

State of Nevada
Citizens' Assets

*An Annual Report on State Government
to the Citizens of Nevada*

Kathy Augustine
State Controller

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Message From the State Controller Steve Martin



Steve Martin
State Controller

My name is Steve Martin, State Controller of the State of Nevada. Governor Kenny Guinn appointed me Controller July 13, 2006 to complete the term of Kathy Augustine, who unexpectedly passed away July 11, 2006. This report bears her name and serves as a tribute to her 7 ½ years of service as Controller including the past fiscal year. It is my pleasure to dedicate this report to her and her commitment to the citizens of the State of Nevada.

Citizens' Assets is the Nevada State Controller's Office Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2006. 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 the Controller's Office in accordance with Generally Accepted Accounting Principles (GAAP).

Nevada leads 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 the State 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 the State is 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.

I hope this PAFR provides you with a better understanding of our State's strengths and future challenges. Ultimately, citizen involvement and interest help insure a better and brighter future for Nevada.

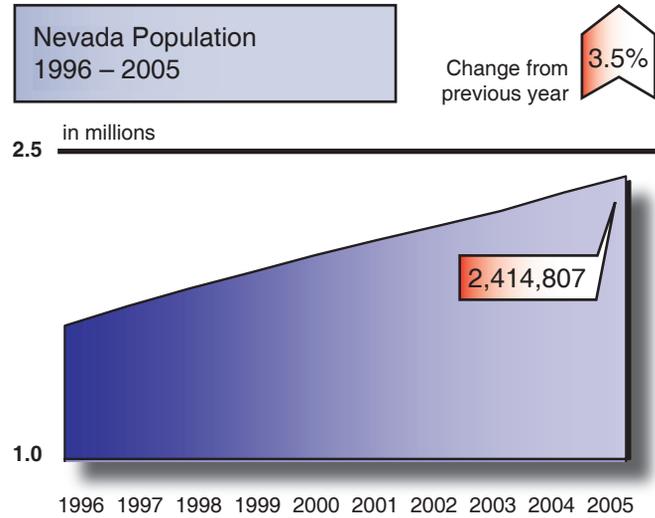


Kathy Augustine
State Controller
1999 — 2006

Nevada by the Numbers

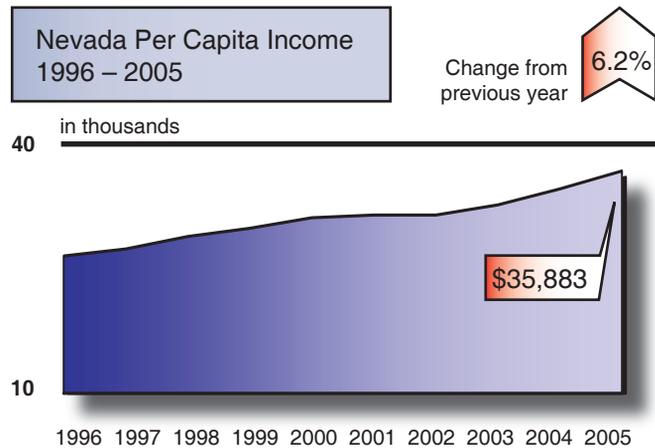
Nevada Population

For the 19th consecutive year, Nevada has led the nation in population growth. The 2005 population estimates from the U.S. Census Bureau show Nevada as the fastest growing state in the nation. Nevada's population grew 3.5% from January 1, 2005 through December 31, 2005. Clark County leads Nevada in population with nearly 1.8 million of the State's residents. Washoe County is home to over 390,000 Nevadans. The balance of the State's population is spread throughout the remaining 15 counties.



Per Capita Income

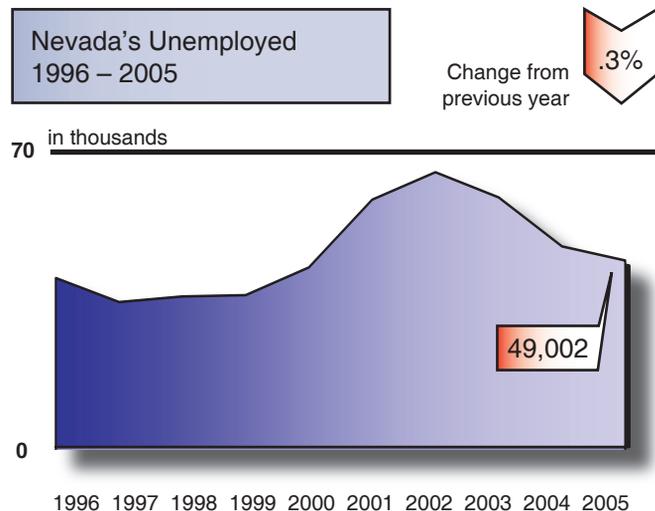
During calendar year 2005, per capita personal income in Nevada grew by 6.2%. Nationwide, per capita personal income rose at a rate of only 4.6%. Once again the relative strength of Nevada's economy is evident. Nevada's per capita income is greater than and growing at a faster rate than the rest of the country. Medical and health professionals in Nevada still occupy nine of the top ten wage occupations.



Labor and Job Growth

By the end of the fiscal year, Nevada businesses were home to 1.29 million jobs, with a job growth rate above 5%. In fiscal year 2006, Nevada job growth was four times the growth rate throughout the nation.

The State's jobless rate has remained consistently below national averages through the current economic recovery. Nevada's 4% unemployment rate in calendar year 2005 stood over a full percentage point below that of the United States.

