

State of Nevada

Citizens' Assets

An Annual Report on State Government to the Citizens of Nevada
For the Fiscal Year Ended June 30, 2005

Kathy Augustine
State Controller

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Message From State Controller Kathy Augustine



I am pleased to again present to you Citizens' Assets, the Nevada State Controller's Office Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2005. This PAFR presents selected economic and demographic information in a brief, objective and non-technical format. The Office of the State Controller was honored this past year to once again receive the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association.

Citizens' Assets fulfills the need for information not met by the traditional more detailed Comprehensive Annual Financial Report (CAFR) and is meant to supplement, not replace the CAFR, which is produced by our office in accordance with Generally Accepted Accounting Principles (GAAP).

Nevada continues to lead the nation in population growth. Gaming and sales tax revenues continue to be the largest source of income for the State of Nevada. Legislative action in 2003 expanded the revenue base to ensure we will have the resources available to meet the responsibilities of being the fastest growing state in the country.

With our population explosion and increase in tourist traffic we are now in the middle of the largest highway construction program in history. In spite of the tremendous population growth and highway usage, Nevada still has the smoothest roads in the country according to standards set by the Federal Highway Administration.

Education continues to be a top priority in our State, as demonstrated by the creation of a Commission on Educational Excellence which awards grants to school districts for innovative elementary school programs. The Millennium Scholarship Program has helped tens of thousands young Nevadans further their education with more than 17,000 scholarships in the Fall of 2004.

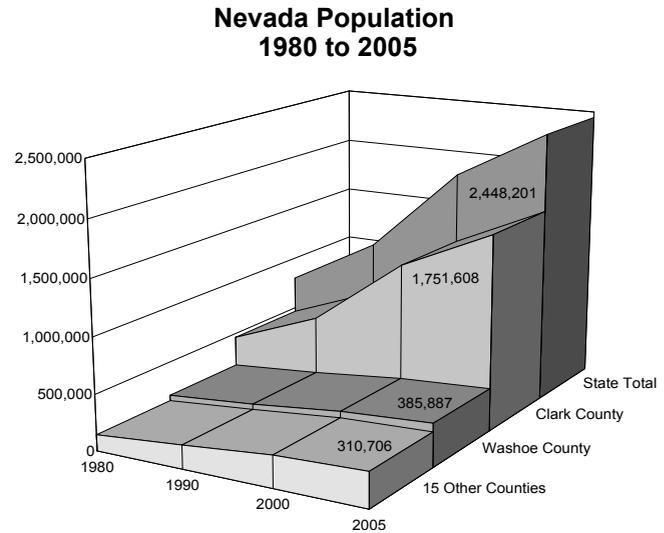
In the 2003-2005 biennium the State enjoyed a revenue surplus. This allowed the Legislature to approve a one-time \$300 million refund for calendar year 2004 vehicle registration fees. It also replenished the Rainy Day Fund to a level of \$155.7 million, which will be available to offset the effect of any future economic downturns.

I hope this PAFR provides you with a better understanding of our State's strengths and future challenges. As State Controller, I continue to look for new financial innovations in State government. Ultimately, citizen involvement and interest help insure a better and brighter future for Nevada.

Nevada Facts and Figures

Population

For the 18th consecutive year, Nevada has led the nation in population growth. The 2004 population estimates from the U.S. Census Bureau show Nevada as the fastest growing state in the nation. Nevada's population has grown by 3.2% or 75,000 from July 1, 2004 to July 1, 2005. Clark County in the south leads Nevada in population with over 1.7 million residents, or 72% of the State's residents. Washoe County is home to over 385,000, or 16% of the State's residents. The balance of the State's population is spread throughout the other 15 counties.



Personal Income

During calendar year 2004, personal income in Nevada grew by 7%. Nationwide, personal income rose at a rate of only 4%. Once again the relative strength of Nevada's economy is evident. However, Nevada's average hourly wage of \$17.34 and average annual wage of \$36,072 remain relatively low. Medical and health professionals in Nevada still occupy nine of the the top ten high wage occupations.

Labor and Job Growth

More than one-fourth of all jobs in Nevada are tied to the leisure and hospitality industry, a reflection of the role gaming plays in the State. Nationally, leisure and hospitality establishments only account for 10% of all jobs.

The construction industry remains the primary catalyst for the State's robust employment growth. The industry has produced nearly 20,000 new jobs in the past year. However, other industries are also contributing to the growth.

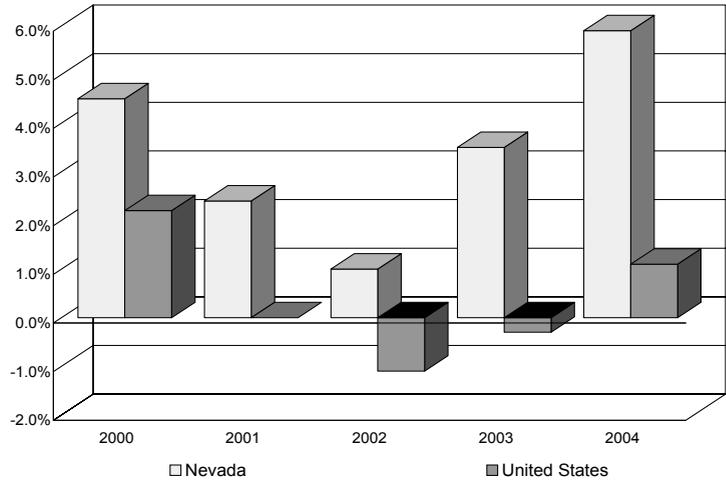
New Jobs in Nevada July 2004 to June 2005

