



Financial Statements and Report of Independent
Certified Public Accountants

Nevada Housing Division

June 30, 2014

Contents

	Page
Report of Independent Certified Public Accountants	3
Management's Discussion and Analysis	6
Combined Financial Statements	
Combined Statement of Net Position	11
Combined Statement of Revenues, Expenses and Changes in Net Position	12
Combined Statement of Cash Flows	13
Notes to Combined Financial Statements	15
Required Supplemental Information	30
Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual – General Fund	31
Compliance Section	32
Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33
Schedule of Findings	35
Status of Prior Year Findings	36

Report of Independent Certified Public Accountants

Administrator
Nevada Housing Division

Report on the financial statements

We have audited the accompanying combined financial statements of the business-type activities of the Nevada Housing Division, a proprietary fund of the State of Nevada (the “Division”) as of and for the year ended June 30, 2014, and the related notes to the combined financial statements, which collectively comprise the Division’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Division’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nevada Housing Division as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

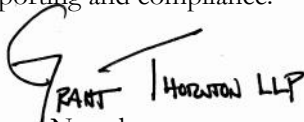
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and statement of revenues, expenses and changes in net position – budget and actual – general fund be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on 2013 summarized comparative information

We have previously audited the Division's June 30, 2013 basic financial statements (not presented herein), and we expressed unmodified audit opinions on the respective combined financial statements of the business-type activities, and the aggregate discretely presented component units in our report dated November 5, 2013. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 3, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Reno, Nevada
November 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nevada Housing Division

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2014

Financial Statement Highlights

- The change in Net Position [bottom line] for the Housing Division was \$(2,698,458).
- Results of operations [revenue less operating expenses] were down an additional \$1,829,884 in addition to last year's \$7,900,913 decrease. There was an increase in General Funds Net Position of \$1,714,283; a decrease in Net Position for the Single-Family bond programs of \$1,896,956 and a decrease in Net Position for the Multi-Unit bond programs of \$2,515,785. Both single-family and multi-unit bond programs continue to pay off at an accelerating rate. While total operating revenues decreased \$6,623,217, total expenses decreased \$4,793,333.
- The five-year trend in declining single-family whole loan first mortgage numbers and dollar balances continued through the June 30, 2014 period. However, securitized loan pools continued to increase. The total number of single-family whole loan first mortgages outstanding changed from 720 at June 30, 2013 to 519 at June 30, 2014. This decrease of 201 loans was due to the securitization of new loans into mortgage backed securities by the Master Servicer Bank.
- Loan delinquencies on single-family mortgages went from 11.11% of loans outstanding on June 30, 2013 to 10.44% of whole first mortgage loans outstanding. However, down payment assistance loans retained an extraordinarily high delinquency rate at June 30, 2014 of 16.97%, reflecting Nevada's high and continuing unemployment and foreclosure rate.
- Total investment earnings decreased from \$11,187,339 to \$8,401,367 or down 25%.
- Total salaries and payroll expenses paid went from \$1,489,425 to \$1,846,457 or up 24%.
- The net cash position of the Housing Division increased from \$1,002,990 at June 30, 2013 to \$1,161,782 at June 30, 2014.
- Standard & Poor's again reaffirmed the Housing Division's Issuer Credit Rating at AA in June.

Overview of Financial Statements

The combined Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position reflect the financial position and results of operations from the Housing Division's three primary programs: the General Funds, the Single-Family bond programs 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 year-end, total Housing Division bond debt outstanding was \$607,794,277 versus the Statutory Limit of \$5 billion.

Nevada Housing Division

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2014

Financial Analysis

Total Assets: The total assets at year end were \$828,966,674 down \$128,513,396 or 13%. This material decrease is primarily due to prepayment of multi-unit programs. The five-year trend in year-end total assets has been:

2014	2013	2012	2011	2010
\$ 828,966,674	\$ 957,480,070	\$ 1,030,069,706	\$ 1,135,342,042	\$ 1,208,874,523

The book value of single-family first mortgage loans outstanding at year end was \$29,660,468.

	2014	2013	2012	2011	2010
Value	\$29,660,468	\$ 59,307,256	\$ 62,930,730	\$37,606,298	\$41,753,698
# of loans	519	720	771	574	635
% delinquent	10.44%	11.11%	8.17%	12.20%	7.72%

Total Liabilities: The total liabilities at year end were \$638,780,298 down \$125,814,958 or 16%. The five-year trend in total liabilities has been:

2014	2013	2012	2011	2010
\$ 638,780,298	\$ 764,595,256	\$ 836,364,979	\$ 98,727,989	\$ 1,026,073,000

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

2014	2013	2012	2011	2010
1.298X	1.252X	1.232X	1.197X	1.178X

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

2014	2013	2012	2011	2010
12.2%	14.8%	16.2%	18.4%	19.9%

Net Position: The net position of the Housing Division decreased to \$190,186,376 down \$2,698,458 or 1.40%. The five-year trend in net position has been:

2014	2013	2012	2011	2010
\$ 190,186,376	\$ 192,884,834	\$ 193,704,727	\$ 186,614,053	\$ 182,801,523

Nevada Housing Division

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2014

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	2014	2013	2012	2011	2010
General Fund	\$180,205,597	\$178,398,705	\$173,052,744	\$169,885,958	\$165,689,028
Single-Family	9,063,301	11,052,866	16,770,341	12,659,900	13,093,882
Multi-Unit	917,478	3,443,263	3,881,642	4,068,195	4,018,567

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

	2014		2013		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%
Single-Family	\$ 578,856	13.4	\$ 480,455	19.9	\$ 535,060	24.9	\$ 545,803	21.9
Multi-Unit	3,747,009	86.6	1,937,073	80.1	1,617,606	75.1	1,944,041	78.1
Totals	<u>\$4,325,865</u>		<u>\$2,417,528</u>		<u>\$2,152,666</u>		<u>\$2,489,844</u>	

Administrative Budget

The Housing Division's administrative expense budget was approved for fiscal years FY2013 and FY2014 by the 2012 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 combined 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 HOME Program is not included in the General Fund in the combined financial statements;
- 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 combined financial statements but are not part of the State budget;
- Under State budgeting procedures, there is neither an increase nor decrease in net position.

Nevada Housing Division

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2014

Administrative Budget - Continued

During the budget year ended June 30, 2014, the Housing Division had the following significant changes in comparing the original budget to the final budget:

Had an increase of \$2,000,000 in other income for the Home Program. Expenditures increased from the original budget by \$707,379 for computer replacement, data base purchase, travel and loan servicing expenses.

Budgetary reserves at year-end were \$591,190.

This Management Discussion and Analysis along with the accompanying Combined Financial Statements, Notes and Supplementary Information reflect our ongoing commitment to full, fair and honest disclosure at June 30, 2014.

For questions regarding the accompanying Combined Financial Statements, Notes and Supplementary Information, please email nhdinfo@housing.nv.gov or contact our office at 775-687-2062.

C J MANTHE /s/
C J Manthe, Administrator

MICHAEL HOLLIDAY /s/
Michael Holliday, Chief Financial Officer

COMBINED FINANCIAL STATEMENTS

Nevada Housing Division
COMBINED STATEMENT OF NET POSITION

June 30, 2014
(With comparative totals for June 30, 2013)

ASSETS	General	Program Funds		Combined Totals	
	Funds	Single-Family	Multi-Unit	2014	2013
Current assets					
Cash	\$ 1,161,782	\$ -	\$ -	\$ 1,161,782	\$ 1,002,990
Investments					
Restricted	62,265,242	1,787,987	-	64,053,229	114,919,501
Unrestricted	376,346	26,340,045	26,540,823	53,257,214	90,680,107
Fair value adjustment on investments	(788,687)	-	-	(788,687)	-
Total investments	61,852,901	28,128,032	26,540,823	116,521,756	205,599,608
Loans receivable	3,509,259	-	8,775,452	12,284,711	16,974,400
Interest and other receivables, net	6,771,386	505,842	563,984	7,841,212	7,796,898
Total current assets	<u>73,295,328</u>	<u>28,633,874</u>	<u>35,880,259</u>	<u>137,809,461</u>	<u>231,373,896</u>
Noncurrent assets					
Long-term investments					
Restricted	29,785,901	-	-	29,785,901	4,369,121
Unrestricted	-	148,373,615	12,189,264	160,562,879	209,089,160
Fair value adjustment on investments	(158,502)	-	-	(158,502)	(581,250)
Total long-term investments	29,627,399	148,373,615	12,189,264	190,190,278	212,877,031
Loans receivable, net	32,585,246	-	416,194,695	448,779,941	510,731,295
Deferred issue costs, net of amortization	-	-	-	-	2,138,319
Office furniture and equipment, net of accumulated depreciation of \$423,908	333,847	-	-	333,847	359,529
Long-term receivable from related parties	51,853,147	-	-	51,853,147	-
Total noncurrent assets	<u>114,399,639</u>	<u>148,373,615</u>	<u>428,383,959</u>	<u>691,157,213</u>	<u>726,106,174</u>
Total assets	<u>\$ 187,694,967</u>	<u>\$ 177,007,489</u>	<u>\$ 464,264,218</u>	<u>\$ 828,966,674</u>	<u>\$ 957,480,070</u>
LIABILITIES AND NET POSITION					
Current liabilities					
Bonds payable	\$ -	\$ 3,215,000	\$ 4,784,000	\$ 7,999,000	\$ 42,308,000
Interest payable	-	1,368,965	2,216,449	3,585,414	5,316,621
Interfund	(197,063)	147,042	50,021	-	-
Accounts payable and other liabilities	6,833,286	23,290	19,690,884	26,547,460	18,489,253
Total current liabilities	<u>6,636,223</u>	<u>4,754,297</u>	<u>26,741,354</u>	<u>38,131,874</u>	<u>66,113,874</u>
Noncurrent liabilities					
Payable to related party	853,147	-	-	853,147	903,134
Bonds payable, net of current portion	-	163,189,891	436,605,386	599,795,277	697,578,228
Total liabilities	<u>7,489,370</u>	<u>167,944,188</u>	<u>463,346,740</u>	<u>638,780,298</u>	<u>764,595,236</u>
Net position					
Invested in capital assets	333,847	-	-	333,847	359,529
Restricted	176,663,173	9,063,301	917,478	186,643,952	189,404,677
Unrestricted	3,208,577	-	-	3,208,577	3,120,628
Total net position	<u>180,205,597</u>	<u>9,063,301</u>	<u>917,478</u>	<u>190,186,376</u>	<u>192,884,834</u>
Total liabilities and net position	<u>\$ 187,694,967</u>	<u>\$ 177,007,489</u>	<u>\$ 464,264,218</u>	<u>\$ 828,966,674</u>	<u>\$ 957,480,070</u>