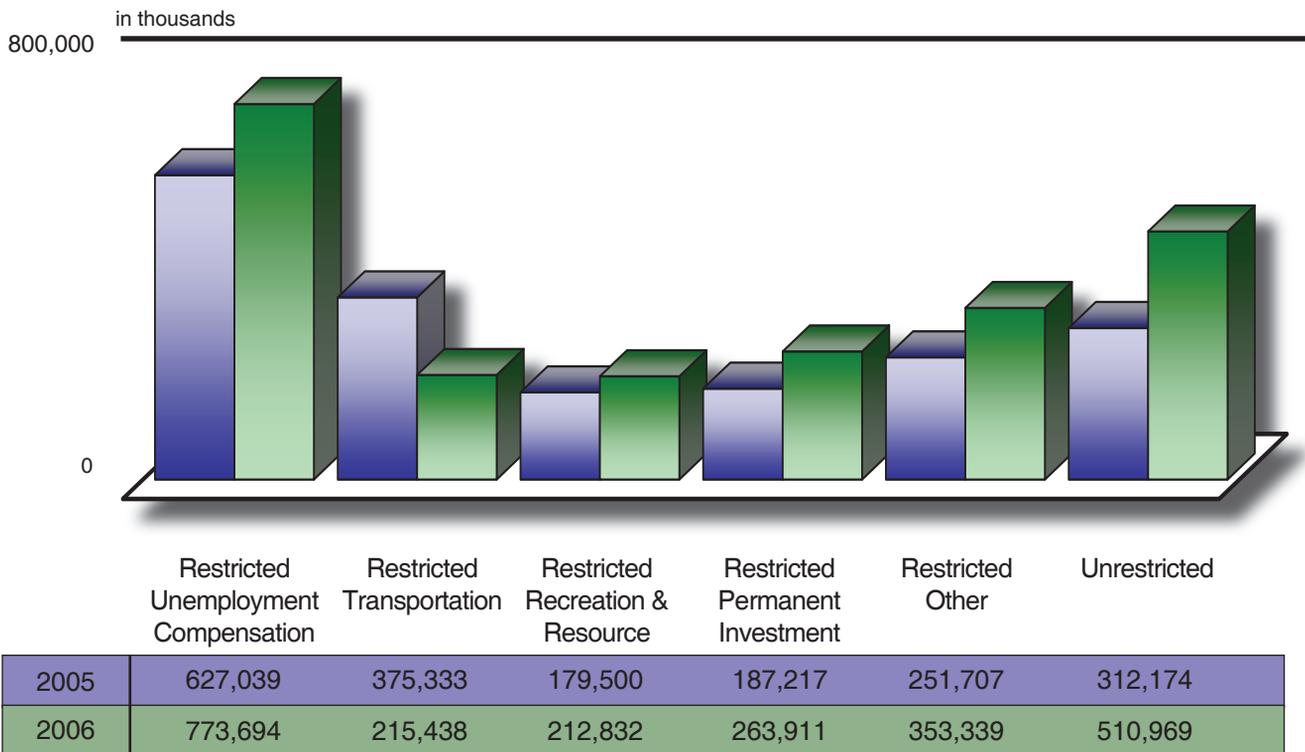


Net Assets

The largest portion of the State's net assets (\$3.5 billion or 59%) reflects its investment in capital assets such as land, buildings, improvements other than buildings, equipment, construction in progress, infrastructure and rights-of-way, less any related debt still outstanding that was used to acquire those assets. This is an increase from the \$3.3 billion in the prior year. The State uses these capital assets to provide services to its citizens. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (\$1.8 billion or 31%) is subject to external restrictions on how it may be used. In fiscal year 2006, the State reported unrestricted net assets of \$511 million compared to \$312 million in fiscal year 2005. The State is able to report positive balances in all of the three categories of net assets, both for the government as a whole, as well as for its governmental activities and the business-type activities. The Nevada System of Higher Education also saw an additional \$300 million, or 17% increase in net assets from 2005 to 2006.

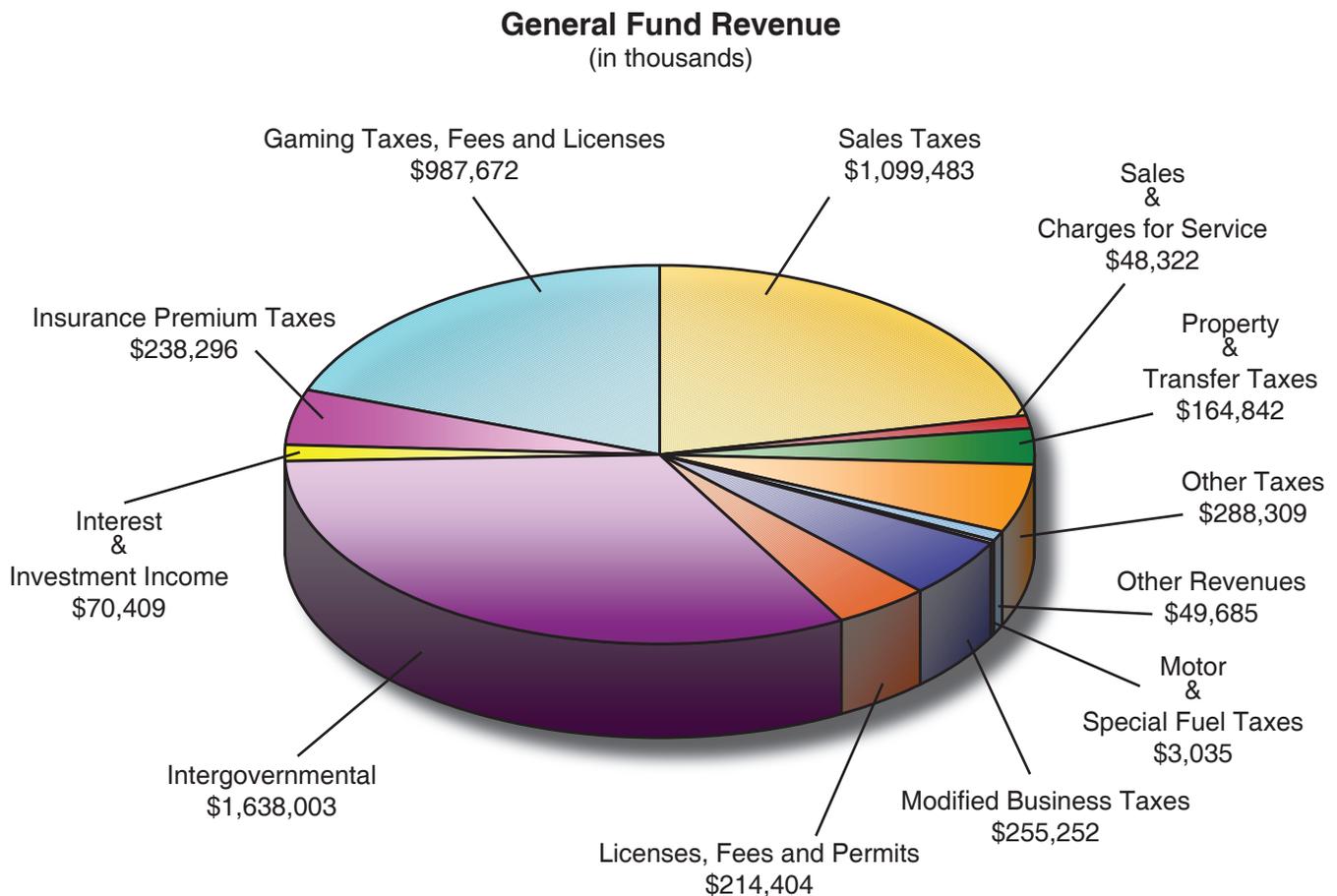
**Restricted & Unrestricted Net Assets
Excluding Investment in Capital Assets**

