Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Nevada Housing Division

June 30, 2015

Contents

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

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, 2015, 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, 2015, 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, the statement of revenues, expenses and changes in net position – budget and actual – general fund, the schedule of proportionate share of the net pension liability, and the schedule of division contributions 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.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 2, 2015, 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.

Grant Thornton LLP

Reno, Nevada
November 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nevada Housing Division

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2015

Financial Statement Highlights

- Please note the Housing Division adopted GASB 68, Accounting and Financial Reporting for Pensions, this year which required various adjustments and postings to account for its Nevada Public Employees Retirement System (PERS) pension plan. Most notably, adopting this standard required an adjustment to beginning net position on the Statement of Revenue, Expenses and Changes in Net Position of $2,691,737. The adjustment reflects the Division's pension expense for all periods prior to FY 2015. While the adjustment has no material impact on current year financial statements, it will cause the reader of our statements to have a more difficult time directly comparing the current year statement to those of prior years.

- The change in Net Position [bottom line] for the Housing Division was $2,925,669, after the effect of the adjustment to beginning net position, as noted above.

- Results of operations [revenue less operating expenses] increased $8,590,486 or 469% compared to last year's $1,829,884 decrease. There was an increase in General Funds Net Position of $5,616,592; an increase in Net Position for the Single-Family bond programs of $162,878 and a decrease in Net Position for the Multi-Unit bond programs of $162,064. Both single-family and multi-unit bond programs continue to pay off at an accelerating rate. While total operating revenues increased $363,157, total expenses decreased $8,227,329.

- The five-year trend in declining single-family whole loan first mortgage numbers and dollar balances continued through the June 30, 2015 period. However, securitized loan pools continued to increase. The total number of single-family whole loan first mortgages outstanding changed from 519 at June 30, 2014 to 424 at June 30, 2015.

- Down payment assistance loans retained an extraordinarily high delinquency rate at June 30, 2015 of 20.11%, reflecting Nevada's high and continuing unemployment and foreclosure rate. Loan delinquencies on single-family mortgages went from 10.44% of loans outstanding at June 30, 2014 to 18.6% at June 30, 2015.

- Total investment earnings decreased 8.2% from $8,401,367 for the year ended June 30, 2014 to $7,709,618 for the year ended June 30, 2015.

- Total salaries and payroll expenses paid increased 11.1% from $1,846,457 for the year ended June 30, 2014 to $2,077,349 for the year ended June 30, 2015.

- The net cash position of the Housing Division decreased from $1,161,782 at June 30, 2014 to $1,055,490 at June 30, 2015.

- 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 $599,227,227 versus the Statutory Limit of $5 billion.

Financial Analysis

Total Assets: The total assets at year end were $840,500,854 up $11,534,180 or 1.39%. This increase is primarily due to an increase in investments. The five-year trend in year-end total assets has been:

2015	2014	2013	2012	2011
$ 840,500,854	$ 828,966,674	$ 957,480,070	$ 1,030,069,706	$ 1,135,342,042

The book value of single-family first mortgage loans outstanding at year end was $24,692,253

	2015	2014	2013	2012	2011
Value	$24,692,253	$ 29,660,468	$59,307,256	$62,930,730	$37,606,298
# of loans	424	519	720	771	574
% delinquent	18.6%	10.44%	11.11%	8.17%	12.20%

Total Liabilities: The total liabilities at year end were $646,967,453 up $8,187,155 or 1.28%. The five-year trend in total liabilities has been:

2015	2014	2013	2012	2011
$ 646,967,453	$ 638,780,298	$ 764,595,256	$ 836,364,979	$ 98,727,989

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

2015	2014	2013	2012	2011
1.299X	1.298X	1.252X	1.232X	1.197X

The Total Bond Liabilities [current and non-current] relative to the $5 billion statutory debt limit trend has been:

2015	2014	2013	2012	2011
12.0%	12.2%	14.8%	16.2%	18.4%

The total deferred outflows of resources of $244,235 and the total deferred inflows of resources of $665,591 at year end were up from $0 in prior years due to the implementation of GASB 68, as discussed above.