Construction	18,300
Leisure & Hospitality	16,500
Professional & Business Service	12,000
Trade, Transportation and Utilities	7,100
Other Services	5,500
Government	5,100
Education & Health	5,000
Financial Activities	3,700
Manufacturing	1,300
Natural Resources/Mining	1,000

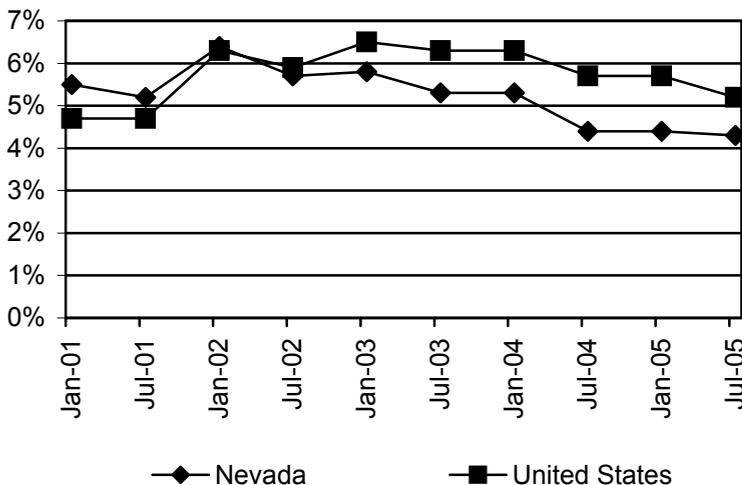
Nevada's economy has grown at a much more pronounced pace than the nation as a whole. The State's jobless rate has remained consistently below national averages through the current economic recovery. Nevada's 4% unemployment rate in August 2005 stood nearly a full percentage point below that of the United States. Job growth in Nevada outpaces national averages. Since 1999, Nevada job growth has averaged 3.2% annually while the average annual rate of growth in the United States is just 0.4%.

In the future, expectations are for the national economy to expand at a rate of 3% to 4% for the next several quarters. Unfortunately, this will not likely translate into a significant number of new jobs. Current expectations are for job growth to hover near 1.5%. The consensus is that overall inflation will moderate slightly from the pronounced gains recorded in response to rising energy prices.

Nevada vs. United States Job Growth 2000 - 2004



Nevada vs. United States Unemployment Rates January 2001 to July 2005



“Our state continues to be the envy of the country with low unemployment and record-setting 6.6 percent job growth.”

Governor Kenny C. Guinn
June 17, 2005

Revenue

Although Nevada's economy has been the strongest in the nation for several years, this has not always translated into General Fund revenue growth, which struggled to keep pace with population gains and inflation throughout FY 2003. The State's General Fund revenue base was eroded. In his Executive Budget, presented to the 2003 Legislature, the Governor proposed a restructuring and expansion of the State's revenue streams. As a result, the Legislature adopted several measures to ensure Nevada has resources available to meet the responsibilities of being the fastest growing state in the nation. The Legislative changes to the real property and modified business taxes went into effect on October 1, 2003 and the live entertainment tax went into effect on January 1, 2004. Even though Nevada has no personal income tax, the collection of other taxes is the largest source of revenue for the State.

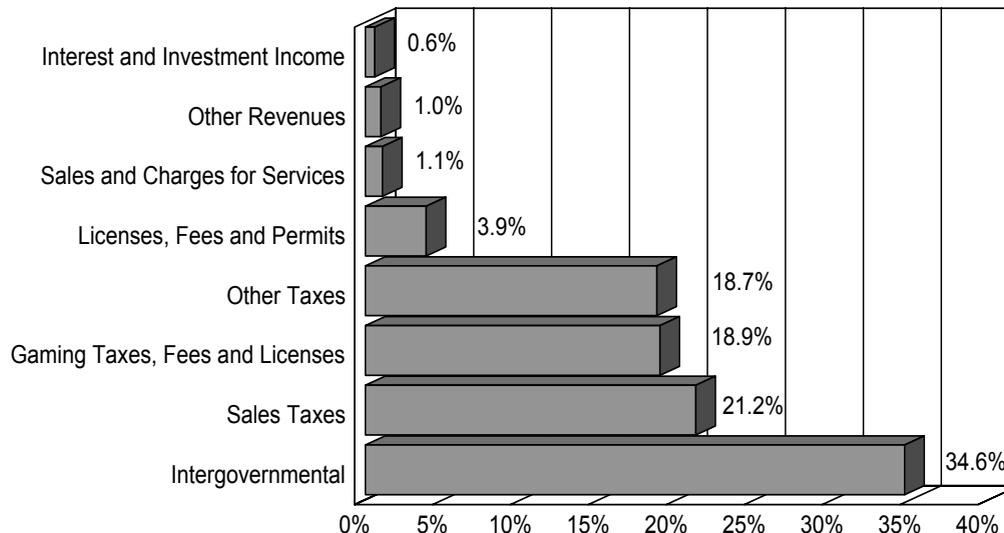
General Fund Revenues by Source Fiscal Year 2005