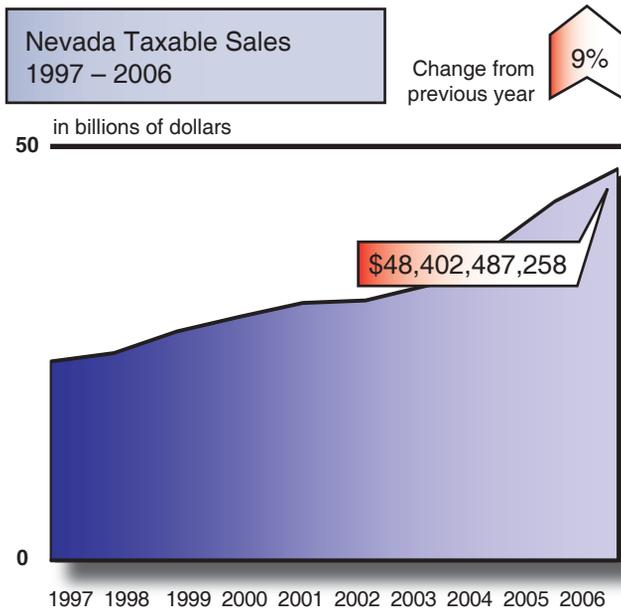


General Fund Revenue

Major sources of General Fund revenue include taxable sales, gaming, intergovernmental (primarily from the federal government), and other taxes and fees. Hospitality, gaming, agriculture, tourism and mining are major contributors to Nevada's annual revenue.

The total General Fund revenues increased 7.9%. The largest increases in revenue sources were \$106.2 million or 10.7% in sales taxes and \$102.9 million or 11.6% in gaming taxes, fees and licenses. The increases in both sales taxes and gaming revenues are due to Nevada's growing economy and the increased number of visitors. The 131.9% increase in interest and investment income was due primarily to increases in interest rates for short-term investments.





Taxable Sales and Gaming

Nevada’s largest General Fund revenue source, the sales tax, has doubled in the past decade. Over that time period, eating and drinking establishments and automotive-related businesses each turned in an average annual gain in excess of 8%.

Clark County gaming win per visitor has trended upward over the past decade with especially large increases recorded in fiscal years 2005 and 2006. Statewide gaming win was up 12.1% in fiscal year 2006 with an annual average increase of 4.9% over the past five years.

Agriculture

Agriculture is one of Nevada’s most important industries, contributing significantly to the economies of rural communities and the State as a whole. Nevada’s ranches may be few in number but they rank third in the nation in size, averaging 3,500 acres. Cow-calf operations in Elko County alone rank second among all counties in the nation in number of beef cows.

Despite Nevada’s arid climate, excellent crops are produced where land can be irrigated. Alfalfa hay is the leading cash crop of the State. Much of the hay is sold to dairy operations in surrounding states. Significant quantities of alfalfa cubes and compressed bales are exported overseas each year. Alfalfa seed is another substantial crop.

Tourism

Visitors from all over the world continue to find Nevada an attractive destination location to stay and play. Las Vegas visitor volume totaled a record 38.7 million during fiscal year 2006, up 2% from the previous year.

Tourism and the businesses that cater to the tourism industry account for the largest revenue streams to the State. Las Vegas is known as the “Entertainment Capital of the World” with 17 of the 20 largest hotels in the country located in the city.

Just beyond the city lights of Las Vegas and Reno lie Nevada’s wild landscapes, where public demand for adventure travel is big and growing in outdoor playgrounds attracting adventure-lovers of all ages and activity level. Rugged snow-capped mountains, towering alpine forests, deep azure lakes, rocky cliffs, dramatic canyons, unexpected sand dunes, and white water rivers comprise the terrain of America’s seventh largest state.

Mining

The Nevada mining industry had an outstanding 2005 and first half of 2006 primarily because of higher prices for gold, silver and copper. These price increases have driven an increase in exploration and expansion projects to levels not seen in over a decade in the northern half of the State.

Nevada remains the world's fourth largest producer of gold behind South Africa, Australia and China even though gold production dropped slightly in 2005. Gold has replaced silver as the State's most important mineral commodity. Nevada decreased silver production slightly in 2005 with Alaska now our nation's leading silver producer, a title Nevada had held for many years. Nevada's mines produced a wide variety of other mineral and energy commodities such as copper, gypsum, geothermal energy, lapidary and gemstones, silica sand, salt and specialty aggregates and clays.