The accompanying notes are an integral part of this statement.

Nevada Housing Division
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

Year ended June 30, 2014
(With comparative totals for the year ended June 30, 2013)

	General Funds	Program Funds		Combined Totals	
		Single-Family	Multi-Unit	2014	2013
Operating revenues					
Interest and other investment income	\$ 523,624	\$ 6,872,969	\$ 1,370,713	\$ 8,767,306	\$ 11,354,012
Realized and unrealized losses on investments	(365,939)	-	-	(365,939)	(166,673)
Total investment income	157,685	6,872,969	1,370,713	8,401,367	11,187,339
Interest income on mortgage loans	2,057,247	2,135	10,267,859	12,327,241	16,545,805
Other income	2,256,337	-	1,419,547	3,675,884	3,294,565
Total operating revenues	4,471,269	6,875,104	13,058,119	24,404,492	31,027,709
Operating expenses					
Salaries and other payroll costs	1,846,457	-	-	1,846,457	1,489,425
Administrative expenses	3,017,179	-	2,271,866	5,289,045	6,852,731
Depreciation	38,369	-	-	38,369	3,021
Servicers' fees	108,556	-	-	108,556	238,872
Interest on bonds payable	-	6,054,885	11,826,895	17,881,780	23,225,661
Amortization of issue costs	-	2,138,319	-	2,138,319	286,149
Interfund operating charge	(2,053,999)	578,856	1,475,143	-	-
Total operating expenses	2,956,562	8,772,060	15,573,904	27,302,526	32,095,859
Non-operating revenues					
Federal program revenue	4,772,040	-	-	4,772,040	2,404,186
Federal program expenses	(4,572,464)	-	-	(4,572,464)	(2,155,929)
Total non-operating income	199,576	-	-	199,576	248,257
CHANGE IN POSITION	1,714,283	(1,896,956)	(2,515,785)	(2,698,458)	(819,893)
Transfers	92,609	(92,609)	-	-	-
Net position at beginning of year	178,398,705	11,052,866	3,433,263	192,884,834	193,704,727
Net position at end of year	\$ 180,205,597	\$ 9,063,301	\$ 917,478	\$ 190,186,376	\$ 192,884,834

The accompanying notes are an integral part of this statement.

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS

Year ended June 30, 2014

(With comparative totals for the year ended June 30, 2013)

