include Endodontics, Oral & Maxillofacial Surgery and Pediatric Dentistry in the next few years. These additional programs will allow the UNLV dental student as well as the practitioner to expand their skills to better serve the citizens of Nevada.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the University and the System including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities

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Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the University and System expect or anticipate will or may occur in the future contain forward-looking information.

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University and the System do not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.