(Expressed in thousands)

Interest and Investment Income	\$ 30,365
Other Revenues	45,114
Sales and Charges for Services	51,349
Licenses, Fees and Permits	181,542
Other Taxes	877,160
Gaming Taxes, Fees and Licenses	884,820
Sales Taxes	993,325
Intergovernmental	<u>1,622,223</u>
	<u>\$ 4,685,898</u>

Total General Fund revenues increased by 12.1%. The largest increases in revenue were \$134.5 million or 15.7% in sales taxes and \$112.6 million or 7.5% in intergovernmental revenue that predominantly includes federal funds in the form of grants. The 251% increase in interest and investment income was primarily due to increases in interest rates for short-term investments.

General Fund Revenues by Source Fiscal Year 2005

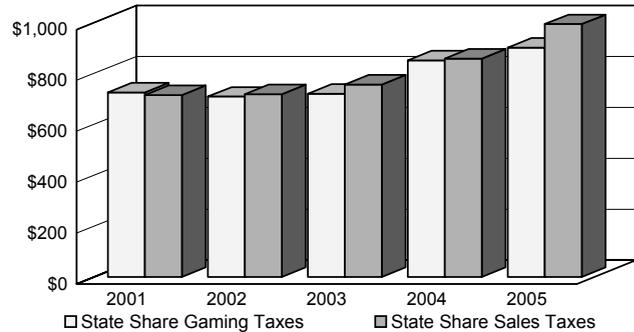


Sales and Gaming Taxes

Two of the largest General Fund revenue sources are sales and gaming taxes. The growth in both taxable sales and gaming win are driven by a number of factors, including the continued attractiveness of Nevada as a destination for both domestic and foreign visitors.

Taxable sales have been growing at a solid pace, which is impressive given the lack of new megaresort construction. Double-digit gains have been reported in every month but two since mid-2003. Sales taxes represent 21.2% of the General Fund revenue, or \$993 million.

**Gaming Tax and Sales Tax Revenue
2001 to 2005**
(Expressed in millions)



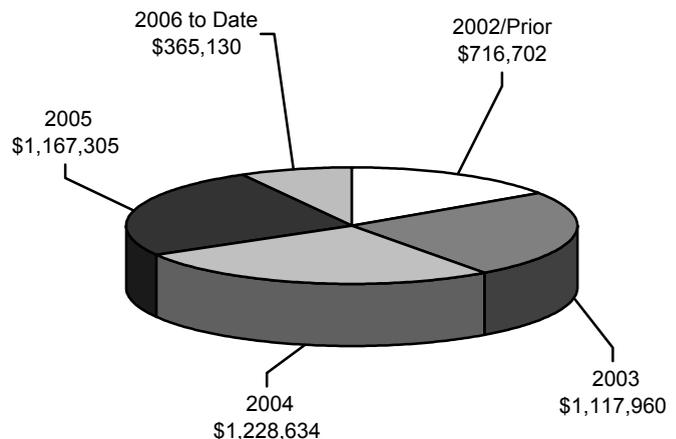
The State's gaming results have also been impressive. Gaming win is the gross revenue of casinos from gaming activities. Gaming taxes are based on gaming win. Licenses and fees also contribute to Nevada's gaming revenue. State gaming taxes represent 18.9% of the General Fund revenue, or \$885 million.

Debt Collection

The State Controller's Office is authorized to act as the centralized point of collection for overdue receivables owed the State. The debt collection program collected more than \$4.2 million in debt owed to State agencies by the end of FY 2005.

Currently, 27 State agencies, boards and commissions have contracted with the State Controller's Office for debt collection services ensuring that both vendors and employees owing money to the State are not receiving payments from other state agencies. These agencies include Payroll and the Department of Motor Vehicles. There is little, or no cost, to State agencies for these services.

Total Debt Collected



In addition to in-house collections, the State Controller's Office has also contracted with private debt collection firms to assist with these efforts.

Mining

Nevada minerals had an outstanding year in 2004 and the first six months of 2005 primarily because of higher prices for gold, silver, and copper. These price increases have driven an increase in exploration projects in the northern half of the State.

Nevada remains the world's third largest producer of gold behind South Africa and Australia even though gold production dropped in 2004. Nevada's silver production increased slightly in 2004, however, Alaska became the nation's leading silver producer, a title Nevada held for many years. Nevada also became the leading gypsum producing state in 2004. Nevada's mines produced a wide variety of other mineral and energy commodities such as copper, geothermal energy, lapidary and gemstones, silica sand, salt, and specialty aggregates and clays.

Average employment in the mining industry rose in 2004 to 9,559 jobs compared to 8,783 in 2003. Mining is among the highest paid sectors in the state with an average annual salary of \$63,387. Approximately 48,000 jobs are related to providing goods and services to the mining industry.

In spite of increasing production costs, due primarily to rising energy costs, mining exploration and development spending increased by 15% between 2003 and 2004 and is projected to increase by 40.4% in 2005.

Tourism

Nevada is a destination location for tourists who come from all over the world to stay and play.