Strategic blasting for ore at the Newmont Phoenix Mine.

Average employment in the mining industry rose in 2005 to 12,770 jobs compared to 11,690 in 2004. Mining is among the highest paid sectors in the State with an average annual salary of \$66,508. Approximately 70,000 jobs are related to providing goods and services to the industry.



Starting a shift at Barrick's Cortez Gold Mine in a haul pack truck which carries up to 400 tons of ore.

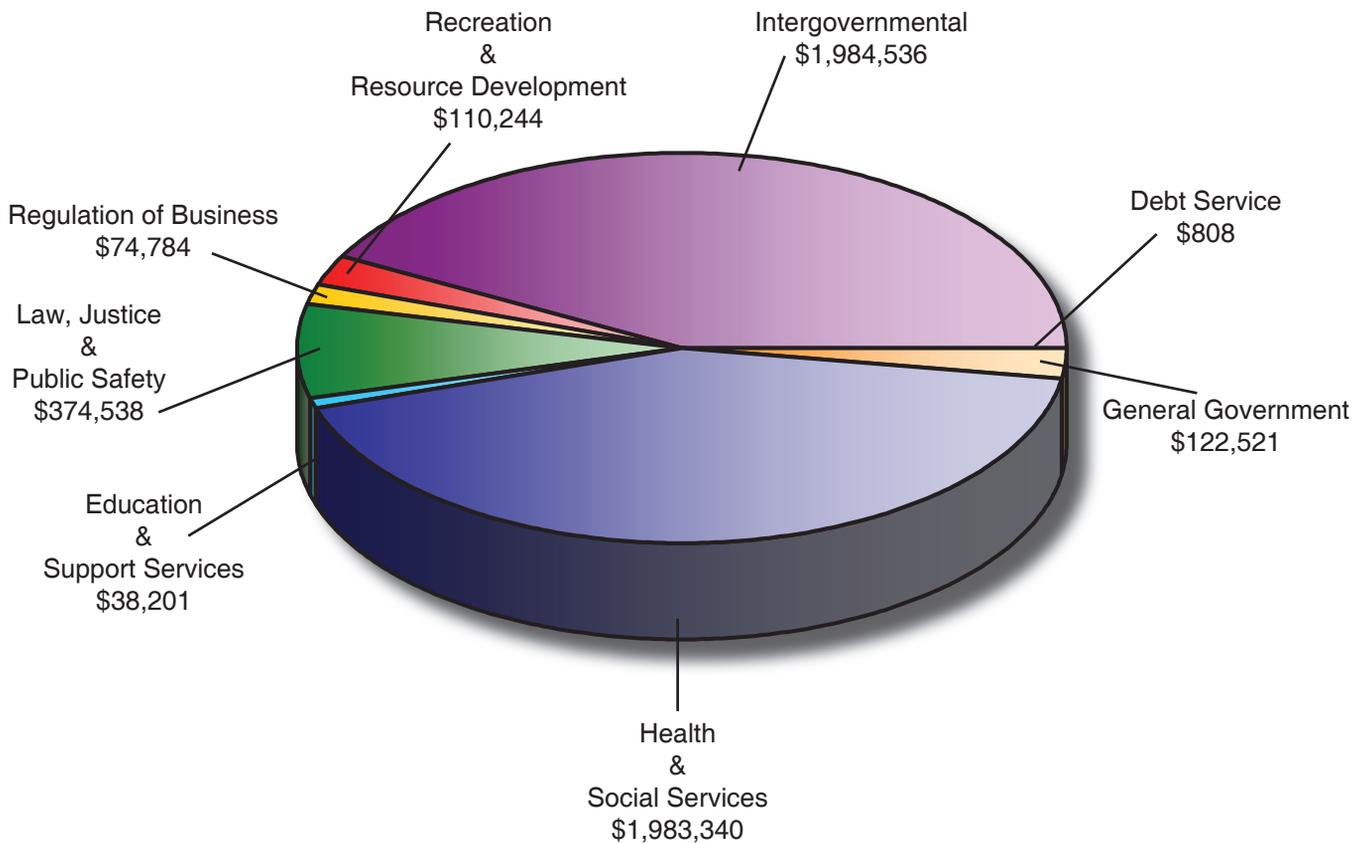
In spite of increasing production costs, due primarily to rising energy costs, mining exploration and development spending increased by 52.2% from 2004 to 2005. All this investment and activity is good news to Nevada.

General Fund Spending

Spending data is often used to evaluate a state's program priorities and, when compared to revenue data, can also be used to measure a State's support of, and commitment to, ongoing programs.

The total General Fund expenditures increased 7% in 2006. The largest increase occurred in intergovernmental expenditures, which grew by over \$170 million or 9.4% primarily due to payments to local governments for education. Health and social services and intergovernmental account for 85% of General Fund spending. Expenditures for law, justice and public safety increased over \$47 million or 14.4%.

**General Fund Expenditures
Fiscal Year 2006**
(in thousands)



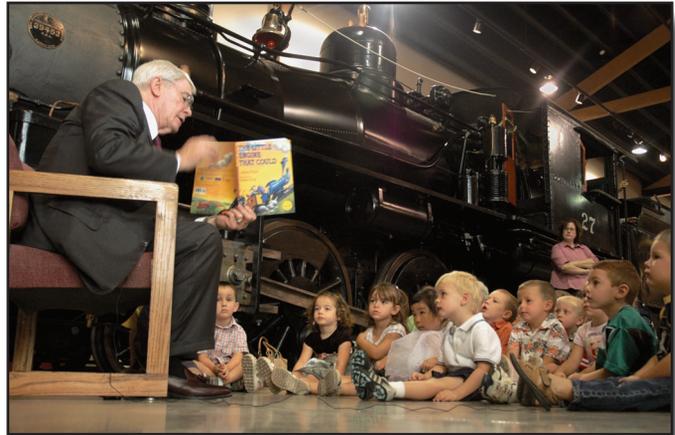
Department of Education

The Department of Education acts as an advocate for all children, sets the policy to allow every child equal access to educational services, provides the vision for a premier educational system and works in partnership with communities to ensure high levels of success for all in terms of job readiness, graduation, ability to be lifelong learners, problem solvers, citizens able to adapt to a changing world and contributing members of society.

