Grant Thornton

Financial Statements and Independent Accountants' Review Report

Nevada Housing Division

December 31, 2012

Contents

Audit • Tax • Advisory

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Independent Accountants' Review Report

Administrator
Nevada Housing Division

We have reviewed the accompanying combined statement of net position of Nevada Housing Division (the "Division") (a public agency) as of December 31, 2012, and the related combined statements of revenues, expenses and changes in net position and cash flows for the six months then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Division management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Reno, Nevada
June 17, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS

Nevada Housing Division

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six months ended December 31, 2012

Financial Statement Highlights

- The change in Net Position [bottom line] for the Housing Division was $618,830.
- Results of operations [revenue less operating expenses] were down $5,750,107 or 89% from last year's $6,465,524. There was a decrease in the change in General Funds Net Position of $811,687 from prior year; a decrease in the change in Net Position for the Single-Family bond program of $4,580,907 from prior year; a decrease in the change in Net Position for the Multi-family bond program of $531,043 from prior year. While total operating revenues decreased $6,820,823, total operating expenses decreased $1,070,716.
- Total whole loans held as well as securitized loan pools continued to increase. The total number of single-family whole loan first mortgages outstanding changed from 564 at December 31, 2011 to 942 at December 31, 2012. This increase of 378 loans was due to the delay in securitization of new loans into mortgage backed securities caused by the changing of Master Servicer Banks. The average value of the new single-family first mortgage loans added to the portfolio at December 31, 2012 was $128,383.
- Loan delinquencies on single-family mortgages went down from 13.12% of first mortgage loans outstanding at December 31, 2011 to 8.45% at December 31, 2012.
- Total investment earnings went from $12,224,440 to $5,728,227, a decrease of 53%. This decrease is due to lower investment balances during the six months ended December 31, 2012 compared to December 31, 2011 due to the defeasance of the whole-loan single-family issues in October 2011, the sale of mortgage-backed securities to finance the interest rate contract termination in November 2011, and the termination of mortgage-backed securities related to the defaults or refinances of six multi-family issues.
- Total salaries and payroll expenses paid went from $910,932 to $798,429, a decrease of 12%.
- The net cash position of the Housing Division decreased from $851,159 at December 31, 2011 to $322,792 at December 31, 2012.
- Standard & Poor's reaffirmed the Housing Division's Issuer Credit Rating at AA+ in June 2012.

Overview of Financial Statements

The combined Statements of Net Position, and Revenues and Expenses and Changes in Net Position reflect the financial position and results of operations from the Housing Division's three primary programs: General Fund, and the Single and Multi-unit bond programs. Two other programs of the Housing Division, the Federal Tax Credit Program and the Federal Weatherization Program also have a material operational impact on Housing Division operations [salaries and administrative expenses] but no material financial impact since they are involved in allocation of non-cash items or services. At mid-year, total Housing Division debt outstanding was $755,383,635 versus the Statutory Limit of $5 billion.

Financial Analysis

Total Assets: The total assets at mid-year were $974,161,120, down $83,142,577 or 8%. This decrease is primarily due to continuing single-family mortgage liquidations and multi-family loan refinancings and defaults. The five-year trend in mid-year total assets has been:

2012	2011	2010	2009	2008
$974,161,120	$1,057,303,697	$1,147,729,817	$1,125,322,518	$1,104,860,050

The book value of single-family whole first mortgage loans outstanding at mid-year was $84,721,396.

	2012	2011	2010	2009	2008
Value	$84,721,396	$35,610,150	$39,437,322	$44,334,704	$48,209,594
# of loans	942	564	602	702	738
% delinquent	8.45%	13.12%	8.24%	5.93%	4.88%

Total Liabilities: The total liabilities at mid-year were $779,837,563, down $84,309,614 or 10%. The five-year trend in total liabilities has been:

2012	2011	2010	2009	2008
$779,837,563	$864,147,177	$963,031,638	$944,361,480	$926,721,829

The Total Asset to Total Liability ratio trend for the past five years has been:

2012	2011	2010	2009	2008
1.249X	1.224X	1.192X	1.192X	1.192X

The Total Bond Liabilities [current and non-current] relative to the $5.0 billion statutory debt limit trend has been:

2012	2011	2010	2009	2008
15.1%	16.8%	18.7%	18.3%	18.1%

Net Position: The net position of the Housing Division increased to $194,323,557 up $1,167,037 or 1%. The five-year trend in net position has been:

2012	2011	2010	2009	2008
$194,323,557	$193,156,520	$184,698,179	$180,961,038	$178,138,221

Financial Analysis - Continued

In the past five years, combined net position from the three primary financial programs: general funds, single-family program and multi-unit program have shown the following trend:

Net Position	2012	2011	2010	2009	2008
General Fund	$174,966,192	$171,687,773	$167,442,085	$164,035,693	$160,807,286
Single-Family	16,035,021	17,428,807	13,171,660	12,899,012	13,393,120
Multi-Unit	3,322,344	4,039,940	4,088,607	4,026,333	3,937,815

The trend in administrative expenses plus operational charges for salaries, overhead and direct expenses paid by programs were for the past four years:

	2012		2011		2010		2009	
Net Position	Amount	%	Amount	%	Amount	%	Amount	%
Single-Family	$ 223,500	21.75	$ 215,828	19.47	$ 181,365	16.04	$ 335,377	24.88
Multi-Unit	804,123	78.25	892,851	80.53	949,146	83.96	1,012,622	75.12
Totals	$1,027,623		$1,108,679		$1,130,511		$1,347,999	

Administrative Budget

The Housing Division's administrative expense budget was approved for fiscal years FY2012 and FY2013 by the 2011 Nevada Legislature, as proposed by the Governor's Budget Office. The Housing Division's administrative budget reflects numerous managerial accounting differences from a GAAP revenue and expense statement. Significant differences between financial statements and the legislatively approved administrative budget include but are not limited to:

- The Housing Division budgets for revenues and expenditures only to the extent expected to affect funds of the State;
- Revenues and expenditures of indentures and bond certificate trusts are not funds of the State, but are included in either the Multi-unit or Single-family bond programs or General Fund in the financial statements and not reflected in the State budget;
- The Housing Division budgets for revenues and expenditures of the Federal HOME Program to the extent they are paid to or by the State of Nevada;
- The Division budgets for compensated absences only to the extent expected to be paid, rather than on the modified accrual basis;
- Income on investments, mortgages and bond interest payments are reflected as such in the financial statements but are not part of the State budget;
- Under State budgeting procedures, there is neither an increase nor decrease in net position.

Administrative Budget - Continued

During the first half of the budget year ended December 31, 2012, the Housing Division:

Had no increase in its administrative budgetary revenue authority amounts. Actual expenditures did not deviate from the original budget.
Budgetary reserves at mid-year were $1,163,894.