Net Position: The net position of the Housing Division increased to $193,112,045 up $2,925,669 or 1.54%. The five-year trend in net position has been:

2015	2014	2013	2012	2011
$ 193,112,045	$ 190,186,376	$ 192,884,834	$ 193,704,727	$ 186,614,053

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	2015	2014	2013	2012	2011
General Fund	$182,336,795	$180,205,597	$178,398,705	$ 173,052,744	$169,885,958
Single-Family	10,019,836	9,063,301	11,052,866	16,770,341	12,659,900
Multi-Unit	755,414	917,478	3,443,263	3,881,642	4,068,195

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

	2015		2014		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%
Single-Family	$ 608,720	32.6	$ 578,856	13.4	$ 480,455	19.9	$ 535,060	24.9
Multi-Unit	1,256,726	67.4	3,747,009	86.6	1,937,073	80.1	1,617,606	75.1
Totals	$1,865,446		$4,325,865		$2,417,528		$2,152,666	

Administrative Budget

The Housing Division's administrative expense budget was approved for fiscal years FY2014 and FY2015 by the 2014 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.

Administrative Budget - Continued

During the budget year ended June 30, 2015, the Housing Division had the following significant changes in comparing the original budget to the final budget:

- Had an increase of $1,500,000 in other income for the Home Program. Expenditures increased from the original budget by $880,194 for computer replacement, data base purchase, travel and loan servicing expenses.
- Budgetary reserves at year-end were $548,254.

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, 2015.

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/	MICHAEL HOLLIDAY /S/
C J Manthe, Administrator	Michael Holliday, Chief Financial Officer

COMBINED FINANCIAL STATEMENTS

Nevada Housing Division

COMBINED STATEMENT OF NET POSITION

June 30, 2015

ASSETS	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Total
Current assets				
Cash	$ 1,055,490	$ -	$ -	$ 1,055,490
Investments				
Restricted	70,907,541	1,837,987	-	72,745,528
Unrestricted	200,900	16,586,194	30,818,298	47,605,392
Fair value adjustment on investments	(65,276)	-	936	(64,340)
Total investments	71,043,165	18,424,181	30,819,234	120,286,580
Loans receivable, net	1,843,795	-	22,594,227	24,438,022
Interest and other receivables, net	7,251,441	495,849	627,734	8,375,024
Total current assets	81,193,891	18,920,030	54,041,195	154,155,116
Noncurrent assets				
Long-term investments				
Restricted	31,278,244	-	-	31,278,244
Unrestricted	-	161,496,149	10,893,841	172,389,990
Fair value adjustment on investments	(38,712)	-	(799)	(39,511)
Total long-term investments	31,239,532	161,496,149	10,893,042	203,628,723
Loans receivable, net	29,468,066	-	401,955,586	431,423,652
Office furniture and equipment, net of accumulated depreciation of $40,484	293,363	-	-	293,363
Long-term receivable from related parties	51,000,000	-	-	51,000,000
Total noncurrent assets	112,000,961	161,496,149	412,848,628	686,345,738
Total assets	$ 193,194,852	$ 180,416,179	$ 466,889,823	$ 840,500,854
DEFERRED OUTFLOWS OF RESOURCES				
Contributions	$ 244,235	$ -	$ -	$ 244,235
LIABILITIES				
Current liabilities				
Bonds payable	$ -	$ 3,520,000	$ 15,609,752	$ 19,129,752
Interest payable	-	1,368,345	1,872,230	3,240,575
Interfund	(110,718)	160,278	(49,560)	-
Accounts payable and other liabilities	7,482,950	-	33,952,232	41,435,182
Total current liabilities	7,372,232	5,048,623	51,384,654	63,805,509
Noncurrent liabilities				
Payable to related party	739,312	-	-	739,312
Net pension liability	2,325,157	-	-	2,325,157
Bonds payable, net of current portion	-	165,347,720	414,749,755	580,097,475
Total liabilities	10,436,701	170,396,343	466,134,409	646,967,453
DEFERRED INFLOWS OF RESOURCES				
Contributions	665,591	-	-	665,591
NET POSITION				
Invested in capital assets	293,363	-	-	293,363
Restricted	181,610,092	10,019,836	755,414	192,385,342
Unrestricted	433,340	-	-	433,340
Total net position	$ 182,336,795	$ 10,019,836	$ 755,414	$ 193,112,045