EDUCATION HIGHLIGHTS 2005-2006

Parental Involvement

In accordance with Senate Bill 214, Section 17 of the 2005 Nevada Legislative session, the Nevada Department of Education (NDE) provided a form for educational involvement accords to be used by all public schools in Nevada. The Accord complies with the State's adopted Parent Involvement Policy as well as with the federal No Child Left Behind (NCLB) Act of 2001. In addition, the Educational Involvement Accord is accompanied by a variety of informational materials (including the Code of Honor) which every district and its teachers distribute to each student's parent(s).



An eager class listens as their special visitor, Governor Kenny Guinn, reads "The Little Engine That Could" at the Nevada State Railroad Museum.

To further strengthen parental involvement in schools, Nevada's First Parent Involvement Summit was conducted in March 2006. Approximately 165 parents, teachers, superintendents, principals, trustees, legislators and NDE personnel, who represented 16 of the 17 school districts, explored current research on the involvement of parents as contributors to increasing student achievement. During the final "Planning for the Future" session, participants determined that regional or district summits should be conducted and a follow-up parent involvement committee should meet to continue the parent involvement/student achievement dialogue and efforts.

Additional Funding for Districts/Schools and Teachers

The Commission on Educational Excellence, created by Senate Bill 404, awarded a total of \$91,878,529 to 512 schools and 17 districts. The grants were distributed for an 18-month period, beginning January 1, 2006 and ending June 30, 2007 with a larger amount distributed during the first year. All approved applications were directly tied to data-driven needs in the

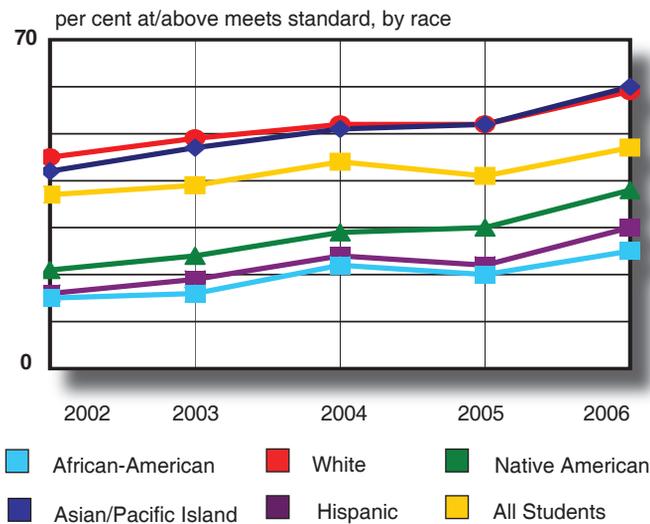
School or District Improvement Plan and provide programs for remediation or innovation to improve student performance.

The Department processed five kinds of bonus plans to teachers during the 2005-2006 school year. Approximately 11,000 educators received a financial bonus under various plans approved by the State legislature. Included were teacher signing bonuses of \$2,000 each to new teachers, retirement credits for teachers working in “at-risk” schools and “hard-to-fill” teaching assignments and 5% salary bonuses for school counselors holding national certifications, school psychologists and speech pathologists. Over \$25,393,000 was distributed to Nevada educators under these programs.

The Department distributed \$7,395,500 to school districts, other than Clark County which was exempt by Statute, for the purchase of portable classrooms for the provision of full-day kindergarten programs to go into effect in the 2006-2007 school year.

During the 2005-2006 school year, Reading First, a federal grant to schools, served 30 elementary schools in seven districts in Nevada. Sub-grants were awarded to districts to establish comprehensive reading programs in kindergarten through third grade, including a core reading program, supplemental reading materials and intervention programs for struggling readers. Reading First also established an assessment program for kindergarten through third grade teachers to identify struggling readers, monitor the progress of all students throughout the year and evaluate program effectiveness at the end of the year. Each Nevada Reading First school employs at least one reading coach who provides professional development and supports teachers as they implement the comprehensive reading programs and use assessment data to inform reading instruction.

Trends in 10th Grade HSPE Math Performance 2002 – 2006



Performance on Math High School Proficiency Examinations

Trend data for students taking the math high school proficiency test for the first time demonstrate increases for all student groups in 2006 and those gains reinforce a modest positive trend that has been observed now for several years. In addition, the estimated cumulative pass rate for the class of 2006 should exceed those for the classes of 2004 and 2005.

Department of Transportation

The Department of Transportation (NDOT) continues to serve Nevadans with vital and cost-effective road programs and services.

NDOT institutes innovative funding programs to augment highway-user revenue and federal funds. By generating funding to start vital road projects, bonding has saved state taxpayers an estimated \$600 million in road project inflation costs since its first use in FY2001. It has also allowed motorists to use the roadway sooner.

Since 1996, the Department's highway litter removal program has saved taxpayers \$1.8 million while providing clean highways. In a recent four-month period, the program expanded to well over 20 miles of roadside litter removal in northern Nevada, adding to nearly 125 miles in southern Nevada.

NDOT's new 511 travel information now provides instant, accurate statewide road conditions simply by dialing '511' or logging on to www.nevadadot.com. Funded by NDOT's roadside logo sign program, the service is free to users and does not rely on Nevada taxpayer funds.



Work progresses on the \$230 million Hoover Dam Bypass Bridge.