This Management Discussion and Analysis along with the accompanying Financial Statements, Notes and Supplementary Information reflect our ongoing commitment to full, fair and honest disclosure at December 31, 2012.

For questions regarding the accompanying Financial Statements, Notes and Supplementary Information, please visit our website at www.nvhousing.state.nv.us or contact our office at 775-687-2040.

DAVID HEATH /S/
David Heath, Chief Financial Officer

COMBINED FINANCIAL STATEMENTS

Nevada Housing Division

COMBINED STATEMENT OF NET POSITION

December 31, 2012
(With comparative totals for December 31, 2011)
(See accompanying independent accountants' review report)

ASSETS	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Combined Totals 2012	Combined Totals 2011	Nevada Affordable Housing Assistance Corporation 2012	Nevada Affordable Housing Assistance Corporation 2011
Current assets:							
Cash	$ 322,792	$ -	$ -	$ 322,792	$ 851,159	$ 19,442,222	$ 5,716,042
Investments							
Restricted	77,668,853	1,894,441	-	79,563,294	117,222,763	-	-
Unrestricted	334,800	74,986,239	16,856,433	92,177,472	123,760,906	-	-
Total investments	78,003,653	76,880,680	16,856,433	171,740,766	240,983,669	-	-
Loans receivable	6,381,896	2,495	7,004,822	13,389,213	12,539,619	-	-
Interest and other receivables, net	1,435,564	575,936	833,974	2,845,474	2,601,109	10,603	2,149
Prepaid expenses	-	-	-	-	-	100,466	148,271
Total current assets	86,143,905	77,459,111	24,695,229	188,298,245	256,975,556	19,553,291	5,866,462
Noncurrent assets:							
Long-term investments							
Restricted	4,867,958	6,250	-	4,874,208	13,994,292	-	-
Unrestricted	-	148,272,308	71,463,950	219,736,258	249,070,417	-	-
Fair value adjustment on investments	(495,312)	-	-	(495,312)	(331,365)	-	-
Total long-term investments	4,372,646	148,278,558	71,463,950	224,115,154	262,733,344	-	-
Loans receivable, net	91,868,052	195,693	467,385,741	559,449,486	534,876,749	-	-
Deferred issue costs, net of amortization	-	2,298,235	-	2,298,235	2,718,048	-	-
Office furniture and equipment, net of accumulated depreciation of $590,842	-	-	-	-	-	577,201	39,407
Long-term receivable from related parties	-	-	-	-	-	1,378,608	1,027,983
Deposits	-	-	-	-	-	9,833	5,708
Total noncurrent assets	96,240,698	150,772,486	538,849,691	785,862,875	800,328,141	1,965,642	1,073,098
Total assets	$182,384,603	$228,231,597	$563,544,920	$974,161,120	$1,057,303,697	$ 21,518,933	$ 6,939,560
LIABILITIES AND NET POSITION							
Current liabilities:							
Bonds payable	$ -	$ 1,220,000	$ 3,339,000	$ 4,559,000	$ 8,267,000	$ -	$ -
Interest payable	-	1,827,239	3,673,791	5,501,030	6,091,164	-	-
Interfund	(6,717)	132,800	(126,083)	-	-	-	-
Accounts payable and other liabilities	6,046,520	44,902	11,482,868	17,574,290	17,943,016	676,044	212,485
	6,039,803	3,224,941	18,369,576	27,634,320	32,301,180	676,044	212,485
Noncurrent liabilities:							
Payable to related party	1,378,608	-	-	1,378,608	-	-	-
Bonds payable, net of current portion	-	208,971,635	541,853,000	750,824,635	831,845,997	-	-
Total liabilities	7,418,411	212,196,576	560,222,576	779,837,563	864,147,177	676,044	212,485
Net position							
Restricted	171,846,406	16,035,021	3,322,344	191,203,771	190,036,734	20,842,889	6,727,075
Unrestricted	3,119,786	-	-	3,119,786	3,119,786	-	-
Total net position	174,966,192	16,035,021	3,322,344	194,323,557	193,156,520	20,842,889	6,727,075
Total liabilities and net position	$182,384,603	$228,231,597	$563,544,920	$974,161,120	$1,057,303,697	$ 21,518,933	$ 6,939,560

The accompanying notes are an integral part of this statement.

Nevada Housing Division

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Six months ended December 31, 2012
(With comparative totals for the six months ended December 31, 2011
(See accompanying independent accountants' review report)

	General Funds	Program Funds		Combined Totals		Nevada Affordable Housing Assistance Corporation	
		Single-Family	Multi-Unit	2012	2011	2012	2011
Operating revenues							
Interest and other investment income	$ 252,782	$ 3,713,452	$ 1,842,728	$ 5,808,962	$ 8,469,661	$ 413	$ 187
Realized and unrealized gains on investments	(80,735)	-	-	(80,735)	3,754,779	-	-
Total investment income	172,047	3,713,452	1,842,728	5,728,227	12,224,440	413	187
Interest income on mortgage loans	2,183,642	6,455	6,250,133	8,440,230	8,557,933	-	-
Grant revenue	-	-	-	-	-	36,980,000	4,864,950
Other income	733,012	-	802,622	1,535,634	1,742,541	-	-
Total operating revenues	3,088,701	3,719,907	8,895,483	15,704,091	22,524,914	36,980,413	4,865,137
Operating expenses							
Salaries and other payroll costs	798,429	-	-	798,429	910,932	897,144	347,614
Administrative expenses	1,534,006	-	339,226	1,873,232	829,308	1,177,463	651,635
Servicers' fees	123,854	300	-	124,154	47,392	-	-
Interest on bonds payable	-	3,766,760	8,299,866	12,066,626	13,514,273	-	-
Amortization of issue costs	-	114,667	11,566	126,233	757,485	-	-
Program payment expense	-	-	-	-	-	20,206,347	2,842,026
Business partner expense	-	-	-	-	-	-	357,718
Interfund operating charge	(1,027,623)	223,500	804,123	-	-	-	-
Total operating expenses	1,428,666	4,105,227	9,454,781	14,988,674	16,059,390	22,280,954	4,198,993
Non-operating revenues							
Federal program revenue	1,460,429	-	-	1,460,429	7,924,219	-	-
Federal program expenses	(1,557,016)	-	-	(1,557,016)	(7,847,276)	-	-
Total non-operating income (loss)	(96,587)	-	-	(96,587)	76,943	-	-
CHANGE IN NET POSITION	1,563,448	(385,320)	(559,298)	618,830	6,542,467	14,699,459	666,144
Transfers	350,000	(350,000)	-	-	-	-	-
Net position at beginning of period	173,052,744	16,770,341	3,881,642	193,704,727	186,614,053	6,143,430	6,060,931
Net position at end of period	$174,966,192	$ 16,035,021	$ 3,322,344	$194,323,557	$193,156,520	$ 20,842,889	$ 6,727,075

The accompanying notes are an integral part of this statement.