	General Funds	Program Funds		Combined Totals	
		Single-Family	Multi-Unit	2014	2013
Cash flows from operating activities:					
Cash received from mortgage loans	\$ 26,224,513	\$ 2,306,944	\$ 68,204,801	\$ 96,736,258	\$ 79,411,755
Cash payments to purchase mortgage loans	(662,546)	(2,202,509)	(15,219,546)	(18,084,601)	(31,384,104)
Cash receipts (payments) for goods and services	(310,522)	(601,470)	4,758,923	3,846,931	(4,941,800)
Interfund	(91,001)	(11,118)	102,119	-	-
Net cash provided by (used in) operating activities	<u>25,160,444</u>	<u>(508,153)</u>	<u>57,846,297</u>	<u>82,498,588</u>	<u>43,085,851</u>
Cash flows from noncapital financing activities:					
Proceeds from sale of bonds	-	-	19,369,386	19,369,386	-
Principal payments and purchase of bonds	-	(36,063,337)	(115,398,000)	(151,461,337)	(71,119,384)
Interest payments on bonds	-	(6,386,182)	(13,226,805)	(19,612,987)	(24,082,703)
Operating transfer	92,609	(92,609)	-	-	-
Federal grants received	4,772,040	-	-	4,772,040	2,404,186
Cash paid to other governments and organizations	(4,772,040)	-	-	(4,772,040)	(2,404,186)
Net cash provided by (used in) noncapital financing activities	<u>92,609</u>	<u>(42,542,128)</u>	<u>(109,255,419)</u>	<u>(151,704,938)</u>	<u>(95,202,087)</u>
Cash flows from capital and related financing activities:					
Acquisition of equipment	(12,687)	-	-	(12,687)	-
Net cash used in capital and related financing activities	<u>(12,687)</u>	<u>-</u>	<u>-</u>	<u>(12,687)</u>	<u>-</u>
Cash flows from investing activities:					
Purchase of short-term investments	(237,606,960)	(84,364,842)	(128,603,305)	(450,575,107)	(196,593,334)
Sale of short-term investments	288,497,486	102,821,985	147,785,310	539,104,781	182,376,780
Purchase of long-term investments	(33,195,705)	(24,884,402)	(21,014,905)	(79,095,012)	(54,350,545)
Sale of long-term investments	7,772,675	42,509,481	51,681,848	101,964,004	109,080,389
Income received on investments	450,930	6,968,059	1,560,174	8,979,163	11,496,494
Issuance of note receivable to related party	(51,000,000)	-	-	(51,000,000)	-
Net cash provided by (used in) investing activities	<u>(25,081,574)</u>	<u>43,050,281</u>	<u>51,409,122</u>	<u>69,377,829</u>	<u>52,009,784</u>
NET INCREASE (DECREASE) IN CASH	158,792	-	-	158,792	(106,452)
Cash at beginning of year	<u>1,002,990</u>	<u>-</u>	<u>-</u>	<u>1,002,990</u>	<u>1,109,442</u>
Cash at end of year	<u>\$ 1,161,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,161,782</u>	<u>\$ 1,002,990</u>

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2014

(With comparative totals for the year ended June 30, 2013)

	<u>General Funds</u>	<u>Program Funds</u>		<u>Combined Totals</u>	
		<u>Single-Family</u>	<u>Multi-Unit</u>	<u>2014</u>	<u>2013</u>
Reconciliation of change in net position to net cash provided by (used in) operating activities:					
Change in net position	\$ 1,714,283	\$ (1,896,956)	\$ (2,515,785)	\$ (2,698,458)	\$ (819,893)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Amortization of issue costs	-	2,138,319	-	2,138,319	286,149
Depreciation	38,369	-	-	38,369	3,021
Income on investments	(523,624)	(6,872,969)	(1,370,713)	(8,767,306)	(11,354,012)
Realized and unrealized losses on investments	365,939	-	-	365,939	166,673
Interest on bonds payable	-	6,054,885	11,826,895	17,881,780	23,225,661
Change in assets and liabilities:					
Loans receivable	24,047,767	100,142	42,525,158	66,673,067	32,141,074
Other receivables	456,209	2,157	95,288	553,654	(769,504)
Interfund	(91,001)	(11,118)	102,119	-	-
Accounts payable and other liabilities	(847,498)	(22,613)	7,183,335	6,313,224	206,682
Net cash provided by (used in) operating activities	<u>\$ 25,160,444</u>	<u>\$ (508,153)</u>	<u>\$ 57,846,297</u>	<u>\$ 82,498,588</u>	<u>\$ 43,085,851</u>
Noncash capital financing activities:					
Acquisition of equipment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 362,550</u>

The accompanying notes are an integral part of this statement.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2014

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.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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

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.

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 June 30, 2014, the Division had designated certain general fund assets totaling \$176,663,173 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 12 single-family mortgage purchase programs existing as of June 30, 2014, under 3 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 48 multi-unit programs existing as of June 30, 2014, under 48 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.

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.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

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 expensed as incurred.

Interest is generally payable semiannually.

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 June 30, 2014, the Division recorded an allowance of \$2,565,893 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 balance sheet date. Thus, there are a number of amounts due from or due to the various funds or programs at any given time.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

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.

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 year ended June 30, 2014, the Division redeemed a total of \$151,461,337 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 earnings as a reduction of interest income on investments.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

15. 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.

16. 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.

17. 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.

18. 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 Division adopted this guidance for the period ended June 30, 2014, and it did not have a material impact on reported results.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE D - INVESTMENTS

Investments consist of the following at June 30, 2014:

	<u>General Funds</u>	<u>Single-Family</u>	<u>Multi-Unit</u>	<u>Total</u>
Short-term investments	\$ 46,652,508	\$ 25,050,110	\$ 26,291,430	\$ 97,994,048
U.S. Treasury bonds	1,694,897	-	-	1,694,897
U.S. Treasury notes	5,229,100	-	-	5,229,100
U.S. Agencies	13,354,082	-	-	13,354,082
Corporate notes	8,893,191	-	-	8,893,191
Commercial paper	7,248,048	-	-	7,248,048
Investment agreements	-	780,155	733,198	1,513,353
Federal National Mortgage Association	1,298,451	2,003,986	-	3,302,437
Government National Mortgage Association	7,110,023	148,667,396	11,705,459	167,482,878
	<u>\$ 91,480,300</u>	<u>\$ 176,501,647</u>	<u>\$ 38,730,087</u>	<u>\$ 306,712,034</u>

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).