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, 2015

	General Funds	Program Funds: Single-Family	Program Funds: Multi-Unit	Total
Operating revenues				
Interest and other investment income	$ 142,515	$ 6,321,404	$ 402,361	$ 6,866,280
Realized and unrealized losses on investment	843,201	-	137	843,338
Total investment income	985,716	6,321,404	402,498	7,709,618
Interest income on mortgage loans	2,236,645	-	9,180,112	11,416,757
Other income	4,390,784	-	1,250,490	5,641,274
Total operating revenues	7,613,145	6,321,404	10,833,100	24,767,649
Operating expenses				
Salaries and other payroll costs	2,077,349	-	-	2,077,349
Administrative expenses	1,590,062	-	139,318	1,729,380
Depreciation	40,484	-	-	40,484
Servicers' fees	79,058	-	-	79,058
Interest on bonds payable	-	5,549,806	9,599,120	15,148,926
Interfund operating charge	(1,865,446)	608,720	1,256,726	-
Total operating expenses	1,921,507	6,158,526	10,995,164	19,075,197
Non-operating revenues				
Federal program revenue	4,073,608	-	-	4,073,608
Federal program expenses	(4,148,654)	-	-	(4,148,654)
Total non-operating income	(75,046)	-	-	(75,046)
CHANGE IN POSITION	5,616,592	162,878	(162,064)	5,617,406
Transfers	(793,657)	793,657	-	-
Net position at beginning of year, as previously reported	180,205,597	9,063,301	917,478	190,186,376
Change in Accounting Principle, GASB 68 adjustments	(2,691,737)	-	-	(2,691,737)
Net position at beginning of year, as restated	177,513,860	9,063,301	917,478	187,494,639
Net position at end of year	$ 182,336,795	$ 10,019,836	$ 755,414	$ 193,112,045

The accompanying notes are an integral part of this statement.

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS

Year ended June 30, 2015

	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Total
Cash flows from operating activities:				
Cash received from mortgage loans	$ 9,375,354	$ -	$ 45,212,248	$ 54,587,602
Cash payments to purchase mortgage loans	(873,488)	-	(35,602,143)	(36,475,631)
Cash receipts (payments) for goods and services	2,078,873	(632,010)	14,178,854	15,625,717
Interfund	86,345	13,236	(99,581)	-
Net cash provided by (used in) operating activities	10,667,084	(618,774)	23,689,378	33,737,688
Cash flows from noncapital financing activities:				
Proceeds from sale of bonds	-	40,652,596	31,559,121	72,211,717
Principal payments and purchase of bonds	-	(38,189,767)	(42,589,000)	(80,778,767)
Interest payments on bonds	-	(5,550,426)	(9,943,339)	(15,493,765)
Operating transfer	(793,657)	793,657	-	-
Federal grants received	4,073,608	-	-	4,073,608
Cash paid to other governments and organizations	(4,148,654)	-	-	(4,148,654)
Net cash used in noncapital financing activities	(868,703)	(2,293,940)	(20,973,218)	(24,135,861)
Cash flows from investing activities:				
Purchase of short-term investments	(88,901,813)	(114,532,017)	(57,922,520)	(261,356,350)
Sale of short-term investments	68,077,140	124,235,869	53,645,046	245,958,055
Purchase of long-term investments	(161,427,104)	(53,430,328)	(2,250,646)	(217,108,078)
Sale of long-term investments	172,292,581	40,307,793	3,546,068	216,146,442
Income received on investments	54,523	6,331,397	265,892	6,651,812
Net cash provided by (used in) investing activities	(9,904,673)	2,912,714	(2,716,160)	(9,708,119)
NET DECREASE IN CASH	(106,292)	-	-	(106,292)
Cash at beginning of year	1,161,782	-	-	1,161,782
Cash at end of year	$ 1,055,490	$ -	$ -	$ 1,055,490

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2015

	General Funds	Program Funds		Total
		Single-Family	Multi-Unit	
Reconciliation of change in net position to net cash provided by (used in) operating activities:				
Change in net position	$ 5,616,592	$ 162,878	$ (162,064)	$ 5,617,406
Change in deferred outflows of resources	(2,228)	-	-	(2,228)
Change in deferred inflows of resources	665,591	-	-	665,591
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation	40,484	-	-	40,484
Income on investments	(142,515)	(6,321,404)	(402,361)	(6,866,280)
Realized and unrealized losses on investments	(843,201)	-	(137)	(843,338)
Interest on bonds payable	-	5,549,806	9,599,120	15,148,926
Change in assets and liabilities:				
Loans receivable	5,635,791	-	420,334	6,056,125
Other receivables	(317,017)	-	72,719	(244,298)
Interfund	86,345	13,236	(99,581)	-
Accounts payable and other liabilities	535,829	(23,290)	14,261,348	14,773,887
Net pension liability	(608,587)	-	-	(608,587)
Net cash provided by (used in) operating activities	$ 10,667,084	$ (618,774)	$ 23,689,378	$ 33,737,688

The accompanying notes are an integral part of this statement.

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2015

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. <u>All Funds</u>

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.