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS

Six months ended December 31, 2012
(With comparative totals for the six months ended December 31, 2011)
(See accompanying independent accountants' review report)

	General	Program Funds		Combined Totals	
	Funds	Single-Family	Multi-Unit	2012	2011
Cash flows from operating activities:					
Cash received from mortgage loans	$ 4,518,659	$ 8,916	$ 18,805,840	$ 23,333,415	$ 400,661,401
Cash payments to purchase mortgage loans	(23,265,281)	-	-	(23,265,281)	(352,113,664)
Cash receipts (payments) for goods and services	(1,112,776)	(222,039)	(278,652)	(1,613,467)	278,752
Interfund	(57,230)	3,345	53,885	-	-
Net cash provided by (used in) operating activities	(19,916,628)	(209,778)	18,581,073	(1,545,333)	48,826,489
Cash flows from noncapital financing activities:					
Proceeds from sale of bonds	-	-	-	-	52,960,000
Principal payments and purchase of bonds	-	(11,000,977)	(44,621,000)	(55,621,977)	(133,482,033)
Interest payments on bonds	-	(3,890,019)	(8,849,240)	(12,739,259)	(14,226,080)
Issue costs	-	-	-	-	(1,067,506)
Operating transfer	350,000	(350,000)	-	-	-
Federal grants received	1,460,429	-	-	1,460,429	7,924,219
Cash paid to other governments and organizations	(1,460,429)	-	-	(1,460,429)	(7,924,219)
Net cash provided by (used in) noncapital financing activities	350,000	- (15,240,996)	(53,470,240)	(68,361,236)	(95,815,619)
Cash flows from investing activities:					
Purchases of short-term investments (net)	(12,098,635)	(38,470,061)	(22,562,893)	(73,131,589)	(337,119,543)
Proceeds from sale of short-term investments	29,485,297	35,462,346	27,826,224	92,773,867	329,288,173
Purchases of of long term investments (net)	-	(7,531,993)	(4,825,780)	(12,357,773)	(128,218,984)
Proceeds from sale of long-term investments	1,131,738	22,197,838	32,605,860	55,935,436	170,574,296
Income received on investments	261,578	3,792,644	1,845,756	5,899,978	12,543,556
Net cash provided by investing activities	18,779,978	15,450,774	34,889,167	69,119,919	47,067,498
NET INCREASE (DECREASE) IN CASH	(786,650)	-	-	(786,650)	78,368
Cash at beginning of period	1,109,442	-	-	1,109,442	772,791
Cash at end of period	$ 322,792	$ -	$ -	$ 322,792	$ 851,159

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS - CONTINUED

Six months ended December 31, 2012
(With comparative totals for the six months ended December 31, 2011)
(See accompanying independent accountants' review report)

	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Combined Totals 2012	Combined Totals 2011
Reconciliation of change in net position to net cash provided by (used in) operating activities:					
Change in net position	$ 1,563,448	$ (385,320)	$ (559,298)	$ 618,830	$ 6,542,467
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:					
Amortization of issue costs	-	114,667	11,566	126,233	757,485
Income on investments	(252,782)	(3,713,452)	(1,842,728)	(5,808,962)	(8,469,661)
Realized and unrealized (gains) losses on investments	80,735	-	-	80,735	(3,754,779)
Interest on bonds payable	-	3,766,760	8,299,866	12,066,626	13,514,273
Change in assets and liabilities:					
Loans receivable	(20,619,817)	2,449	12,515,902	(8,101,466)	39,917,375
Other receivables	(249,970)	12	(44,565)	(294,523)	(33,269)
Deferred outflow of resources	-	-	-	-	3,699,570
Interfund	(57,230)	3,345	53,885	-	-
Derivative instrument - interest rate swap	-	-	-	-	(3,699,570)
Accounts payable and other liabilities	(820,087)	1,761	146,445	(671,881)	352,598
Payable to related party	439,075	-	-	439,075	
Net cash provided by (used in) operating activities	$ (19,916,628)	$ (209,778)	$ 18,581,073	$ (1,545,333)	$ 48,826,489
Noncash noncapital financing activiites:					
Conversion of bonds	$ -	$ -	$ -	$ -	$ 66,940,000

The accompanying notes are an integral part of this statement.

NOTE A - AUTHORIZING LEGISLATION

The Nevada Housing Division (the "Division") is a separate agency of the Department of Business and Industry of the State of Nevada, pursuant to the Nevada Housing Finance Law, as amended, in Chapter 319 of the Nevada Revised Statutes.

The Division was created for the purpose of making available additional funds to assist private enterprise and governmental agencies in providing safe and sanitary housing facilities for low and moderate income households. The Division is currently authorized to issue its bonds, notes, and other obligations in an aggregate amount not to exceed $5,000,000,000, which shall not constitute a debt of the State of Nevada or any political subdivision thereof. These funds may be used to make loans to and purchase mortgage loans from mortgage lenders, and to make temporary loans and advances in anticipation of insured mortgage loans or to finance permanent mortgage loans for the construction or rehabilitation of multi-unit residential housing.

NOTE B - THE REPORTING ENTITY AND NATURE OF FUNDS

1. All Funds

All funds are treated as proprietary funds. For financial reporting purposes, the Division is a proprietary fund of the State of Nevada.

The specified reserve funds and any monies not used for the specific purpose set forth for each program may be used only for the following limited purposes as may be individually set forth in each program's documents.

1. To invest funds as authorized by various bond resolutions and trust agreements.
2. To pay interest, principal and redemption premiums at or prior to maturity or redemption.
3. To establish and maintain reserves to secure the bonds.
4. To pay reasonable and necessary operating expenses of the program.
5. After all program requirements are satisfied, excess funds may be used for any lawful purpose of the Division.

Substantially all program fund assets are pledged in trust for the benefit of the bondholders.

The proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with the proprietary funds' principal ongoing operations. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following describes the general and program funds maintained by the Division, all of which conform to the authorizing legislation, general bond and note certificates and trust indentures.

2. General Funds

A state enterprise fund was authorized by enabling legislation and has been used to account for all transactions required by the state budget and appropriation statutes. It is funded principally from authorized transfers from the various programs and from investment income.

NOTE B - THE REPORTING ENTITY AND NATURE OF FUNDS - Continued

2. General Funds - Continued

The enabling legislation also authorized the Division to maintain such other funds as may be deemed necessary to account for other lawful activities of the Division. Special funds have been established and were funded with authorized transfers from the various programs and other investment income.