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.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE D - INVESTMENTS - Continued

Credit Risk - Continued

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 June 30, 2014 is as follows:

<u>Investment type</u>	<u>General Funds</u>	<u>Single-Family</u>	<u>Multi-Unit</u>	<u>Total</u>
Short-term investments				
Aaa	\$ 31,598,357	\$ 25,050,110	\$ 26,291,430	\$ 82,939,897
P-1	13,752,088	-	-	13,752,088
Aa1	1,302,063	-	-	1,302,063
Total short-term	46,652,508	25,050,110	26,291,430	97,994,048
Investment agreements				
A1	-	-	347,439	347,439
A2	-	214,242	385,759	600,001
Baa3	-	565,913	-	565,913
Total investment agreements	\$ 46,652,508	\$ 25,830,265	\$ 27,024,628	\$ 99,507,401
Federal National Mortgage Association				
Aaa	\$ 1,298,451	\$ 2,003,986	\$ -	\$ 3,302,437
Government National Mortgage Association				
Aaa	\$ 7,110,023	\$ 148,667,396	\$ 11,705,459	\$ 167,482,878
U.S. Treasury notes				
Aaa	\$ 5,229,100	\$ -	\$ -	\$ 5,229,100
U.S. Agencies				
Aaa	\$ 13,354,082	\$ -	\$ -	\$ 13,354,082
Corporate notes				
A1	\$ 3,824,416	\$ -	\$ -	\$ 3,824,416
A2	2,521,783	-	-	2,521,783
A3	2,546,992	-	-	2,546,992
Total corporate notes	\$ 8,893,191	\$ -	\$ -	\$ 8,893,191
Commercial paper				
P-1	\$ 7,248,048	\$ -	\$ -	\$ 7,248,048

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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 June 30, 2014, the Division's investments in the Fannie Mae and Ginnie Mae are 1.08% and 54.61%, 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.

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.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE D - INVESTMENTS - Continued

Interest Rate Risk - Continued

The following table represents the maturities of the Division's investments as of June 30, 2014.

	Fair Value	Maturities in Years				
		Less than 1	1-5	6-10	More than 10	No Maturity
Short-term investments	\$ 97,994,048	\$ 12,501,825	\$ 2,552,326	\$ -	\$ -	\$ 82,939,897
U.S. Treasury securities	6,923,997	1,694,897	5,229,100	-	-	-
U.S. agencies	184,139,397	2,323,921	11,030,161	-	170,785,315	-
Corporate notes	8,893,191	6,375,589	2,517,602	-	-	-
Commercial paper	7,248,048	7,248,048	-	-	-	-
Investment agreements	1,513,353	-	-	-	1,513,353	-
	<u>\$ 306,712,034</u>	<u>\$ 30,144,280</u>	<u>\$ 21,329,189</u>	<u>\$ -</u>	<u>\$ 172,298,668</u>	<u>\$ 82,939,897</u>

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	2.75%-10.98%	\$ 36,734,673	\$ -	\$ -	\$ 36,734,673
Multi-Unit Programs	0.35%-11.25%	-	-	424,970,147	424,970,147
Less unamortized discount		(640,168)	-	-	(640,168)
		<u>\$ 36,094,505</u>	<u>\$ -</u>	<u>\$ 424,970,147</u>	<u>\$ 461,064,652</u>

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE F - BONDS PAYABLE

Bonds payable consist of the following:

	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Outstanding</u>
<u>Single-Family Bonds</u>			
2007 Issue A, 3.75%-4.90%	April 1, 2037	\$ 18,000,000	\$ 575,000
2007 Issue B, 3.85%-5.30%	April 1, 2047	32,000,000	375,000
2008 Issue A, 3.05%-5.875%	April 1, 2038	34,300,000	1,475,000
2008 Issue B, 2.10%-5.55%	April 1, 2039	17,500,000	1,440,000
2009 Issue A, 1.20%-5.375%	October 1, 2039	23,180,000	5,855,000
2009 Issue B, 0.80%-5.25%	October 1, 2048	22,651,400	7,929,891
2009 Issue I-A, 3.010%	October 1, 2041	15,000,000	11,630,000
2010 Issue I, .65%-4.40%	April 1, 2027	10,000,000	6,270,000
2011 Issue A, .50%-4.625%	October 1, 2027	13,600,000	8,900,000
2009 Issue I-B, 0.61%-3.53%	October 1, 2041	20,400,000	15,770,000
2009 Issue I-C, 2.32%	October 1, 2041	10,000,000	8,505,000
2011 Issue B, 0.70%-4.75%	October 1, 2033	15,000,000	11,815,000
2009 Issue I-D, 2.32%	October 1, 2036	30,700,000	28,340,000
2011 Issue C, 4.20%	October 1, 2022	5,500,000	5,070,000
2009 Issue I-E, 2.32%	October 1, 2041	26,240,000	24,220,000
2011 Issue D, 1.00%-4.40%	April 1, 2029	32,460,000	28,235,000
Total single-family bonds		<u>326,531,400</u>	<u>166,404,891</u>
<u>Multi-Unit Bonds</u>			
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	October 1, 2030	4,165,000	2,400,000
1998 Cheyenne Pointe, 5.45%-5.50%	April 1, 2030	8,755,000	7,610,000
1998 Vintage Hills, 5.79%	October 1, 2030	7,740,000	6,920,000
1998 Hilltop Villas, Variable	April 1, 2031	3,220,000	2,330,000
1998 Stewart Villas, Variable, Taxable	April 1, 2031	585,000	540,000
1998 Stewart Villas, Variable	April 1, 2031	3,310,000	2,985,000
1999 Studio Three, Variable	October 1, 2030	8,500,000	5,670,000
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 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	3,800,000
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	15,520,000
2001 Villanova, 5.40%-5.42%	April 15, 2035	18,905,000	17,190,000
2001 Silver Creek, 5.40%-5.42%	April 15, 2035	12,860,000	11,710,000

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE F - BONDS PAYABLE - Continued

Multi-Unit Bonds - Continued	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Outstanding</u>
2002 City Center-Las Vegas, Variable	April 15, 2035	\$ 14,000,000	\$ 13,900,000
2002 Silver Pines, Variable	October 15, 2035	11,800,000	11,800,000
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	250,000
2002 Sunset Canyon, 5.20%-5.61%	April 1, 2036	10,965,000	10,635,000
2002 Sunset Canyon, 5.11%, Taxable	April 1, 2017	1,935,000	590,000
2002 Los Pecos, 2.90%-5.15%	April 1, 2036	8,800,000	7,610,000
2002 Los Pecos, 5.65%, Taxable	April 1, 2036	2,200,000	1,920,000
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	155,000
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	15,000
2003 Community Gardens, 3.10%-5.10%	October 1, 2038	7,435,000	6,365,000
2003 Cedar Village, 3.10%-5.10%	October 1, 2038	6,205,000	5,330,000
2003 L'Octaine Urban, Variable	April 1, 2036	4,120,000	2,465,000
2003 Whittell Pointe II, 2.60% - 4.85%	April 1, 2037	7,500,000	6,545,000
2003 Zephyr Pointe, 2.60%-4.85%	April 1, 2037	15,160,000	13,355,000
2004 Glenbrook Terrace, 4.20%-5.33%	April 1, 2037	18,000,000	15,945,000
2004 Sundance Village, Variable	October 1, 2035	22,385,000	19,685,000
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	4,040,000
2007 Golden Apartments, Variable	October 1, 2037	8,200,000	7,850,000
2007 Centennial Park, 4.90%	April 1, 2037	2,040,000	1,840,000
2007 Vintage at Laughlin, Variable	April 15, 2041	11,000,000	9,660,000
2007 Vista Creek, Variable	April 15, 2041	21,000,000	18,515,000
2007 HELP Owens, Variable	October 1, 2042	5,545,000	2,065,000
2007 Arby Road, 5.35%-6.10%	April 1, 2041	15,350,000	10,540,000
2008 Sierra Manor Apartments, 6.95%	June 1, 2041	11,000,000	6,885,000
2011 Washoe Mill, 3.55%	April 1, 2029	8,820,000	8,520,000
2013 Henderson Family, 6%	September 1, 2046	15,000,000	9,309,386
2013 Agate Ave. Variable	June 1, 2047	13,000,000	55,000
2013 Landsman Gardens Variable	December 13, 2015	5,700,000	55,000
2013 Landsman Gardens, 0.63%	December 1, 2015	6,300,000	6,300,000
2014 Orvis Ring, 0.35%	October 1, 2016	3,650,000	3,650,000
Total multi-unit bonds		<u>524,430,000</u>	<u>441,389,386</u>
Combined total		<u>\$ 850,961,400</u>	<u>\$ 607,794,277</u>

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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, 2014, for the following years, are:

Years ending June 30,	Single-Family		Multi-Unit		Combined Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 3,215,000	\$ 5,183,364	\$ 4,784,000	\$ 9,921,880	\$ 7,999,000	\$ 15,105,244
2016	3,330,000	5,397,567	11,655,000	9,697,992	14,985,000	15,095,559
2017	3,455,000	5,317,643	9,450,581	9,453,998	12,905,581	14,771,641
2018	3,580,000	5,220,416	9,474,360	9,193,342	13,054,360	14,413,758
2019	3,725,000	5,107,461	6,357,718	8,927,645	10,082,718	14,035,106
2020-2024	21,560,000	23,253,913	65,428,335	38,682,524	86,988,335	61,936,437
2025-2029	28,263,125	18,059,609	71,530,649	23,510,662	99,793,774	41,570,271
2030-2034	35,613,732	12,185,916	95,610,440	15,006,300	131,224,172	27,192,216
2035-2039	43,090,103	6,310,399	129,322,212	6,770,127	172,412,315	13,080,526
2040-2044	19,927,931	937,284	37,419,676	902,212	57,347,607	1,839,496
2045-2049	645,000	79,425	356,415	4,811	1,001,415	84,236
	<u>\$ 166,404,891</u>	<u>\$ 87,052,997</u>	<u>\$ 441,389,386</u>	<u>\$ 132,071,493</u>	<u>\$ 607,794,277</u>	<u>\$ 219,124,490</u>

Total interest expense for the year ended June 30, 2014 was \$17,881,780.

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:

1. The proceeds derived from the sale of bonds.
2. The rights and interest of the Division in all mortgage loans purchased by the Division under the various bond certificates.
3. 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.
4. 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:

5. The proceeds derived from the sale of bonds.
6. All earnings realized from the investment of bond proceeds.
7. 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.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE G - CHANGES IN LONG-TERM LIABILITIES

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

	Single-Family	Multi-Unit	Combined Total
<u>Bonds payable</u>			
Balances at July 1, 2013	\$ 202,468,228	\$ 537,418,000	\$ 739,886,228
Increase in debt	-	19,369,386	19,369,386
Decrease in debt	(36,063,337)	(115,398,000)	(151,461,337)
	<u>\$ 166,404,891</u>	<u>\$ 441,389,386</u>	<u>\$ 607,794,277</u>
Balances at June 30, 2014			
Due within one year	<u>\$ 3,215,000</u>	<u>\$ 4,784,000</u>	<u>\$ 7,999,000</u>

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 June 30, 2014 are as follows:

	General Funds	Single-Family	Multi-Unit	Combined Total
Investments	\$ 92,051,143	\$ 1,787,987	\$ -	\$ 93,839,130
Interest receivable	87,501	44	-	87,545
	<u>\$ 92,138,644</u>	<u>\$ 1,788,031</u>	<u>\$ -</u>	<u>\$ 93,926,675</u>

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.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE I - DEFINED BENEFIT PENSION PLAN - Continued

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 years ended June 30, 2014, 2013 and 2012 were \$242,007, \$188,363, and \$236,433, respectively, and were equal to the required contributions for each year.

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 unfunded actuarial accrued liability for the trust, as of the most recent valuation on July 1, 2013 is \$1,271,000. This compares to \$1,181,000 on July 1, 2012. 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.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

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 in November 2016; the Las Vegas office lease will expire December 31, 2015.

Years ending June 30,	
2015	\$ 186,775
2016	144,330
2017	42,277
2018	-
2019	-
	<hr/>
	\$ 373,382

Total rent expense for the year ended June 30, 2014 was \$154,914.

NOTE L - RELATED PARTIES

The Nevada Affordable Housing Assistance Corporation (NAHAC) is a non-profit corporation that works to assist homeowners in the State of Nevada. The Division has a long-term payable to NAHAC totaling \$853,147 as of June 30, 2014 recorded for down-payment assistance loans made in the Division's name with funding forwarded by NAHAC.

During the year ended June 30, 2014, the Division loaned \$51,000,000 to Home Means Nevada, Inc. (HMN), a non-profit corporation started during 2014 by the Department of Business and Industry of the State of Nevada, for the sole purpose of operating the Home Retention Program. The loan bears interest based on the one-month LIBOR rate and matures in full on December 31, 2020. The loan is collateralized by security interests in the mortgages purchased with the funds loaned to HMN.

NOTE M - SUBSEQUENT EVENTS

On September 22, 2014, the Division launched the Home is Possible Down Payment (HiP-D) Grant program to offer single-family mortgages to qualified homeowners. The HiP-D program uses the To Be Announced (TBA) pass-through securities market to generate funds for mortgage loans. The TBA model provides for the generation of a significant premium on the sale of pooled mortgage-backed securities and provides a positive revenue stream to the Division. Via the HiP-D program, the Division's network of approved lenders fund loans and associated down payment grants on behalf of the Division. The lenders then sell the loans to the Division's master servicer, U.S. Bank. The Division has partnered with Raymond James as its investment partner who buys the securitized mortgage pools provided by the master servicer. Raymond James assumes all of the TBA hedging risk in this program and the Division, as the programs sponsor, receives a fee from each completed loan.