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, 2015, the Division had designated certain general fund assets totaling $181,610,092 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 June 30, 2015, 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 45 multi-unit programs existing as of June 30, 2015, under 45 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.

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 expended 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, 2015, the Division recorded an allowance of $2,184,941 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.

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. 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.

11. 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.

12. Bond Redemptions

During the year ended June 30, 2015, the Division redeemed a total of $80,778,767 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.

13. Arbitrage Rebate

Arbitrage rebate to the Internal Revenue Service is recognized in the statement of earnings as a reduction of interest income on investments.

14. 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.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

15. 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.

16. 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.

17. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Nevada (PERS) and additions to/deductions from PERS' fiduciary net positon have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

18. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. The Division has pension contributions that qualify for reporting in this category, which are discussed in depth in Note I.

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources until then. The Division has pension contributions that qualify for reporting in this category, which are discussed in depth in Note I.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

19. 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 pensions 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. In addition, in November 2013, the GASB issued an amendment to GASB 68. This Statement, GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Period*, establishes standards to improve accounting and financial reporting concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB 68. The Division adopted this guidance for the period ended June 30, 2015, which resulted in an adjustment to beginning net position on the Statement of Revenue, Expenses and Changes in Net Position of ($2,691,737) to record the impact of the prior year pension related elements of net position

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72), which addresses accounting and financial reporting issues related to fair value measurements. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes in addition to providing guidance for applying fair value to certain investments and disclosures related to all fair value measurement. GASB 72 is effective for fiscal years beginning after June 15, 2015. The anticipated impact of this pronouncement is uncertain at this time.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), which improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. GASB 73 is effective for fiscal years beginning after June 15, 2015. The anticipated impact of this pronouncement is uncertain at this time.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB 75), which improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 is effective for fiscal years beginning after June 15, 2017. The anticipated impact of this pronouncement is uncertain at this time.

NOTE D - INVESTMENTS

Investments consist of the following at June 30, 2015:

	General Funds	Single-Family	Multi-Unit	Total
Short-term investments	$ 52,213,744	$ 14,911,122	$ 36,220,793	$ 103,345,659
U.S. Treasury notes	2,625,390	-	-	2,625,390
U.S. Agencies	13,254,833	-	-	13,254,833
Corporate notes	8,897,841	-	-	8,897,841
Commercial paper	2,498,428	-	-	2,498,428
Investment agreements	-	151,108	389,759	540,867
Federal National Mortgage Association	5,068,014	10,029,793	-	15,097,807
Government National Mortgage Association	17,724,447	154,828,307	5,101,724	177,654,478
	$ 102,282,697	$ 179,920,330	$ 41,712,276	$ 323,915,303

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.

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, 2015 is a follows:

	General Funds	Single-Family	Multi-Unit	Total
Investment type				
Short-term investments				
Aaa	$ 34,466,471	$ 14,911,122	$ 36,220,793	$ 85,598,386
P-1	17,747,273	-	-	17,747,273
Aa1	-	-	-	-
Total short-term	$ 52,213,744	$ 14,911,122	$ 36,220,793	$ 103,345,659
Investment agreements				
A1	$ -	$ -	$ 389,759	$ 389,759
Baa3	-	151,108	-	151,108
Total investment agreements	$ -	$ 151,108	$ 389,759	$ 540,867
Federal National Mortgage Association				
Aaa	$ 5,068,014	$ 10,029,793	$ -	$ 15,097,807
Government National Mortgage Association				
Aaa	$ 17,724,447	$ 154,828,307	$ 5,101,724	$ 177,654,478
U.S. Treasury notes				
Aaa	$ 2,625,390	$ -	$ -	$ 2,625,390
U.S. Agencies				
Aaa	$ 13,254,833	$ -	$ -	$ 13,254,833
Corporate notes				
A1	$ 3,827,753	$ -	$ -	$ 3,827,753
A2	2,559,432	-	-	2,559,432
A3	2,510,656	-	-	2,510,656
Total corporate notes	$ 8,897,841	$ -	$ -	$ 8,897,841
Commercial paper				
P-1	$ 2,498,428	$ -	$ -	$ 2,498,428

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, 2015, the Division's investments in the Fannie Mae and Ginnie Mae are 4.66% and 54.85%, 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.

NOTE D - INVESTMENTS - Continued

Interest Rate Risk - Continued

The following table represents the maturities of the Division's investments as of June 30, 2015.

		Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10	No Maturity
Short-term investments	$ 103,345,659	$ 17,747,273	$ -	$ -	$ -	$ 85,598,385
U.S. agencies	208,632,508	9,989,659	5,890,564	-	192,752,286	-
Corporate notes	8,897,841	6,334,183	2,563,658	-	-	-
Commercial paper	2,498,428	2,498,428	-	-	-	-
Investment agreements	540,867	-	-	-	540,867	-
	$ 323,915,303	$ 36,569,543	$ 8,454,222	$ -	$ 193,293,153	$ 85,598,385

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, net consists of the following:

	Interest Rates	General Funds	Single-Family	Multi-Unit	Combined Total
Single-Family Mortgage Programs	2.00%-9.25%	$ 31,330,671	$ -	$ -	$ 31,330,671
Multi-Unit Programs	0.35%-6.95%	-	-	424,549,813	424,549,813
Less unamortized discount		(18,810)	-	-	(18,810)
		$ 31,311,861	$ -	$ 424,549,813	$ 455,861,674

Nevada Housing Division

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE F - BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Original Amount	Outstanding
Single-Family Bonds			
2008 Issue A, 3.05%-5.875%	April 1, 2038	$ 34,300,000	$ 165,000
2008 Issue B, 2.10%-5.55%	April 1, 2039	17,500,000	1,130,000
2009 Issue A, 1.20%-5.375%	October 1, 2039	23,180,000	4,395,000
2009 Issue B, 0.80%-5.25%	October 1, 2048	22,651,400	5,346,715
2009 Issue I-A, 3.010%	October 1, 2041	15,000,000	8,900,000
2010 Issue I, .65%-4.40%	April 1, 2027	10,000,000	4,475,000
2011 Issue A, .50%-4.625%	October 1, 2027	13,600,000	6,155,000
2009 Issue I-B, 0.61%-3.53%	October 1, 2041	20,400,000	11,680,000
2009 Issue I-C, 2.32%	October 1, 2041	10,000,000	6,250,000
2011 Issue B, 0.70%-4.75%	October 1, 2033	15,000,000	8,320,000
2009 Issue I-D, 2.32%	October 1, 2036	30,700,000	24,140,000
2011 Issue C, 4.20%	October 1, 2022	5,500,000	4,320,000
2009 Issue I-E, 2.32%	October 1, 2041	26,240,000	20,630,000
2011 Issue D, 1.00%-4.40%	April 1, 2029	32,460,000	22,700,000
2014 Issue A, 0.20%-3.95%	October 1, 2044	40,652,596	40,261,005
Total single-family bonds		317,183,996	168,867,720
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	October 1, 2030	4,165,000	2,315,000
1998 Vintage Hills, 5.79%	October 1, 2030	7,740,000	6,666,000
1998 Hilltop Villas, Variable	April 1, 2031	3,220,000	2,265,000
1998 Stewart Villas, Variable, Taxable	April 1, 2031	585,000	530,000
1998 Stewart Villas, Variable	April 1, 2031	3,310,000	2,920,000
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 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	15,120,000
2001 Silver Creek, 5.40%-5.42%	April 15, 2035	12,860,000	11,435,000
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 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

NOTE F - BONDS PAYABLE - Continued

	Maturity Date	Original Amount	Outstanding
Multi-Unit Bonds - Continued			
2002 Sunset Canyon, 5.20%-5.61%	April 1,2036	$ 10,965,000	$ 10,585,000
2002 Sunset Canyon, 5.11%, Taxable	April 1, 2017	1,935,000	380,000
2002 Los Pecos, 5.05%-5.15%	April 1, 2036	8,800,000	7,430,000
2002 Los Pecos, 5.65%, Taxable	April 1, 2036	2,200,000	1,875,000
2002 Whittell Pointe, 5.15%	April 1, 2036	7,045,000	7,030,000
2002 Wood Creek, 5.25%	October 1, 2034	7,580,000	7,410,000
2003 Cedar Village, 3.10%-5.10%	October 1, 2038	6,205,000	5,225,000
2003 L'Octaine Urban, Variable	April 1,2036	4,120,000	2,365,000
2003 Whittell Pointe II, 2.60% - 4.85%	April 1, 2037	7,500,000	6,395,000
2003 Zephyr Pointe, 2.60%-4.85%	April 1, 2037	15,160,000	13,070,000
2004 Glenbrook Terrace, 4.65%-5.33%	April 1, 2037	18,000,000	15,590,000
2004 Sundance Village, Variable	October 1, 2035	22,385,000	19,385,000
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	3,970,000
2007 Golden Apartments, Variable	October 1, 2037	8,200,000	7,850,000
2007 Centennial Park, 4.90%	April 1, 2037	2,040,000	1,800,000
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 2, Variable	October 1, 2042	5,545,000	2,065,000
2007 Arby Road, 5.35%-6.10%	April 1, 2041	15,350,000	10,385,000
2008 Sierra Manor, 6.95%	June 1, 2041	11,000,000	6,825,000
2011 Washoe Mill, 3.55%	April 1, 2029	8,820,000	8,410,000
2013 Henderson Family, 6%	September 1, 2046	15,000,000	15,000,000
2013 Agate Avenue, Variable	June 1, 2047	13,000,000	9,697,755
2013 Landsman Gardens, Variable	December 13, 2015	5,700,000	5,225,752
2013 Landsman Gardens, 0.63%	December 1, 2015	6,300,000	6,300,000
2014 Agate Avenue II, Variable	January 1, 2049	12,500,000	55,000
2015 Summerhill, 0.65%	October 1, 2016	11,000,000	11,000,000
Total multi-unit bonds		499,490,000	430,359,507
Combined total		$ 816,673,996	$ 599,227,227