Tourism, and the businesses that cater to the tourism industry, account for the largest revenue streams in

“Mining’s

tax contribution

to the rural counties

in which they operate is

vital. It keeps them healthy and

independent. Without this revenue

these rural counties would need to

depend on funds from Washoe

and Clark counties.”

Russ Fields, President

Nevada Mining Association

September 3, 2005

”

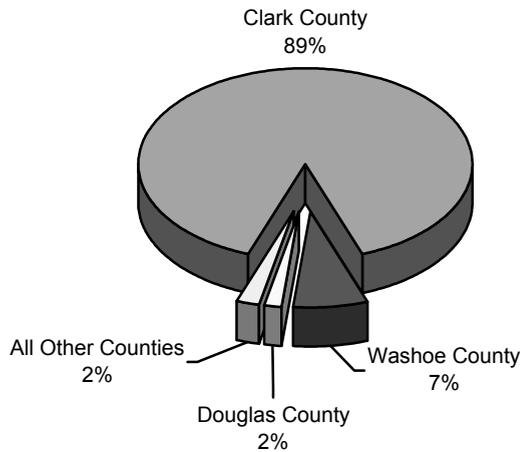
Visitors to Nevada Parks July 2004 to June 2005

Great Basin National Park	77,120
Red Rock Canyon National Conservation Area	712,255
Hoover Dam Visitor Center	894,789
Nevada State Parks	3,147,420
Lake Mead National Recreational Area	8,178,799

the State. Las Vegas is known as the "Entertainment Capital of the World," with 18 of the 20 largest hotels in the country located in the city.

Just beyond the dazzling city lights of Las Vegas and Reno is Nevada's wild landscape, where public demand for adventure travel is big and growing in primal playgrounds that beckon adventure-lovers of all ages and activity level. Rugged snow-capped mountains, towering alpine forests, deep azure lakes, rocky cliffs, dramatic canyons, sand dunes, and whitewater rivers comprise the terrain of America's seventh largest state.

**Room Tax Collections
July 2004 to June 2005**



Clark County	\$ 13,459,864
Washoe County	1,059,191
Douglas County	255,335
All Other Counties	347,748
	<u>\$ 15,122,138</u>

Film Production

The Nevada Film Office (NFO) generated over \$116 million in filming revenue for calendar year 2004. This continues a five-year trend exceeding the \$100 million mark in spite of declining film revenues in many states across the U.S. due to runaway production costs and diminished location shooting. Nevada continues to attract diverse productions, with more than 600 projects a year including feature films, television series, specials, miscellaneous types of production, and television programming.

**Nevada Revenue from Film Production
July 2004 to June 2005**

Production Type	Revenue
Feature Films	\$ 21,445,000
Commercials	11,550,000
TV Series, Specials	46,000,000
Reality TV	12,170,000
Music Videos	3,325,000
Documentaries	11,575,000
Corporate/ Industrials	1,020,000
Student Films	85,000
Still Photography	11,765,000
Other	1,273,978
Total	<u>\$ 120,208,978</u>

Spending

Spending data can be used to evaluate a State's program priorities and, compared to revenue data, can also be used to measure a State's ability to support ongoing programs.

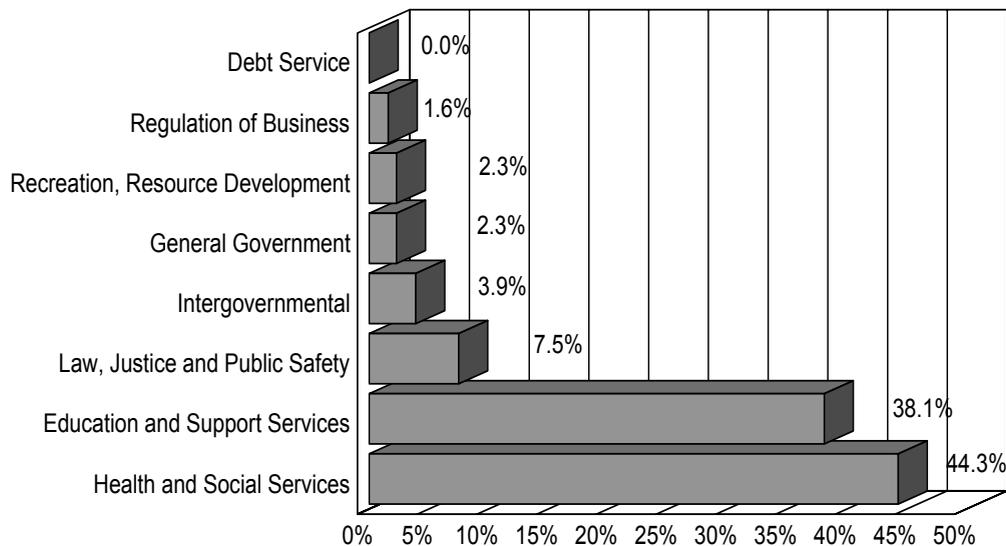
General Fund spending totaled \$4.3 billion in FY 2005, an increase of 9.4%. Expenditures for health and social services increased over \$193.5 million or 11.1%, due primarily to increases in Federal Medicaid and Welfare program costs. Spending for education and support services increased over \$74.7 million or 4.7%.