As of December 31, 2012, the Division had designated certain general fund assets totaling $171,846,406 to a reserve trust fund for the following purposes: to invest in certain securities; to pay interest and principal of certain bonds if there are insufficient funds in the program's fund; and to pay operating expenses of the fund as specified by the Administrator.

3. Single-Family Program Funds

There were 13 single-family mortgage purchase programs existing as of December 31, 2012, under 4 general bond certificates. Various funds are prescribed to account for the proceeds from the sale of the bonds and for the debt service requirements established by the bond certificate documents.

In addition to providing reserves, the bond sale proceeds must be used to purchase from Nevada lending institutions mortgage loans originated under the program which are made on single-family residences, or to purchase existing mortgage loans from the portfolios of lending institutions under circumstances requiring the lending institutions to reinvest the proceeds from such purchase in new mortgage loans on single-family residences to persons or families of low and moderate income in the State of Nevada.

4. Multi-Unit Program Funds

There were 56 multi-unit programs existing as of December 31, 2012, under 56 general bond certificates or trust indenture documents.

In addition to providing reserves, the bond sale proceeds must be used to provide financing and purchase mortgage loans or mortgage backed securities for various multi-unit rental housing projects located in Nevada to be rented to low to moderate income families, elderly persons, and other special needs groups.

5. Nevada Affordable Housing Assistance Corporation

The Nevada Affordable Housing Assistance Corporation ("NAHAC") is a nonprofit corporation. NAHAC's mission is to lessen the burdens of government by assisting the State of Nevada, Division of Housing of the Department of Business and Industry (the "Nevada Housing Division") by (i) owning, acquiring, developing, leasing and managing single or multi-family housing located in the State of Nevada (the "State"), (ii) providing funds or other benefits to facilitate single or multi-family housing located in the State, (iii) providing subsidies or other benefits to targeted groups of individuals within the State necessary or appropriate to provide affordable or subsidized single or multi-family housing in the State, (iv) promoting affordable or subsidized single or multi-family housing located in the State, (v) financing affordable or subsidized single or multi-family housing in the State, (vi) accepting and making grants for affordable or subsidized single or multi-family housing in the State, and (vii) conducting or performing any ancillary or related activity in furtherance of the foregoing.

NOTE B - THE REPORTING ENTITY AND NATURE OF FUNDS - Continued

5. Nevada Affordable Housing Assistance Corporation - Continued

NAHAC is considered a component unit of the Nevada Housing Division because the Nevada Housing Division is financially accountable for NAHAC as it appoints a voting majority of NAHAC's governing body. NAHAC, as a component unit of the Nevada Housing Division, is included in the basic financial statements of the Nevada Housing Division at December 31, 2012.

The June 30, 2012 and 2011 audited financial statements can be obtained directly from NAHAC at 10635 Double R Boulevard, Suite 100, Reno, Nevada 89521.

NOTE C - SUMMARY OF ACCOUNTING POLICIES

A summary of the Division's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Accrual Accounting for Enterprise Funds

Since the Division's funds are considered to be enterprise funds for financial reporting purposes, the Division follows the accrual basis of accounting, wherein revenues are recorded as earned and expenses are recorded as incurred.

2. Fund Accounting

Transactions of the Division, including interfund cash transfers, are recorded in the respective funds based upon their purposes as established by the Nevada legislature and by the certificates and legal documents executed by the Division. Revenue and expenses applicable to each fund are recorded in the respective funds.

3. Mortgages Purchased

Mortgages purchased are carried at their unpaid principal balance, less discount when applicable.

4. Investments

Investments are carried at fair value. Realized and unrealized gains and losses are reflected in the statement of revenues, expenses and changes in net position.

5. Bond Costs and Accreted Values Payable

Bond and note issue costs are deferred and amortized principally on a bonds outstanding method.

Interest is generally payable semiannually.

NOTE C - SUMMARY OF ACCOUNTING POLICIES

6. Allowance for Possible Loss on Loans

Loans receivable are collateralized by real property; obligations of the United States of America or of certain specified agencies or instrumentalities thereof; or FHA insured, Veterans Administration (VA) guaranteed or certain privately insured mortgages; or letters of credit, or guarantees from AA or AAA rated lenders. Periodic evaluation of loans receivable is made to determine if a charge against operations for possible loan losses will be required. At December 31, 2012, the Division recorded an allowance of $2,022,441 on uninsured second mortgages that are part of the Division's down payment assistance program.

7. Operating Expense Allocation

General and administrative expenses of operating the Division are allocated among the various programs. The amounts allocated are limited by bond program indentures and certificates.

8. Interfund Accounts

The general bond certificates or trust indentures, which establish the various programs, provide for certain transfers of cash from one fund to another and from a program to the Division's general operating accounts. It is frequently not practicable nor possible to affect a transfer as of the period end. Thus, there are a number of amounts due from or due to the various funds or programs at any given time.

9. Combined Financial Statements

All of the various programs are required by documents to have a number of specific funds established to account for transactions. Therefore, each column contains the total amounts for the various funds and accounts required, and the combined financial statements contain the total of all funds of the Division. Since the assets of certain funds are restricted by the legislative authority, the general bond and note certificates or trust indentures, the totaling of the funds and accounts, including assets therein, is for financial reporting purposes in accordance with generally accepted accounting principles and does not indicate that combined assets are available in any manner other than that provided by the legislature or the general bond and note certificates or trust indentures.

10. Comparative Data

Comparative total data for the prior year represent summarized totals only and have been presented in the accompanying combined financial statements in order to provide an understanding of changes in the Division's combined financial position and operations and is not meant to be a complete financial statement presentation. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. These reclassifications had no effect on the previously reported change in net position.

11. Cash and Investments

For purposes of cash flows, the Division considers all short-term highly liquid investments to be investments regardless of the maturity date.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

12. Accrued Interest Receivable

Interest is accrued based upon the principal amount outstanding. Accrued interest income is discontinued on loans when, in the opinion of management, collection of such interest income becomes doubtful. When payment of interest is provided for pursuant to the terms of loan insurance or guarantees, accrual of interest on delinquent loans is continued.

13. Bond Redemptions

During the period ended December 31, 2012, the Division redeemed a total of $55,621,977 of debt, pursuant to provisions of the related agreements, which permit surplus revenues, resulting primarily from mortgage loan payments, to be used to retire the obligations. The accelerated amortization of costs of issuance resulting from these surplus revenue redemptions is included in amortization of issue costs.

14. Arbitrage Rebate

Arbitrage rebate to the Internal Revenue Service is recognized in the statement of revenues, expenses, and changes in net position as a reduction of interest income on investments.