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, 2015, for the following years, are:

	Single-Family		Multi-Unit		Combined Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Years ending June 30,						
2016	$ 3,520,000	$ 5,253,141	$ 15,609,752	$ 8,866,359	$ 19,129,752	$ 14,119,500
2017	3,615,000	5,394,130	15,592,581	8,582,774	19,207,581	13,976,904
2018	3,750,000	5,312,692	4,950,629	8,369,252	8,700,629	13,681,944
2019	3,855,000	5,215,052	5,341,544	8,164,282	9,196,544	13,379,334
2020	3,990,000	52,103,170	5,551,229	7,942,877	9,541,229	60,046,047
2021-2025	22,897,470	23,189,456	50,652,712	34,322,501	73,550,182	57,511,957
2026-2030	29,398,517	17,959,315	65,838,198	23,613,101	95,236,715	41,572,416
2031-2035	36,339,559	12,358,650	105,999,570	15,899,168	142,339,129	28,257,818
2036-2040	43,421,279	6,311,269	112,921,169	7,678,330	156,342,448	13,989,599
2041-2045	17,755,895	1,006,911	38,085,095	2,823,031	55,840,990	3,829,942
2046-2050	325,000	31,762	9,817,028	534,197	10,142,028	565,959
	$ 168,867,720	$ 134,135,548	$ 430,359,507	$ 126,795,872	$ 599,227,227	$ 260,931,420

Total interest expense for the year ended June 30, 2015 was $15,148,926.

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.

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, as well as related party payables and the net pension liability.

	General Funds	Single-Family	Multi-Unit	Combined Total
Bonds payable				
Balances at July 1, 2014	$ 853,147	$ 166,404,891	$ 441,389,386	$ 607,794,277
Increase	2,325,157	40,652,596	31,559,121	72,211,717
Decrease	(113,835)	(38,189,767)	(42,589,000)	(80,778,767)
Balances at June 30, 2015	$ 3,064,469	$ 168,867,720	$ 430,359,507	$ 599,227,227
Due within one year	$ -	$ 3,520,000	$ 15,609,752	$ 19,129,752

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, 2015 are as follows:

	General Funds	Single-Family	Multi-Unit	Combined Total
Investments	$ 102,081,797	$ 1,837,987	$ -	$ 103,919,784
Interest receivable	173,487	-	-	173,487
	$ 102,255,284	$ 1,837,987	$ -	$ 104,093,271

NOTE I - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. The Public Employees' Retirement System of Nevada ("PERS") administers a cost-sharing, multiple-employer, defined benefit public employees' retirement system (the "System"), which includes both Regular and Police/Fire members. The System was established by the Nevada Legislature in 1947, effective July 1, 1948. The System is administered to provide a reasonable base income to qualified employees who have been employed by a public employer and who earnings capacities have been removed or substantially impaired by age or disability. The Housing Division employees are Regular members.

Benefits provided. Benefits, as required by the Nevada Revised Statues (NRS or statue), are determined by the number of years of accredited service at the time of retirement and the member's highest average compensation in any 36 consecutive months with special provisions for members entering the System on or after January 1, 2010. Benefit payments to which participants or their beneficiaries may be entitled under the plan include pension benefits, disability benefits, and survivor benefits. Post-retirement increases are provided by authority of NRS 286.575 - .579.