General Fund Spending by Function Fiscal Year 2005

(Expressed in thousands)

Health and Social Services	\$ 1,940,195
Education and Support Services	1,672,187
Law, Justice and Public Safety	327,410
Intergovernmental	168,985
General Government	100,845
Recreation, Resource Development	100,016
Regulation of Business	70,067
Debt Service	1,143
	<u>\$ 4,380,848</u>

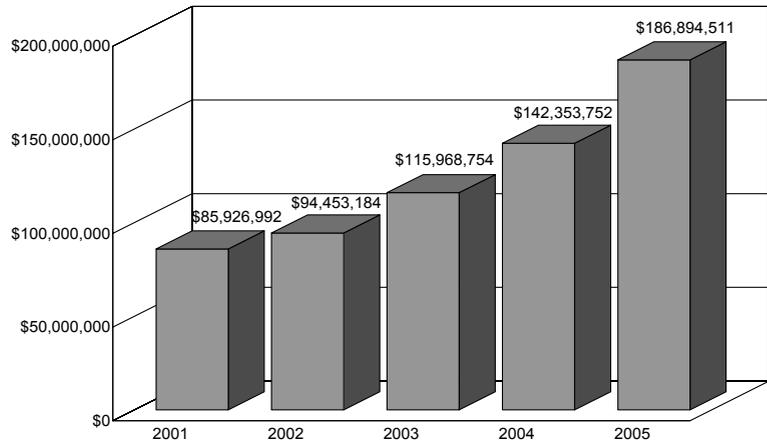
General Fund Spending by Function Fiscal Year 2005



Education

The Permanent School Fund was established by the State Legislature to create a permanent source of aid to fund Nevada's Schools. Most of the principal of the fund is derived from a portion of fines and penalties collected by Justice and District Courts in all 17 counties. A portion of this revenue also comes from public land sales. During FY 2005, the Permanent School Fund received \$4.6 million dollars from court fines and penalties and \$39.8 million from public land sales. These monies, which comprise the principal balance of the fund, remain there permanently to generate investment income. By law, revenue from interest and dividends are transferred to the Distributive School Account (DSA) and allocated to local school districts. In FY 2005, \$5.5 million was transferred to the DSA. As of June 30, 2005, the balance in the Permanent School Fund was \$186.9 million, an increase of \$44.5 million, or 31.3% higher than 2004.

**Permanent School Fund Balance
Fiscal Years 2001 - 2005**



Highlights of the 2004-2005 school year

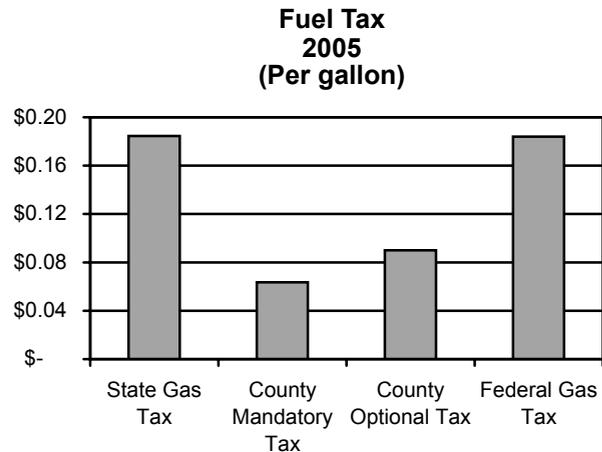
Nevada was among the leaders in growth of the number of high school students enrolled in Advanced Placement (AP) courses. Nevada high school student participation in AP courses increased by 17.6% over the previous year while the national average increased by only 10.8%. The number of Hispanic students enrolled in AP courses increased by 29.5%, and the number of African-American students increased by 27.2%, reversing the trends in these underserved groups.

For the first time, the average daily attendance for all students attending public schools averaged 95% for the school year. This was an increase from the previous school year, which was reported at 94.1% and the statewide dropout rate was reduced significantly to 5.8%.

As part of the No Child Left Behind Act, Nevada provided annual report cards on all of the schools in school districts throughout the state. Nevada's K-12 report card was identified as one of the leaders in accountability information to the public. The report card provides detailed information on student demographics, school personnel, fiscal affairs, state assessments and technology.

Department of Transportation

The State Highway Fund is a special revenue fund established to account for the receipt of dedicated highway-user revenue. The fund balance increased \$67.2 million during FY 2005, which is a 29.2% increase from the prior year. The Nevada Department of Transportation (NDOT) is the major recipient of the highway fund. Most of the operating costs of the Department of Motor Vehicles (DMV) and the Department of Public Safety are also financed by these fund revenues. Other state agencies that carry out transportation related activities receive some funding.

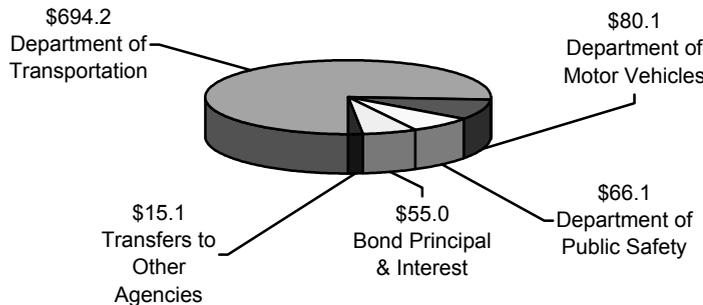


NDOT plans, designs, constructs, and maintains safe and effective transportation systems for the economic, environmental and social needs of the State. Work continues on several projects intended to resolve current and future transportation needs in northern, southern and rural Nevada. These projects include the widening of U.S. 95 in Las Vegas, the Beltway Interchange in Henderson, a new bridge downstream from Hoover Dam, the Reno-Carson Freeway Extension, and the Carson Bypass.