15. Proprietary Accounting and Financial Reporting

During the period ended December 31, 2012, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporated into GASB's authoritative literature certain accounting and financial reporting guidance included in the pronouncements of the FASB and American Institute of Certified Public Accountants (AICPA). This statement also superseded GASB Statement No. 20, and eliminated the election to apply post November 30, 1989 FASB pronouncements. The adoption of this statement did not have a material impact on the Division.

16. Using Estimates

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

17. Accounting for Compensated Absences

Compensated absences are accounted for in accordance with Governmental Accounting Standards Board (GASB) Statement 16, *Accounting for Compensated Absences*, which requires that a liability for compensated absences relating to services already rendered and that are not contingent on a specified event be accrued as employees earn the rights to the benefits. Compensated absences relating to future services or that are contingent on a specified event will be accounted for in the period those services are rendered or those events take place.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

18. Accounting and Financial Reporting for Certain Grants

Grants are accounted for in accordance with Governmental Accounting Standards Board (GASB) Statement 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, which requires that cash pass through grants received by a governmental entity, be reported as revenues and expenditures in the Division's financial statements.

19. Interest Rate Swap Agreements

During the six months ended December 31, 2011, the Division terminated their interest rate swap agreements associated with Single-Family Programs 2006A – 2008B. The related bonds were refunded with Single-Family Program 2011C. The swap termination fee of $4.6 million is shown on the combined statement of net position net of the new debt of 2011C and will be amortized over the life of the bonds.

20. New Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board (the "GASB") issued authoritative guidance related to accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts. This Statement, GASB 68, *Accounting and Financial Reporting for Pensions*, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. The guidance is effective for the first annual reporting period beginning after June 15, 2014, with early adoption permitted. The Division is still evaluating the impact this guidance will have on their financial position or results of operations.

In March 2012, the Governmental Accounting Standards Board (the "GASB") issued authoritative guidance related to accounting and financial reporting for items that were previously reported as assets and liabilities. This Statement, GASB 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Items to be reclassified include debt issuance costs and loan origination costs and fees. The guidance is effective for the first annual reporting period beginning after December 15, 2012, with early adoption permitted. The Division is still evaluating the impact this guidance will have on their financial position or results of operations.

In June 2011, the Governmental Accounting Standards Board (the "GASB") issued authoritative guidance related to financial reporting for deferred outflows of resources and deferred inflows of resources. This Statement, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes accounting and financial reporting standards that standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. The Division adopted this guidance for the period ended December 31, 2012 and it did not have a material impact on reported results.

NOTE D - INVESTMENTS

Investments at fair value consist of the following at December 31, 2012:

	General Funds	Single-Family	Multi-Unit	Total
Short-term investments	$77,936,291	$ 75,587,506	$16,061,249	$169,585,046
U.S. Treasury bonds	1,951,531	-	-	1,951,531
Investment agreements	-	2,872,154	2,574,553	5,446,707
Federal National Mortgage Association	2,488,477	5,134,134	46,953,201	54,575,812
Federal Home Loan Mortgage Corporation	-	358,987	-	358,987
Government National Mortgage Association	-	141,206,457	22,731,380	163,937,837
	$82,376,299	$225,159,238	$88,320,383	$395,855,920

Each program's documents and the trust agreements allow the Division to invest funds in (a) direct and general obligations of the United States or any of its states; (b) obligations which are guaranteed by the United States; (c) obligations of various agencies and instrumentalities of the United States; (d) insured or secured certificates of deposit and interest bearing time deposits; (e) repurchase agreements with certain institutions; (f) public housing bonds issued by public agencies or municipalities; (g) certain commercial or finance company paper; (h) interests in short-term investment trust funds restricted to investment obligations described above; or (i) general obligations of investment providers under investment agreements.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk and concentration of credit risk may affect fixed income securities, which are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P).

NOTE D - INVESTMENTS - Continued

Credit Risk - Continued

The lower the rating, the greater the chance - in the rating agencies opinion – that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

Investment agreements meet the requirements of the rating agency providing the rating on the related debt issue, and of the Division's investment policy. Investment agreements generally provide for collateralization of balances in the event of a rating agency downgrade of the institution below certain rating requirements.

The credit risk profile for investments at December 31, 2012 is a follows:

Investment type	General Funds	Single-Family	Multi-Unit	Total
Short-term investments				
Aaa	$63,936,290	$75,587,506	$16,061,249	$155,585,045
WR	14,000,001	-	-	14,000,001
Total short-term investments	$77,936,291	$75,587,506	$16,061,249	$169,585,046
Investment agreements				
Aa2	$ -	$ 268,109	$ 608,449	$ 876,558
A1	-	510,803	685,689	1,196,492
Baa1	-	-	422,236	422,236
Baa3	-	2,093,242	-	2,093,242
Caa1	-	-	478,381	478,381
WR	-	-	379,798	379,798
Total investment agreements	$ -	$2,872,154	$ 2,574,553	$ 5,446,707
Federal National Mortgage Association				
Aaa	$ 2,488,477	$ 5,134,134	$46,953,201	$ 54,575,812
Federal Home Loan Mortgage Corporation				
Aaa	$ -	$ 358,987	$ -	$ 358,987
Government National Mortgage Association				
Aaa	$ -	$141,206,457	$22,731,380	$163,937,837

NOTE D - INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

The Division's investments are exposed to custodial credit risk. These investments may be uninsured and unregistered investments for which the securities are held by a counterparty or by its agent or trust department, but not in the Division's name.

Housing Division policy limits money market fund custodial risks by diversifying the number of money market funds utilized. No securities backing money market funds, into which the Housing Division invests, are currently held by the agency's bond trustee.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. The Division currently places no limit on the amount the Division may invest in any one issuer provided their ratings are in the highest two general ratings categories. However, the Division monitors rating changes on all issuers. If warranted, more concentrated investments may have to be diluted to alternative investment providers. As of December 31, 2012, the Division's investments in the Fannie Mae and Ginnie Mae are 13.80% and 41.44%, respectively, of the Division's total investments. The Fannie Mae and Ginnie Mae investments are in mortgage backed securities matched to the interest rate and maturity of the underlying bonds. Because such investments are matched to concomitant liabilities, the Division is less concerned about a concentration risk on these investments.

NOTE D - INVESTMENTS - Continued

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with a longer time to maturity, measured by duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations.

The Division's management heavily weights its current portfolio balance in favor of money market investments. In addition, current policy limits new U.S. Treasury instruments to durations of two years or less.

The following table represents the maturities of the Division's investments as of December 31, 2012.

		Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10	No Maturity
Short-term Investments	$169,585,046	$ -	$ -	$ -	$ -	$169,585,046
U.S. Treasury Securities	1,951,531	-	1,951,531			-
U.S. agencies	218,872,636	-	10,689,341	8,776,768	199,406,527	-
Investment Agreements	5,446,707	-	-	422,235	5,024,472	-
	$395,855,920	$ -	$12,640,872	$9,199,003	$204,430,999	$169,585,046

NOTE E - LOANS RECEIVABLE

Under the various single-family mortgage purchase programs and for single-family mortgages purchased from the general funds, mortgage loans receivable have initial terms which may extend to 30 years. The various multi-unit mortgage loans receivable are represented by notes collateralized by deeds of trust and general obligations of lending institutions.

Mortgage loans receivable consist of the following:

	Interest Rates	General Funds	Single-Family	Multi-Unit	Combined Total
Single-Family Mortgage Programs	4.5%-10.98%	$98,902,586	$198,188		$ 99,100,774
Multi-Unit Programs	4.125%-11.25%			474,390,563	474,390,563
Less unamortized discount		(652,638)	-	-	(652,638)
		$98,249,948	$198,188	$474,390,563	$572,838,699
Due within one year		$ 6,381,896	$ 2,495	$ 7,004,822	$ 13,389,213

NOTE F - BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Original Amount	Outstanding
Single-Family Bonds			
2002 Issue A, 3.10% - 5.65%	April 1, 2033	$ 30,000,000	$ 125,000
2006 Issue A, 4.95%	October 1, 2033	18,000,000	670,000
2006 Issue B, 3.80%-4.65%	October 1, 2036	18,000,000	825,000
2007 Issue A, 3.75%-4.90%	April 1, 2037	18,000,000	1,565,000
2007 Issue B, 3.85%-5.30%	April 1, 2047	32,000,000	3,155,000
2008 Issue A, 3.05%-5.875%	April 1, 2038	34,300,000	4,135,000
2008 Issue B, 2.10%-5.55%	April 1, 2039	17,500,000	3,175,000
2009 Issue A, 1.20%-5.375%	October 1, 2039	23,180,000	10,055,000
2009 Issue B, 0.80%-5.25%	October 1, 2048	22,651,400	15,314,629
2009 Issue I-A, 3.010%	October 1, 2041	15,000,000	14,710,000
2010 Issue I, .65%-4.40%	April 1, 2027	10,000,000	8,845,000
2011 Issue A, .50%-4.625%	October 1, 2027	13,600,000	12,545,000
2009 Issue I-B, 0.61%-3.53%	October 1, 2041	20,400,000	20,140,000
2009 Issue I-C, 2.32%	October 1, 2041	10,000,000	10,000,000
2011 Issue B, 0.70%-4.75%	October 1, 2033	15,000,000	14,640,000
2009 Issue I-D, 2.32%	October 1, 2036	30,700,000	29,207,378
2011 Issue C, 4.20%	October 1, 2022	5,500,000	5,232,592
2009 Issue I-E, 2.32%	October 1, 2041	26,240,000	24,964,222
2011 Issue D, 1.00%-4.40%	April 1, 2029	32,460,000	30,887,814
Total single-family bonds		392,531,400	210,191,635
Multi-Unit Bonds			
1996 Oakmont Fort Apache, Variable	October 1, 2026	7,800,000	7,800,000
1996 Oakmont Flamingo, Variable	October 1, 2026	9,500,000	9,500,000
1997 Maryland Villas, Variable, Taxable	October 1, 2030	735,000	45,000
1997 Maryland Villas, Variable	October 1, 2030	4,165,000	3,875,000
1998 Cheyenne Pointe, 5.45%-5.50%	April 1, 2030	8,755,000	8,015,000
1998 Boulder Creek, 5.375%-5.50%	April 1, 2031	12,725,000	11,950,000
1998 Vintage Hills, 5.79%	October 1, 2030	7,740,000	7,272,000
1998 Spanish Hills, 6.26%, Taxable	April 1, 2014	1,845,000	85,000
1998 Spanish Hills, 5.25%-5.35%	October 1, 2031	6,655,000	6,655,000
1998 South Valley, 5.25%-5.375%	October 1, 2031	11,380,000	11,340,000
1998 Capistrano Pines, 5.25%	October 1, 2031	8,185,000	7,705,000
1998 Casa Sorrento, 5.25%	October 1, 2031	9,335,000	8,670,000
1998 Hilltop Villas, Variable, Taxable	April 1, 2031	570,000	540,000
1998 Hilltop Villas, Variable	April 1, 2031	3,220,000	2,995,000
1998 Stewart Villas, Variable, Taxable	April 1, 2031	585,000	555,000

NOTE F - BONDS PAYABLE - Continued

	Maturity Date	Original Amount	Outstanding
Multi-Unit Bonds - Continued			
1998 Stewart Villas, Variable	April 1, 2031	$ 3,310,000	$ 3,075,000
1999 Studio Three, Variable	October 1, 2030	8,500,000	5,670,000
1999 Diamond Creek, 7.60%, Taxable	April 1, 2014	3,250,000	250,000
1999 Diamond Creek, 5.90%-6.05%	April 1, 2032	16,245,000	16,245,000
1999 Bonanza Gardens, 6.30%	April 1, 2030	5,185,000	4,890,000
1999 Parkway Silverado, Variable, Taxable	October 15, 2032	2,240,000	110,000
1999 Parkway Silverado, Variable	October 15, 2032	12,710,000	12,710,000
1999 Apache Pines, Variable	October 15, 2032	11,815,000	11,815,000
2000 Summerhill, 4.50%-6.00%	October 1, 2030	10,200,000	8,225,000
2000 City Center Apts., Variable	April 1, 2032	9,350,000	7,440,000
2000 Horizon Pines Sr. Apts., Variable	April 15, 2033	8,750,000	8,750,000
2000 Banbridge, Variable	October 1, 2032	3,960,000	3,960,000
2000 Horizon Sr. Apts., Variable	October 15, 2033	10,840,000	10,840,000
2000 Orchard Club, 5.85%-5.95%	April 1, 2034	16,500,000	16,080,000
2000 Rancho Mesa, 5.75%	April 1, 2031	11,260,000	10,150,000
2000 CitiVista, 5.45%-5.70%	October 1, 2033	8,250,000	7,095,000
2001 Villanova, 5.40%-5.42%	April 15, 2035	18,905,000	17,745,000
2001 Silver Creek, 5.40%-5.42%	April 15, 2035	12,860,000	12,085,000
2002 City Center-LV, Variable	April 15, 2035	14,000,000	13,900,000
2002 Silver Pines, Variable	October 15, 2035	11,800,000	11,800,000
2002 Oakmont @ Reno, Variable	April 15, 2027	4,350,000	4,250,000
2002 St. Rose Seniors, Variable	April 15, 2027	14,770,000	14,770,000
2002 Bluffs at Reno, Variable	October 15, 2035	17,850,000	17,850,000
2002 Bluffs at Reno, Variable, Taxable	October 15, 2035	3,150,000	850,000
2002 Sunset Canyon, 5.20%-5.61%	April 1,2036	10,965,000	10,710,000
2002 Sunset Canyon, 5.11%, Taxable	April 1, 2017	1,935,000	875,000
2002 Los Pecos, 2.90%-5.15%	April 1, 2036	8,800,000	7,860,000
2002 Los Pecos, 5.65%, Taxable	April 1, 2036	2,200,000	1,980,000
2002 Whittell Pointe, 5.15%	April 1, 2036	7,045,000	7,045,000
2002 Whittell Pointe, 5.25%, Taxable	April 1, 2016	1,245,000	385,000
2002 Wood Creek, 5.25%	October 1, 2034	7,580,000	7,580,000
2002 Wood Creek, 4.00%-5.41%, Taxable	October 1, 2014	1,340,000	270,000
2003 Community Gardens, 3.10%-5.10%	October 1, 2038	7,435,000	6,545,000
2003 Cedar Village, 3.10%-5.10%	October 1, 2038	6,205,000	5,480,000
2003 L'Octaine Urban, Variable	April 1,2036	4,120,000	2,565,000
2003 Whittell Pointe II, 2.60% - 4.85%	April 1, 2037	7,500,000	6,755,000
2003 Zephyr Pointe, 2.60%-4.85%	April 1, 2037	15,160,000	13,760,000
2004 Glenbrook Terrace, 4.20%-5.33%	April 1, 2037	18,000,000	16,450,000
2004 Sundance Village, Variable	October 1, 2035	22,385,000	20,285,000