REQUIRED SUPPLEMENTAL INFORMATION

Nevada Housing Division
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
GENERAL FUNDS

Year ended June 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)	Budget to GAAP Differences Over (Under)	Actual Amounts GAAP Basis
	Original	Final				
Operating revenues						
Interest and other investment income	\$ -	\$ -	\$ -	\$ -	\$ 523,624 ⁽¹⁾	\$ 523,624
Realized and unrealized losses on investments	-	-	-	-	(365,939) ⁽¹⁾	(365,939)
Total investment income	-	-	-	-	157,685	157,685
Interest income on mortgage loans	-	-	-	-	2,057,247 ⁽¹⁾	2,057,247
Other income	1,435,164	1,435,164	1,716,994	281,830	539,343 ⁽¹⁾	2,256,337
Federal program revenue	3,225,074	5,225,074	4,971,887	(253,187)	(199,847) ⁽²⁾	4,772,040
Total operating revenues	4,660,238	6,660,238	6,688,881	28,643	2,554,428	9,243,309
Operating expenses						
Salaries and other payroll costs	2,116,934	2,057,080	1,795,144	(261,936)	51,313 ⁽³⁾	1,846,457
Administrative expenses	(433,767)	(381,209)	45,039	426,248	2,972,140 ⁽¹⁾	3,017,179
Depreciation	-	-	-	-	38,369	38,369
Servicers' fees	-	-	-	-	108,556 ⁽¹⁾	108,556
Interfund operating charge	(157,604)	(102,839)	(35,048)	67,791	(2,018,951) ⁽¹⁾	(2,053,999)
Reserve	1,298,569	591,190	-	(591,190)	-	-
Federal program expenses	3,000,000	5,000,000	4,802,681	(197,319)	(230,217) ⁽²⁾	4,572,464
Total operating expenses	5,824,132	7,164,222	6,607,816	(556,406)	921,210	7,529,026
CHANGE IN NET POSITION	(1,163,894)	(503,984)	81,065	585,049	1,633,218	1,714,283
Transfers						
	-	-	-	-	92,609 ⁽¹⁾	92,609
Net position at beginning of year						
	-	-	503,984	-	177,894,721	178,398,705
Net position at end of year						
	\$ (1,163,894)	\$ (503,984)	\$ 585,049	\$ 585,049	\$ 179,620,548	\$ 180,205,597

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

COMPLIANCE SECTION

**Report of Independent Certified Public Accountants on
Internal Control over Financial Reporting and on Compliance
and Other Matters Required by *Government Auditing Standards***

Administrator
Nevada Housing Division

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Nevada Housing Division (the “Division”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Division’s basic financial statements, and have issued our report thereon dated November 3, 2014.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Division’s internal control over financial reporting (“internal control”) to design audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Division’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Division’s financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Division’s internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

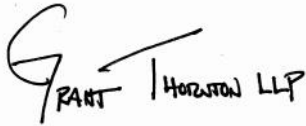
Our consideration of internal control was also not designed to identify all deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies in the Division’s internal control.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Division's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Reno, Nevada
November 3, 2014

Nevada Housing Division

SCHEDULE OF FINDINGS

For the year ended June 30, 2014

SECTION I — SUMMARY OF INDEPENDENT ACCOUNTANTS' RESULTS

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness identified? none reported
- Significant deficiency identified that are not considered to be material weaknesses? yes

Noncompliance material to financial statements noted? none reported

SECTION II — FINANCIAL STATEMENT FINDINGS

Internal Controls over Financial Statement Preparation

Due to continued turnover in the position of chief accountant during the year, there was limited review of monthly financial statements by program or journal entries performed by the chief accountant, but rather staff reviewed their own programs and reconciled to third party detail and also reviewed the programs of other staff during the financial statement preparation process during the year. Further, Grant Thornton noted that there is no formalized journal entry authorization policy in place at the Division. We recommend the Division establish policies and procedures for documented review of journal entries and preparation and review of the financial statements.

Nevada Housing Division

SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2014

Internal Controls over Financial Statement Preparation

Due to a vacancy in the position of chief accountant for part of the year, there was limited review of monthly financial statements by program or journal entries performed by the chief accountant, but rather staff reviewed their own programs and reconciled to third party detail and also reviewed the programs of other staff during the financial statement preparation process during the year. Further, Grant Thornton noted that there is no formalized journal entry authorization policy in place at the Division. We recommend the Division establish policies and procedures for documented review of journal entries and preparation and review of the financial statements.

Status

Repeat finding

Information Technology

During our review of IT systems, we noted that duties of security personnel are performed by IT management, which does not provide an effective security environment. We also noted that access rights of users and IT personnel are not documented and approved by management. In addition, policies and procedures established for treatment of terminated employees in regards to access rights of IT systems were not followed consistently throughout the year. We recommend the Division segregate duties between those performing security duties and those responsible for IT management, as well as ensure that policies and procedures related to review and approval of user access rights for current and terminated employees are being followed.

Status

Corrective action taken