Highways maintained by NDOT are financed with highway-user revenue and federal funds. State and federal highway funds are derived from vehicle fuel tax and vehicle registration fees.

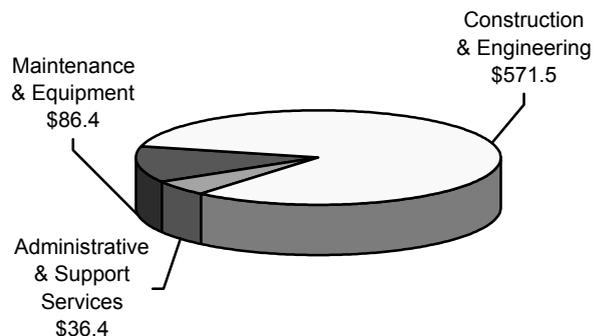
Highway Fund Expenditures Fiscal Year 2005

(Expressed in millions)

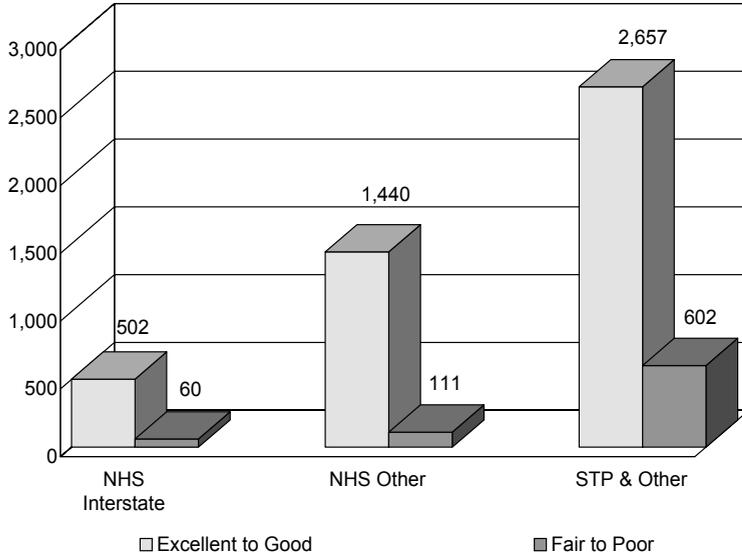


Department of Transportation Expenditures Fiscal Year 2005

(Expressed in millions)



Pavement Condition 2003
(Expressed in miles)



There are two federal-aid highway systems: the National Highway System (NHS) and the Surface Transportation Program (STP). Most roads maintained by NDOT, and some maintained by other agencies, are federal-aid highways. Federal-aid highways carry the most traffic.

Good to excellent roads require corrective or preventative maintenance. Fair to poor roads need overlay or reconstruction.



“The Department is in the middle of its largest highway construction program, and residents and visitors alike should appreciate the fact that the Federal Highway Administration has determined Nevada has the smoothest roads in the country. The Silver State is second in the country in bridge excellence with only five percent of the structures having problems structurally or functionally. In addition, a university study places Nevada fourth of all states in operating efficiency.”

Jeff Fontaine, P.E., Director
Nevada Department of Transportation



Department of Health and Human Services

- Helps Nevada seniors cover the costs of their prescription medications;
- Works with families and children to build healthy home lives;
- Brings community health nursing and clinics to Nevada’s rural and frontier counties;
- Provides treatment and support for the mentally ill and developmentally disabled;
- Gives individuals and families with low income and limited resources access to quality health care and job training;
- Aids physically disabled Nevadans to live independently.

The Department of Health and Human Services’ numerous divisions and programs touch the lives of all Nevadans. Health and Human Services is the State’s second-largest department, with more than 4,400 full-time positions statewide in FY 2005.

Under Director Michael J. Wilden, each of the Department’s agencies is committed to promoting the health and well-being of Nevadans through the delivery and facilitation of essential services to ensure families are strengthened, public health is protected, and individuals achieve their highest level of independence.

Highlights from FY 2005

The Division of Welfare and Supportive Services was awarded a Federal High Performance Bonus of \$532,310 for its success in helping Nevada’s public assistance recipients become self-sufficient. This award was based on Nevada’s top ranking in the workforce improvement category. The bonus will be used to support the State’s Temporary Assistance to Needy Families program, which provides Nevadans with a range of supportive services to overcome barriers to employment and self-sufficiency.

Construction began in 2005 on the Rawson-Neal Hospital, a new 190-bed mental health hospital in Las Vegas. The new facility is one of several measures taken by the State to expand much needed mental health services in Clark County. The 2005 Legislature approved the addition of 250 new full-time positions to staff the facility, which is slated to open in May 2006.