Vesting. Regular members are eligible for retirement at age 65 with five years of service, at age 60 with 10 years of service, or at any age with thirty years of services. Regular members entering the System on or after January 1, 2010 are eligible for retirement at age 65 with five years of service, or age 62 with 10 years of service, or any age with thirty years of service. The normal ceiling limitation on monthly benefits allowances is 75% of average compensation. However, a member who has an effective date of membership before July 1, 1985, is entitled to a benefit of up to 90% of average compensation. Employees become fully vested as to benefits upon completion of five years of service.

Contributions. The authority for establishing and amending the obligation to make contributions and member contribution rates, is set by statute. New hires have the option of selecting one of two contribution plans. Contributions are shared equally by employer and employee. Employees can take a reduced salary and have contributions made by the employer or can make contributions by a payroll deduction matched by the employer. The System's basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime in order to accumulate sufficient assets to pay benefits when due. The System receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis. Contributions actually made are in accordance with the required rates established by the Nevada Legislature. The actuary funding method used is the Entry Age Normal Cost Method. It is intended to meet the funding objective and result in a relatively level long-term contributions requirement as a percentage of salary. For fiscal year ended June 30, 2014 and June 30, 2015 the Statutory Employer/employee matching rate was 13.25%. The Employer-pay contribution rates was 25.75%. The Division's contributions to PERS for the years ended June 30, 2015, 2014 and 2013 were $244,235, $242,007 and $188,363, respectively, and were equal to the required contributions for each year.

NOTE I - DEFINED BENEFIT PENSION PLAN - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Housing Division reported a liability of $2,325,157 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Housing Division allocation percentage of the net pension liability was based on the total contributions due on wages paid during the measurement period. The Housing Division's proportion of the net pension liability is based on their combined employer and member contributions relative to the total combined employer and member contributions for all employers for the period ended June 30, 2014. At June 30, 2014, the Housing Division's portion was 0.137 percent.

Reconciliation of net pension liability	
Beginning net position, July 1, 2014	$ 2,691,737
Pension expense	292,953
Employer contributions	(235,949)
New net deferred inflows/outflows	(423,584)
Ending net pension liability, June 30, 2015	$ 2,325,157

For the year ended June 30, 2015 the Housing Division recognized pension expense of $292,953. At June 30, 2015, the Housing Division reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 111,272
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	488,378
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	65,941
Division contributions subsequent to the measurement date	244,235	-
	$ 244,235	$ 665,591

NOTE I - DEFINED BENEFIT PENSION PLAN - Continued

<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u> - Continued

The $244,235 reported as deferred outflows of resources resulting from Division contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The amount reported as deferred inflows of resources will be recognized in pension expense as follows:

Reporting period ended June 30,	
2016	$ (157,189)
2017	(157,189)
2018	(157,189)
2019	(157,189)
2020	(21,668)
Thereafter	(15,167)
	$ (665,591)

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Payroll growth	5.00%, including inflation
Productivity pay increases	0.75%
Projected salary increases	4.60%-9.75%, depending on service and including inflation and productivity increases
Investment rate of return	8.00%
Consumer Price Index	3.50%
Post-retirement benefit increases	3.50%, in line with inflation

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table, set back one year for females (no age setback for males), reasonably reflects the projected mortality experience of the Plan as of the measurement date. The additional project of 13 years is a provision made for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2014. There were no changes in actuarial assumptions since the preceding valuation. The valuation reflects updated option factors that went into effect July 1, 2014. The actuarially determined contributions rates increased by 0.02% for Regular members to reflect this update.

NOTE I - DEFINED BENEFIT PENSION PLAN - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

The following was the PERS' Board adopted policy target asset allocation as of June 30, 2014:

Asset Class	Target Allocation	Long-Term Geometric Expected Real Rate of Return
Domestic equity	42%	5.50%
International equity	18%	5.75%
Domestic fixed income	30%	0.25%
Private markets	10%	6.80%

**As of June 30, 2014, PERS' long-term inflation assumption was 3.5%*

Discount Rate. The discount rate used to measure the total pension liability was 8.00% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the pension plan's fiduciary net position at June 30, 2014 was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Pension liability discount rate sensitivity. The following represents the Division's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the Systems' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
The Division's proportional share of the net pension liability	$ 3,615,873	$ 2,325,157	$ 1,252,243

Pension Plan Fiduciary Net Position

Detailed information about the pension's plan fiduciary net position is available in the separately issued PERSS comprehensive annual financial report that includes financial statements and required supplementary information. The report is available online at www.nvpers.org or may be obtained by writing to PERS at 693 W. Nye Lane, Carson City, NV 89703-1599.