NOTE F - BONDS PAYABLE - Continued

	Maturity Date	Original Amount	Outstanding
Multi-Unit Bonds - Continued			
2005 Sierra Pointe, Variable	April 15, 2038	$ 9,985,000	$ 9,465,000
2005 Sonoma Palms, Variable	April 15, 2038	16,300,000	16,300,000
2005 Southwest Village, Variable	October 15, 2038	19,000,000	17,000,000
2006 Riverwood, 3.90%-4.75%	April 1, 2039	9,790,000	4,145,000
2007 Golden Apartments, Variable	October 1, 2037	8,200,000	7,850,000
2007 Centennial Park, 4.90%	April 1, 2037	2,040,000	1,890,000
2007 Vintage at Laughlin, Variable	April 15, 2041	11,000,000	11,000,000
2007 Vista Creek, Variable	April 15, 2041	21,000,000	21,000,000
2007 HELP Owens 2, Variable	October 1, 2042	5,545,000	2,065,000
2007 Arby Road, 5.35%-6.10%	April 1, 2041	15,350,000	10,760,000
2008 Sierra Manor, 6.95%	June 1, 2041	11,000,000	6,965,000
2011 College Villas, 3.55%	October 1, 2051	12,000,000	11,970,000
2011 Washoe Mill, 3.55%	April 1, 2029	8,820,000	8,680,000
Total multi-unit bonds		605,190,000	545,192,000
Combined total		$ 997,721,400	$ 755,383,635

NOTE F - BONDS PAYABLE - Continued

A substantial portion of the bonds have serial maturities and/or provisions for early redemption at the option of the Division. Scheduled bond maturities at June 30, 2012, for the following periods, are:

	Single-Family		Multi-Unit		Combined Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Years ending June 30,						
2013	$ 2,580,000	$ 7,791,299	$ 11,050,000	$ 17,684,080	$ 13,630,000	$ 25,475,379
2014	4,152,347	7,824,131	8,128,000	17,443,826	12,280,347	25,267,957
2015	4,275,159	7,748,364	8,699,000	17,034,784	12,974,159	24,783,148
2016	4,407,242	7,653,115	9,520,000	16,625,073	13,927,242	24,278,188
2017	4,514,081	7,538,982	10,075,000	16,157,727	14,589,081	23,696,709
2018-2022	26,041,229	35,221,352	73,230,000	71,072,484	99,271,229	106,293,836
2023-2027	33,916,373	29,132,798	127,595,000	47,771,141	161,511,373	76,903,939
2028-2032	42,759,852	21,143,464	103,601,000	28,957,900	146,360,852	50,101,364
2033-2037	51,224,120	13,106,912	139,425,000	12,055,040	190,649,120	25,161,952
2038-2042	44,832,209	4,747,049	91,615,000	2,582,671	136,447,209	7,329,720
2043-2047	2,080,000	419,550	4,365,000	679,950	6,445,000	1,099,500
2048-2052	410,000	17,719	2,510,000	228,265	2,920,000	245,984
	$221,192,612	$142,344,735	$589,813,000	$248,292,941	$811,005,612	$390,637,676

Total interest expense for the period ended December 31, 2012 was $12,066,626.

Many bonds payable have variable rates of interest that are not based on a defined spread. Instead, tax-exempt bonds track the SIFMA Index while the federally taxable debt tracks the one-month LIBOR Index.

The single-family bonds are payable from, and secured by, a pledge of:

- The proceeds derived from the sale of bonds.
- The rights and interest of the Division in all mortgage loans purchased by the Division under the various bond certificates.
- Revenues, which primarily include (a) mortgage repayments and the net income, if any, derived by the Division from premises owned by the Division as a result of foreclosure or other action taken in the event of a default on such a mortgage loan; (b) curtailments, consisting generally of all amounts representing monthly principal payments with respect to mortgage loans which are received in advance of the scheduled amortization thereof; and (c) all earnings realized by the investment of monies in all funds and accounts.
- All funds and accounts created by the various bond certificates, including the bond reserve fund, the mortgage loan reserve fund and monies and securities therein.

The multi-unit bonds are payable from, and secured by, a pledge of:

- The proceeds derived from the sale of bonds.
- All earnings realized from the investment of bond proceeds.
- After permanent financing: (a) all revenues received from the development including housing assistance payments and rental payments made by tenants; (b) the notes receivable, collateralized by deeds of trust; and (c) the rights of the Division to the FHA insurance, draws on bank letters of credit, private mortgage insurance, hazard insurance and condemnation proceeds.

NOTE G - CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities of Division consist of bonds payable to debt holders for the purchase of mortgage loans.