The 2005 National Child and Family Service Review recognized Nevada for two “promising practices,” including the Neighborhood Care Centers Initiative, which consists of five neighborhood care centers in Clark County that provide “one-stop shopping” for community-based and family-focused services. Services include child welfare, mental health, juvenile probation and family support. By combining similar supportive services, family needs are met efficiently and conveniently, contributing to the families’ overall safety, and well-being.

The Department of Health and Human Services (DHHS) secured funding for the planning and implementation of Nevada 2-1-1, a centralized statewide phone system that easily connects callers to a variety of referrals and information for both everyday needs and in times of crisis.

DHHS established several new initiatives:

- Office of Minority Health, which addresses access to quality health care for Nevada Minorities;
- Suicide Prevention Program, which reaches out to adults and teens in crisis;
- Disability Rx, which aids Nevadans with disabilities to maintain prescription drug coverage, and;
- The Committee on Problem Gambling, which targets addictive behavior and recovery.

DHHS increased funding through its Health Division for the AIDS Drug Assistance Program, which assists those living with HIV/AIDS with medication costs.

DHHS expanded Medicaid coverage through the Division of Health Care Financing and Policy for children aging out of foster care to assist in their transition into independence.

**Department of Health and Human Services Budget by Division
Fiscal Year 2005**

Indian Commission	\$	141,359
State Public Defender		2,242,836
Aging Services		36,713,042
Director's Office		59,009,158
Health		143,119,107
Child & Family Services		158,043,893
Mental Health & Development Services		172,637,062
Welfare & Supportive Services		228,656,588
Health Care Financing & Policy		1,100,238,704
 Total	 \$	 1,900,801,749

Economic Outlook

The economy and tax base of the State of Nevada are dependent upon the interrelated gaming and tourism industries, as well as federal activities, mining, warehousing, manufacturing, and agriculture. These diverse businesses contribute to the support of improvements to the infrastructure supporting the over 2.4 million residents who call Nevada home.

Investment

The Office of the State Treasurer is responsible for the implementation of an investment program on behalf of the State of Nevada and its local governments. Investment objectives include safety of principal, portfolio liquidity, and market return consistent with current budgetary and economic conditions.

General Portfolio

The investment of state funds within the General Portfolio is a function performed by the State Treasurer. This investment portfolio encompasses the General Fund, which finances the ordinary operation of the State and finances operations not provided for in other funds. The majority of General Fund revenues are received from taxes. The investment portfolio also includes monies deposited in Special Revenue Funds, Municipal Bond Bank transactions and some of the State’s regulatory agencies. The General Portfolio’s performance is monitored weekly, comparing its performance to the 90-day U.S. Treasury Bill’s average yield over the last 3-month period.

LGIP

The State of Nevada Local Government Investment Pool (LGIP) is an alternative investment program used by local governments for their public funds. These investments include United States securities diversified to prevent over-concentration in a specific maturity, issuer, or class of securities. The LGIP’s performance is monitored weekly, comparing its performance with the 90-day U.S. Treasury Bill’s average yield over the last 3-month period.

Debt Management

The most current bond ratings from Fitch, Standard and Poor’s and Moody’s Investor Service were AA+, AA and Aa1, respectively. These ratings reflect a sound economic base and good financial management.

The State Constitution limits the aggregate principal amount of the State's public debt to 2% of the assessed valuation of the State. Debts authorized by the Legislature incurred for the protection and preservation of, or obtaining the benefits of, any property or natural resources within the State are exempt from this limitation. On June 30, 2005 the debt limitation and its unused portion are computed as follows (expressed in thousands):

Debt limitation (2% of total assessed valuation)	\$ 1,743,736
Less: Bonds and leases payable as of June 30, 2005, subject to limitation	<u>(944,732)</u>
Remaining debt capacity	<u><u>\$ 799,004</u></u>

Surplus Revenues

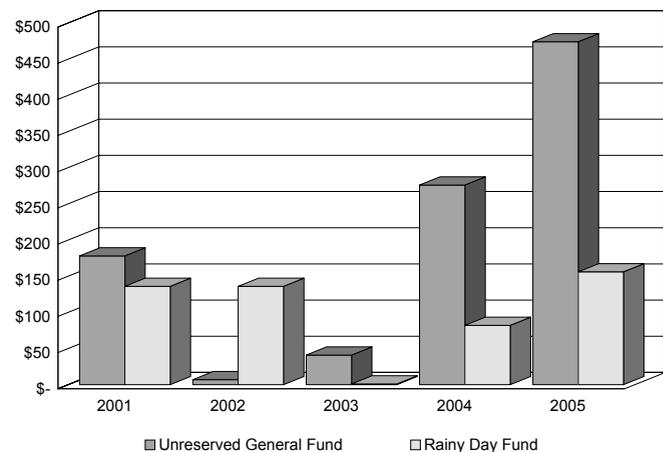
For FY 2004-2005, revenue collections exceeded budgeted expectations by more than \$425 million.

Resources were made available to replenish the State's Rainy Day Fund. The 2003 Legislature utilized \$135 million of the \$136 million available to address serious fiscal imbalances resulting from an economic slowdown. At the close of FY 2005, the Rainy Day Fund balance was \$155.7 million and the General Fund's unreserved fund balance increased by \$198.7 million.