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.

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, 2016.

Years ending June 30,	
2016	$ 144,330
2017	42,277
	$ 186,607

Total rent expense for the year ended June 30, 2015 was $186,775.

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 $739,312 as of June 30, 2015 recorded for down-payment assistance loans made in the Division's name with funding forwarded by NAHAC.

During the year ended June 30, 2015, 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. On July 7, 2015 Home, Means Nevada paid the principal balance of $51,000,000 and interest incurred through June 30, 2015 of $143,835.

REQUIRED SUPPLEMENTAL INFORMATION

Nevada Housing Division

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

GENERAL FUNDS

Year ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive	Budget to GAAP Differences		Actual Amounts
	Original	Final	Budgetary Basis	(Negative)	Over (Under)		GAAP Basis
Operating revenues							
Interest and other investment income	$ -	$ -	$ -	$ -	$ 142,515	*(1)*	$ 142,515
Realized and unrealized losses on investments	-	-	-	-	843,201	*(1)*	843,201
Total investment income	-	-	-	-	985,716		985,716
Interest income on mortgage loans	-	-	-	-	2,236,645	*(1)*	2,236,645
Other income	1,435,164	1,435,164	1,543,517	108,353	2,847,267	*(1)*	4,390,784
Federal program revenue	3,225,074	4,725,074	4,093,926	(631,148)	(20,318)	*(2)*	4,073,608
Total operating revenues	4,660,238	6,160,238	5,637,443	(522,795)	6,049,310		11,686,753
Operating expenses							
Salaries and other payroll costs	2,147,413	2,266,794	1,864,769	(402,025)	212,580	*(3)*	2,077,349
Administrative expenses	(451,238)	(450,626)	(98,830)	351,796	1,688,892	*(1)*	1,590,062
Depreciation	-	-	-	-	40,484		40,484
Servicers' fees	-	-	-	-	79,058	*(1)*	79,058
Interfund operating charge	(157,816)	(149,096)	30,587	179,683	(1,896,033)	*(1)*	(1,865,446)
Reserve	1,428,448	548,254	-	(548,254)	-		-
Federal program expenses	3,000,000	4,500,000	3,845,426	(654,574)	303,228	*(2)*	4,148,654
Total operating expenses	5,966,807	6,715,326	5,641,952	(1,073,374)	428,209		6,070,161
CHANGE IN NET POSITION	(1,306,569)	(555,088)	(4,509)	550,579	5,621,101		5,616,592
Transfers	-	-	-	-	(793,657)	*(1)*	(793,657)
Net position at beginning of year, as previously reported	-	-	555,088	555,088	179,650,509		180,205,597
Change in accounting principle, GASB 68 adjustments	-	-	-	-	(2,691,737)		(2,691,737)
Net position at beginning of year, as restated	-	-	555,088	555,088	176,958,772		177,513,860
Net position at end of year	$ (1,306,569)	$ (555,088)	$ 550,579	$ 1,105,667	$ 181,786,216		$ 182,336,795

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.

Nevada Housing Division

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years*

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Division's proportion of the net pension liability	0.1370%		(Historical information prior to the implementation of GASB 67/68 is not required)							
Division's proportionate share of the net pension liability	$2,325,157									
Division's covered employee payroll	$1,369,850									
Division's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.74%									
PERS fiduciary net position as a percentage of the total pension liability	322.16%									

* The amounts reported for each fiscal year were determined as of June 30 of the prior fiscal year.

Nevada Housing Division

SCHEDULE OF DIVISION CONTRIBTIONS

Last 10 Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 244,235	(Historical information prior to the implementation of GASB 67/68 is not required)								
Contributions in relation to the contractually required contribution	(244,235)									
Contribution deficiency (excess)	$ -									
Division's covered-employee payroll	$1,483,397									
Contributions as a percentage of covered-employee payroll	16.46%									

COMPLIANCE SECTION

Grant Thornton LLP
100 W Liberty Street, Suite 770
Reno, NV 89501-1965

T 775.786.1520
F 775.786.7091
www.GrantThornton.com

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, 2015, 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 2, 2015.

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. 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.

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 or significant deficiencies. 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.

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.

Grant Thornton LLP

Reno, Nevada
November 2, 2015

Nevada Housing Division

SCHEDULE OF FINDINGS

For the year ended June 30, 2015

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? .... none reported

Noncompliance material to financial statements noted? .... none reported

SECTION II — FINANCIAL STATEMENT FINDINGS

Schedule of Prior Year 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.

Status
Corrective action taken