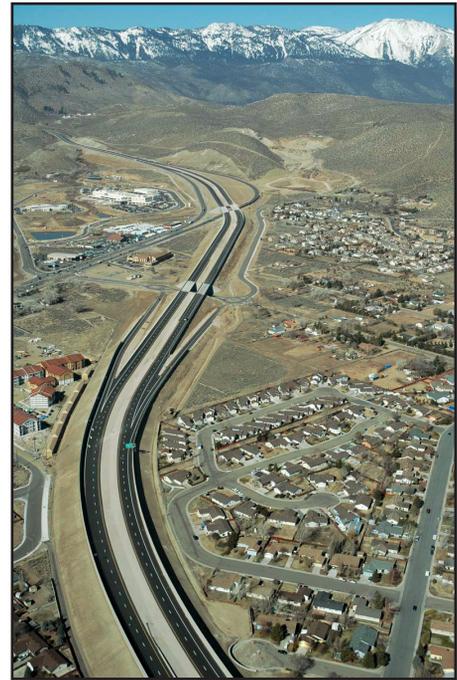


Recently completed \$83 million I-515/Beltway interchange in Henderson.

Recent federal grants secured by NDOT provide free construction truck training courses to minorities and make interstate commerce safer by expanding Commercial Vehicle Information Systems and Networks technology.

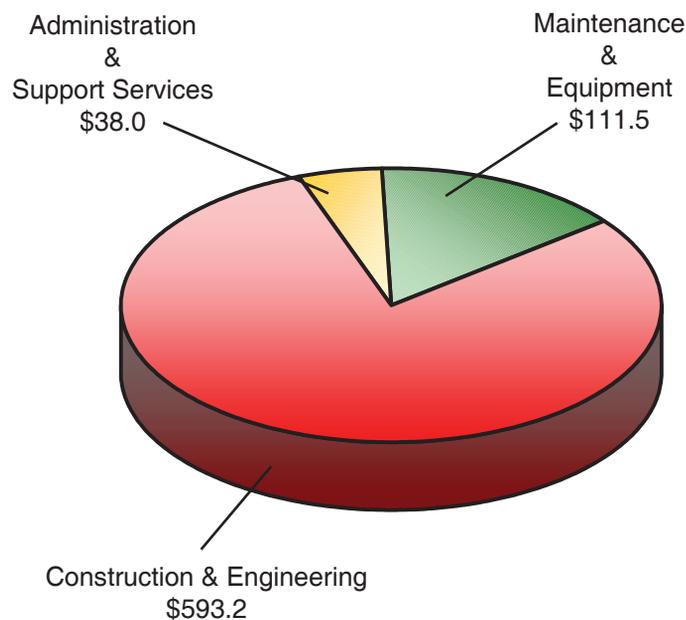
The Department also continues to offer unexpected public services from assistance with fire prevention measures in the Elko area's devastating 2006 fire season to providing statewide life-saving services as medical first responders.

NDOT serves the economic, environmental and social needs of the State by planning, building and maintaining the nation's highest-ranked bridge system and 5,399 miles of state roadway named some of the nation's smoothest. Some of the largest improvement projects include widening of I-15 in Las Vegas, construction of the I-580 freeway connecting Reno and Carson City and assisting federal authorities in securing and expanding the vital Hoover Dam North American Free Trade Agreement route.



Aerial view of the first phase of the \$120 million Carson City Freeway.

Nevada Department of Transportation Expenditures
FY 2006
(in millions)



Department of Health and Human Services

The Department of Health and Human Services (DHHS) promotes 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 FISCAL YEAR 2006

USDA Deputy Under Secretary Kate Coler met with Governor Guinn and staff of the Division of Welfare and Supportive Services (DWSS) to present a High Performance Bonus of \$1,146,492 for payment accuracy in the State's Food Stamp Program. The bonus, the first since 1989 for this program, recognizes the hard work of division staff in ensuring program integrity. Nevada achieved a payment error rate for Federal FY05 of 2.86%, placing the State as the fourth in the nation for the lowest payment error rate and second in the most improved ranking.



USDA Deputy Under Secretary Kate Coler, Governor Guinn and the DWSS staff display the High Performance Bonus check presented for payment accuracy.

DWSS also installed the first of ten Food Stamp application kiosks funded through a Food Stamp access and participation grant. The kiosks, to be located in district offices and grocery stores, will make the application process easier for the public and allow the division to implement electronic application submission.

Through implementation of Nevada Medicaid's Behavioral Health Redesign and changes in Medicaid policy related to the delivery of children's mental health services, the Division of Health Care Financing and Policy (DHCFP) is working to broaden access to behavioral health services, increase mental health provider capacity, increase the types of mental health rehabilitation services available, and encourage person-centered planning in the delivery of services in home and community-based settings.

The Nevada Medicaid program also achieved a reduction in the annual increase in overall drug expenses to 2.5% in 2005 after experiencing a 21.6% increase in 2004. According to the Kaiser Family Foundation, drug costs were expected to increase nationally at 10.7%. A recent Kaiser survey of Medicaid programs in other states revealed an estimated annual increase of 14.3% for 2005.

DHCFP attributes the significant cost savings to three strategic initiatives: developing a preferred drug list through the Pharmacy and Therapeutics Committee and purchasing the preferred drugs through a pool; collaborating with the Nevada Drug Use Review Board on policies to reduce inappropriate drug spending and ensure appropriate drug use; implementing a new pricing plan, the State Maximum Allowable Cost program.



The opening of the Rawson-Neal Hospital in Las Vegas increased bed capacity for those with mental illness.