In addition, the Governor proposed, and the Legislature agreed, to return \$300 million of the surplus to taxpayers in the first tax rebate in State history. In the fourth quarter of 2005, Nevadans who registered a car during calendar year 2004, and seniors who held a State identification card or drivers license, received a rebate ranging from \$75 to \$275.

Unreserved General Fund and Rainy Day Fund Balances 2001-2005

(Expressed in millions)



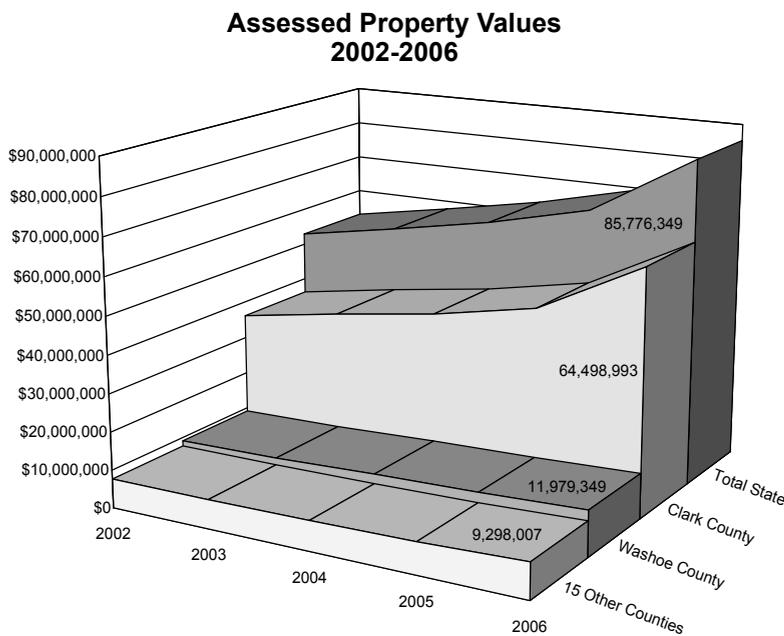
Investing in Plant and Equipment

The Richard H. Bryan Building, housing the Offices of the Department of Conservation and Natural Resources, was dedicated as the State's first lease-purchase building. Not only does this project bring most of the department together under one roof, it takes funds once used for rent to private landlords and invests them in a 120,000 square foot building the State will eventually own.

To preserve and maintain the State’s existing buildings, Governor Guinn proposed, and the Legislature funded, over \$65.9 million in major maintenance for the 2005 Capital Improvement Program (CIP). The Governor added a new \$10.4 million budget item this biennium for deferred maintenance and the maintenance of highways and higher education facilities.

To increase the efficiency and effectiveness of State government, Governor Guinn also supported funding \$18.9 million in information technology (IT) projects. Major projects include the replacement of antiquated IT systems; upgrading the State’s communications infrastructure; a second disaster recovery site and virtual tape storage facility; and video conferencing systems to reduce time and money spent traveling to and from meetings.

Property Taxes



After rapid increases in assessed property values, taxpayers in Clark County faced 30 to 60% tax increases for FY 2005-2006. Governor Guinn proposed a property tax relief program, and the Legislature capped increases in tax bills for owner occupied homes to 3% per year. Tax bill caps for other properties vary by county.

Long-Term Financial Planning

Nevada continued its forward-looking capital budget, presenting a long-term CIP to the Legislature, which illustrates future implications of current decisions. It showed how projected bond capacity can fund furniture and equipment for buildings in the 2005 CIP; build classrooms for growth in higher education and prisons for growth in inmate population, and continue to lease-purchase office buildings to reduce the amount of money the State spends on rent.

In Summary

Nevada's relative performance is expected to remain impressive well into the future. Global Insight, an economic forecasting and advisory firm under contract with the State of Nevada, expects Nevada's growth in real gross state product, jobs, and personal income to be the national leader through at least the end of this decade.



“It's no
surprise so
many people
want to come here
and enjoy the wonderful
opportunities and lifestyle
Nevada has to offer.”

Governor Kenny C. Guinn
State of the State Address
January 24, 2005



Data Sources

The following sources were used to compile this report:

Office of the State Controller

Office of the State Treasurer

Nevada Commission on Mineral Resources

Nevada Commission on Tourism

Nevada Department of Administration

Nevada Department of Employment, Training and Rehabilitation

Nevada Department of Education

Nevada Department of Health and Human Services

Nevada Department of Taxation

Nevada Department of Transportation

Nevada Film Office

Nevada Gaming Control Board

Nevada Mining Association

Nevada State Demographer

This publication presents financial information using accounting principles generally accepted in the United States of America (GAAP). GAAP financial information is presented in a standardized manner that is comparable to that of other governmental entities. It includes selected financial information for major funds, including the State's General Fund. It does not contain information for all funds, activities, or component units as reported in the Comprehensive Annual Financial Report (CAFR).

Most of the information contained in this report is derived from our CAFR, produced by the State Controller's Office and independently audited. A more detailed and complete presentation of the State's GAAP financial information is presented in the CAFR.

The information on pages 10 & 11 was provided by the Nevada Department of Transportation.

The information on pages 12 & 13 was provided by the Department of Health and Human Services.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

STATE OF NEVADA

**for the Fiscal Year Ended
June 30, 2004**



Carol E. Prange
President

Jeffrey L. Esler
Executive Director



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Great Reno Balloon Race

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