	Single-Family	Multi-Unit	Combined Total
Bonds payable			
Balances at July 1, 2012	$221,192,612	$589,813,000	$811,005,612
Increase in debt	-	-	-
Decrease in debt	(11,000,977)	(44,621,000)	(55,621,977)
Balances at December 31, 2012	$210,191,635	$545,192,000	$755,383,635
Due within one year	$ 1,220,000	$ 3,339,000	$ 4,559,000

NOTE H - RESTRICTED ASSETS

Substantially all investments in the Single-Family and Multi-Unit Mortgage Purchase Funds are held by trustees and are restricted as to use as required by the various bond certificates or trust indentures. Such restricted assets are included in funds and accounts within the program funds as established by the bond certificates. Such funds typically include, among others, bond reserve funds, capital reserve funds, debt service funds, and mortgage loan reserve funds. Restricted investments and interest receivable included in the various programs of the Division as of December 31, 2012 are as follows:

	General Fund	Single-Family	Multi-Unit	Combined Total
Investments	$82,536,811	$1,900,691	$ -	$84,437,502
Interest receivable	20,431	193	-	20,624
	$82,557,242	$1,900,884	$ -	$84,458,126

NOTE I - DEFINED BENEFIT PENSION PLAN

1. Plan Description

The Nevada Housing Division contributes to the Public Employees' Retirement System (PERS), a cost-sharing, multiple-employer, defined benefit pension plan administered by the State of Nevada. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The State of Nevada issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees' Retirement System of Nevada, 693 West Nye Lane, Carson City, Nevada 89703 or by calling (775) 687-4200.

2. Funding Policy

Under the plan, the Division employees choose to contribute 12.25% of the employee's gross salary which the employer matches, or the employee may choose to have the employer pay the total contribution which is then 23.75% of the employee's gross salary. The employee choosing to participate in the employer-paid pension plan is paid a lower salary. The actuarially determined funding requirement contribution rate for the fiscal year was 23.75%. The contribution requirements of plan members and the Division are established and may be amended by the Nevada State Legislature. The Division's contributions to PERS for the periods ended June 30, 2012, 2011 and 2010 were $236,433, $231,356, $238,463, respectively, and were equal to the required contributions for each period.

NOTE J - OTHER POSTEMPLOYMENT BENEFITS PLAN

In June 2004, the GASB issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* which requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets.

Public employees who meet the eligibility requirements for retirement and at the time of retirement are participants in the program, have the option upon retirement to continue group insurance including medical, dental, vision, accidental death and dismemberment, travel accident, long-term disability, mental health, substance abuse and life insurance benefits. Nevada Administrative Code 287.530 established this benefit upon the retiree. Monthly contributions are deducted from pension checks. The cost varies depending on which health plan the retiree chooses as well as the amount of the State subsidy they receive.

The Public Employees' Benefits Program administers these benefits as a multiple employer cost sharing plan. The State Retirees' Health and Welfare Benefits Trust Fund has been created to provide benefits to retirees and their beneficiaries. The State has contributed $17,700 to irrevocable trust as a multiple employer cost sharing plan. The unfunded actuarial accrued liability for the trust, as of the most recent valuation on July 1, 2010 is $947,150. This compares to $1,850,000 on July 1, 2009. This is recorded as a liability of the trust and not of the State or the System.

Complete financial statements for the State Retirees' Health and Welfare Benefits Fund can be obtained from the Accounting Department at the Public Employees Benefit Program, 901 South Stewart Street, Carson City, Nevada 89701.

NOTE K - OPERATING LEASE

The following is a schedule of future minimum rental payments to be made under non-cancelable operating leases for the Division's office facilities. The Carson City lease will expire November 30, 2016; the Las Vegas office lease will expire July 31, 2014.

Periods ending June 30,	
2013	$181,246
2014	184,834
2015	106,269
2016	100,418
2017	42,277
	$615,044

Total rent expense for the period ended December 31, 2012 was $90,188.

NOTE L - SUBSEQUENT EVENTS

In February 2013, due to changes in management at the Division, and the make-up of the Board of NAHAC, the Division determined that for reporting periods subsequent to December 31, 2012, it will no longer meet the requirements to present NAHAC as a discretely presented component unit of the Division in accordance with Governmental Accounting Standards Board Statement 61, *The Financial Reporting Entity: Omnibus*.

REQUIRED SUPPLEMENTAL INFORMATION

Nevada Housing Division

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL

GENERAL FUNDS

Six months ended December 31, 2012
(See accompanying independent accountants' review report)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)	Budget to GAAP Differences Over (Under)		Actual Amounts GAAP Basis
Operating revenues							
Interest and other investment income	$ -	$ -	$ -	$ -	$ 252,782	(1)	$ 252,782
Realized and unrealized gains on investments	-	-	-	-	(80,735)	(1)	(80,735)
Total investment income	-	-	-	-	172,047		172,047
Interest income on mortgage loans					2,183,642	(1)	2,183,642
Other income	1,202,717	1,202,717	750,551	(452,166)	(17,539)	(1)	733,012
Federal grants	3,225,074	3,225,074	1,482,608	(1,742,466)	(22,179)	(2)	1,460,429
Total operating revenues	4,427,791	4,427,791	2,233,159	(2,194,632)	2,315,971		4,549,130
Operating expenses							
Salaries and other payroll costs	2,124,723	2,124,723	821,075	(1,303,648)	(22,646)	(3)	798,429
Administrative expenses	(718,093)	(718,093)	(14,959)	703,134	1,507,961	(1)	1,493,002
Servicers' fees	-	-	-	-	123,854	(1)	123,854
Interfund operating charge	(593,449)	(593,449)	(776,271)	(182,822)	(251,352)	(1)	(1,027,623)
Reserve	1,163,894	1,163,894	-	(1,163,894)	-		-
Attorney general	42,511	42,511	10,628	(31,883)	30,376	(1)	41,004
Federal grant expenses	3,000,000	3,000,000	1,628,766	(1,371,234)	(71,750)	(2)	1,557,016
Total operating expenses	5,019,586	5,019,586	1,669,239	(3,350,347)	1,316,443		2,985,682
CHANGE IN NET POSITION	(591,795)	(591,795)	563,920	1,155,715	999,528		1,563,448
Transfers	-	-	-	-	350,000	(1)	350,000
Net position at beginning of period	591,795	591,795	591,795	-	172,460,949		173,052,744
Net position at end of period	$ -	$ -	$ 1,155,715	$ 1,155,715	$ 173,810,477		$ 174,966,192

Explanation of differences:

(1) The Division budgets for revenues and expenditures only to the extent expected to affect funds of the State of Nevada. Revenues and expenditures of the general reserve trust and loan servicing function of the Division are not funds of the State, but are included in the General Fund in the financial statements.

(2) The Division budgets for revenues and expenditures of the HOME Program to the extent they are paid to/from the State of Nevada. The HOME Program is included in the General Fund in the financial statements.

(3) The Division budgets for compensated absences only to the extent expected to be paid, rather than on the modified accrual basis.