Construction was completed on the Rawson-Neal Hospital in Las Vegas, a state-of-the-art facility that will provide 190 beds to care for individuals with mental illness in southern Nevada. A result of cooperative efforts among the State of Nevada, the Division of Mental Health and Developmental Services and many public and private partners, the hospital represents a major move toward providing a sufficient number of beds and facilities in Clark County for those in need of mental health care. The hospital is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

DEPARTMENT OF HEALTH & HUMAN SERVICES BUDGET BY DIVISION
FISCAL YEAR 2006

Indian Commission	\$	184,615
State Public Defender		2,705,862
Aging Services		37,570,504
Director's Office		61,025,658
Health		173,633,860
Child and Family Services		184,576,127
Welfare and Supportive Services		229,813,505
Mental Health & Developmental Services		236,789,560
Health Care Financing & Policy		<u>1,352,838,912</u>
Total DHHS Budget	\$	<u><u>2,279,138,603</u></u>

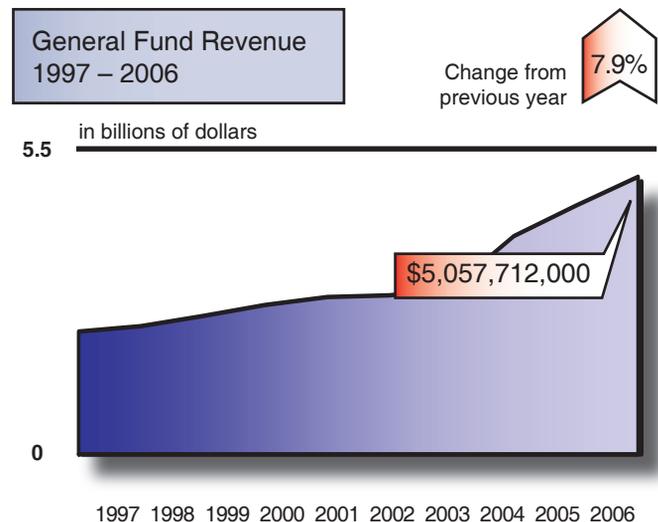
Economic Outlook

During the fiscal year ended June 30, 2006, Nevada's economy continued to turn in impressive results although there are some signs of moderation.

The State continues to lead the nation with respect to nearly every major economic barometer.

General Fund Revenue

Between fiscal years 1997 and 2003, General Fund revenue growth averaged 5.1% per year. In 2003, the Executive Budget proposed significant changes in the State's revenue base, which the Legislature acted upon. The end result was a new revenue structure designed to better reflect underlying economic conditions in the State. Revenue grew by over 20.6% in fiscal year 2004, during which the new revenue structure was phased in as the year unfolded. In fiscal year 2005, the first full year during which the new revenue structure was in place, growth came in at 12.1%. In fiscal year 2006, revenue grew 7.9% to \$5 billion.

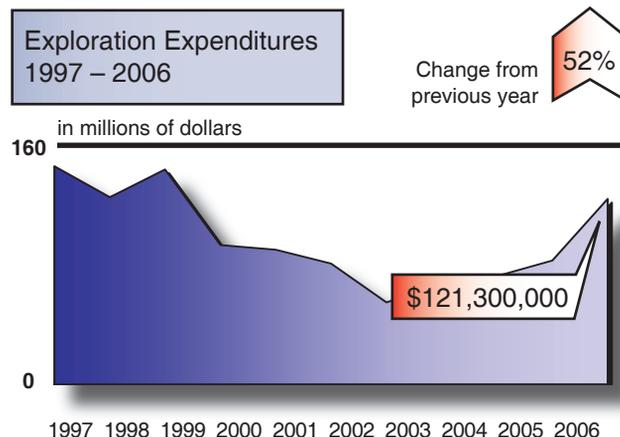


Non-federal General Fund revenue collections have come in above budgeted amounts in each of the past three years. Fiscal year 2006 collections came in at \$187.6 million above budget. Much of the revenue surplus was attributable to revenue sources that were in place prior to 2003. Just three revenue sources, the sales tax, gaming percentage fees and Treasurer's interest income, accounted for 60% of the surplus. Of the various new revenue sources established in 2003, only real property transfer tax collections came in significantly higher than expected, accounting for \$21.7 million of the \$187.6 million surplus.

Mining

There was a significant increase in mining exploration expenditures in the State. The \$121.3 million in exploration expenditures accounted for in the calendar year 2005 survey amounted to a 52.2% increase over 2004. Current Nevada gold reserves, which are mineralized material that can be mined at a profit, are estimated to be 97.1 million ounces, sufficient to maintain current production levels for over 14 years at current prices and levels of production. The year end 2005 reserve estimate stands in contrast to the 80.3 million ounces estimated at year end 2004. Nevada companies' exploration programs not only replaced the 6.9 million ounces mined

in 2005 but added another 16.8 million ounces to their reserves. While these reserve estimates are sensitive to prices, production costs and a variety of technical and regulatory conditions, exploration success in 2005 bodes well for the future of the industry.



Job Growth

As the year unfolded, job growth eased a bit. Through the first several months of fiscal year 2006, annual job growth exceeded 6%; however, by year-end gains were closer to 5%.

Expectations are for Nevada's economy to continue expanding at a rate that will keep it at or near the top of nearly every ranking. Global Insight, a well-known economic consulting firm under contract with the State, expects Nevada job growth through the end of 2006 to be the strongest in the nation. Over the 2006-2008 period, Nevada job growth is forecast to be the second strongest of all the states, while a return to the top ranking is predicted for the 2008-2011 period. Much the same is true with respect to other major

economic indicators, including personal income and gross state product.

Nevada currently enjoys a high job growth and a low unemployment rate. In this type of environment, attracting skilled workers and training future skilled workers is a focus for business and government.

Taxable Sales

During the first eight months of fiscal year 2006, taxable sales grew 10.7% before easing to 5.2% in the final four months of the year.

Nevada taxable sales, the tax base for the State's largest General Fund revenue source, have doubled in the past decade. Over that time period, the State's two largest sales categories, eating and drinking establishments and automotive-related businesses, each turned in average annual gains in excess of 8%.

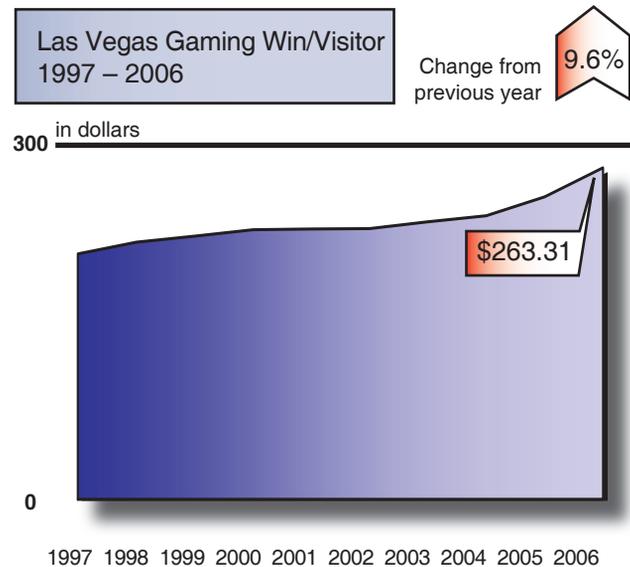
Taxable sales are expected to grow as the State's population continues to grow and the visitor count continues to increase.

Visitor Volume

Las Vegas visitor volume increased at an annual rate of 3.6% during the first seven months of fiscal year 2006. However, during the final five months of the year, visitor volume was down by 0.3% from the prior year's counts.

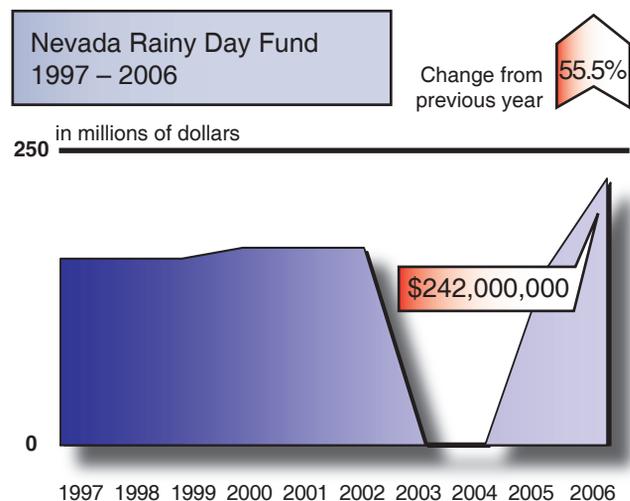
There is optimism by investors that visitor volume will increase as evidenced by the continued building and expansion of megaresorts in southern Nevada. In the next 3 years, there are over 42,000 hotel/motel rooms to be built in the Las Vegas area.

Hotel occupancy levels were up slightly from the previous year's monthly average of 84.2% to this year's monthly average of 84.4% or a .2% increase.



Rainy Day Fund

Nevada's strong economy has had direct implications for the State's overall fiscal health. The Rainy Day Fund stood at \$136 million at the beginning of 2003. The Fund was utilized to address various pressing fiscal issues during the first half of the year, leaving the balance at just above \$1 million by mid-year. It has since grown, via a series of automatic triggers resulting from higher than expected revenue collections and direct appropriations, to its current level of more than \$242 million.





Construction in Las Vegas continues to contribute to Nevada's growing economy.

Population Growth

Nevada has been the fastest growing state in the nation for the past two decades. Such strong growth results in considerable pressure in the form of expanding student enrollments, human service needs and infrastructure requirements on the State's resources. While Nevada's revenue picture is encouraging, the State's growing population results in increasing demands upon the State's resources.

Perhaps the biggest concern with respect to the State's future economic strength revolves around a residential construction slowdown and the potential for such a slowdown to have broad economic impacts. In Clark County, new and existing home prices are barely holding steady, housing inventories are on the rise and sales volume is on the decline.

While the residential real estate market is slumping, strength elsewhere is evident. In excess of 42,000 hotel/motel rooms are scheduled for construction in southern Nevada over the 2006-2009 period.

Looking to the Future

Taken as a whole, Nevada's economic performance and future is impressive given the current economic and political backdrop. Record oil prices, rising interest rates, a slowing global economy and escalating tensions in the Middle East have failed to stem the optimism about the State's economic future. Nevada's economy enters fiscal year 2007 and beyond on very solid footing.



"As I look to the future, I am excited about what we can accomplish."

Governor Kenny C. Guinn

Sources

Office of the State Controller
 Las Vegas News Bureau
 Nevada Commission on Tourism
 Nevada Department of Administration
 Nevada Department of Education
 Nevada Department of Employment, Training and Rehabilitation
 Nevada Department of Health and Human Services
 Nevada Department of Transportation
 Nevada Farm Bureau
 Nevada Mining Association
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Cover design by:

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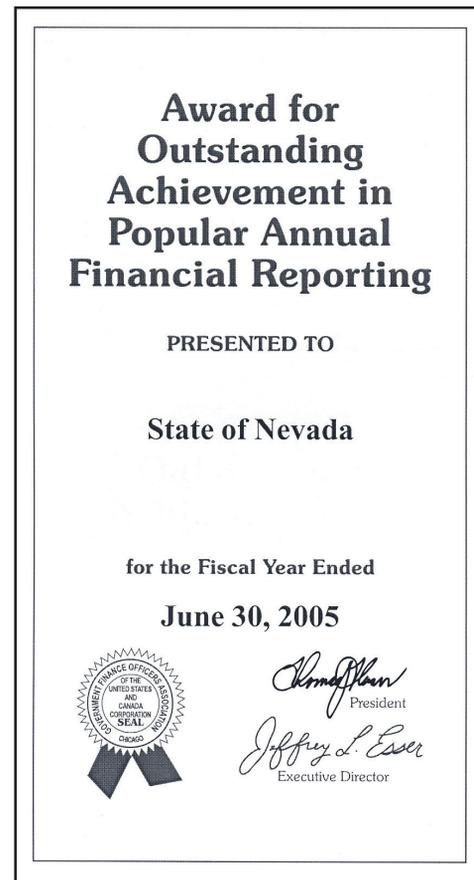
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Nevada State Printing Office

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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 the 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.