Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Nevada Housing Division

June 30, 2013

Contents

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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, 2013, 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 opinions 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 opinions.

Opinions

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof 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 2012 summarized comparative information

We have previously audited the Division's 2012 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 September 28, 2012. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2012 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 5, 2013, 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 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2013

Financial Statement Highlights

- The change in Net Position [bottom line] for the Housing Division was $(819,893).
- Results of operations [revenue less operating expenses] were down $7,900,913 versus last year's $3,229,098 increase, primarily due to a one-time charge of $4.6 million relative to the termination of interest rate swap agreements associated with Single-Family Program 2011C. The other primary reason for the operating decline was a $3.7 million one-time realized gain on assets liquidated in fiscal year 2012 which did not recur in fiscal year 2013. There was an increase in General Funds Net Position of $381,961; a decrease in Net Position for the Single-Family bond programs of $753,475, a decrease in Net Position for the Multi-Unit bond programs of $448,379. Both single-family and multi-unit bond programs continue to pay off at an accelerating rate. While total revenues decreased $7,382,634, total expenses increased $518,279.
- The five-year trend in declining single-family whole loan first mortgage numbers and dollar balances continued through the June 30, 2013 period. However, total whole loans held as well as securitized loan pools continued to increase. The total number of single-family whole loan first mortgages outstanding changed from 771 at June 30, 2012 to 720 at June 30, 2013. This decrease of 51 loans was due to the securitization of new loans into mortgage backed securities. The average value of the new single-family first mortgage loans added to the portfolio at June 30, 2013 was $117,985.
- Loan delinquencies on single-family mortgages went from 8.2% of loans outstanding at June 30, 2012 to 11.1% of whole first mortgage loans outstanding at June 30, 2013. Down payment assistance loans retained an extraordinarily high delinquency rate at June 30, 2013 of 25%, reflecting Nevada's extraordinarily high and continuing unemployment and foreclosure rates.
- Total investment earnings decreased from $18,305,146 to $11,187,339 or down 39%.
- Total salaries and payroll expenses paid went from $1,840,322 to $1,489,425 or down 19%.
- The net cash position of the Housing Division decreased from $1,109,442 at June 30, 2012 to $1,002,990 at June 30, 2013.
- Standard & Poor's again reaffirmed the Housing Division's Issuer Credit Rating at AA in June.

Overview of Financial Statements

The combined Balance Sheet and Statement of Revenues and 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 debt outstanding was $739,886,228 versus the Statutory Limit of $5 billion.

Financial Analysis

Total Assets: The total assets at year end were $957,480,070 down $72,589,636 or 7%. This decrease is primarily due to prepayment of multi-unit programs. The five-year trend in year-end total assets has been:

2013	2012	2011	2010	2009
$ 957,480,070	$ 1,030,069,706	$ 1,135,342,042	$1,208,874,523	$ 1,118,216,154

The book value of single-family first mortgage loans outstanding at year end was $59,307,256.

	2013	2012	2011	2010	2009
Value	$59,307,256	$ 62,930,730	$ 37,606,298	$41,753,698	$46,183,047
# of loans	720	771	574	635	693
% delinquent	11.11%	8.17%	12.20%	7.72%	5.05%

Total Liabilities: The total liabilities at year end were $764,595,236 down $71,769,743 or 9%. This decrease is primarily due to prepayment of multi-unit programs. The five-year trend in total liabilities has been:

2013	2012	2011	2010	2009
$ 764,595,256	$ 836,364,979	$ 948,727,989	$1,026,073,000	$ 937,815,165

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

2013	2012	2011	2010	2009
1.252X	1.232X	1.197X	1.178X	1.192X

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

2013	2012	2011	2010	2009
14.8%	16.2%	18.4%	19.9%	18.2%

Net Position: The net position of the Housing Division decreased to $192,884,834 down $819,893 or 0.4%. The five-year trend in net position has been:

2013	2012	2011	2010	2009
$ 192,884,834	$ 193,704,727	$ 186,614,053	$ 182,801,523	$ 180,400,989

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	2013	2012	2011	2010	2009
General Fund	$178,398,705	$173,052,744	$169,885,958	$165,689,028	$ 165,181,568
Single-Family	11,052,866	16,770,341	12,659,900	13,093,882	11,399,520
Multi-Unit	3,433,263	3,881,642	4,068,195	4,018,567	3,819,901

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

	2013		2012		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%
Single-Family	$ 480,455	19.9	$ 535,060	24.9	$ 545,803	21.9	$ 780,450	27.3
Multi-Unit	1,937,073	80.1	1,617,606	75.1	1,944,041	78.1	2,081,607	72.7
Totals	$2,417,528		$ 2,152,666		$ 2,489,844		$ 2,862,057	

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 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 financial statements;
- The Division budgets for compensated absences only to the extent expected to be paid, rather than on the modified accrual basis;
- All amortizable bond issuance costs are reported as such on the financial statements but reported as current period revenues and expenditures on the State budget;
- Income on investments, mortgages and bond interest payments are reflected as such in the financial statements but are not part of the State budget;
- Under State budgeting procedures, there is neither an increase nor decrease in net position.

Administrative Budget - Continued

During the budget year ended June 30, 2013, the Housing Division:

Had no increase in its administrative budgetary revenue amounts. Expenditures increased from original budget by $163,074 for the Federal Tax Credit Program.

Budgetary reserves at year-end were $1,000,820.

This Management Discussion and Analysis along with the accompanying Financial Statements, Notes and Supplementary Information reflect our ongoing commitment to full, fair and honest disclosure at June 30, 2013.

For questions regarding the accompanying Financial Statements, Notes and Supplementary Information, please visit our website at nhd@nvhousing.state.nv.us or contact our office at 775-687-2032.

BRUCE JOHNSON/S/	DAVID HEATH/S/
Bruce Johnson, Administrator	David Heath, Chief Financial Officer

COMBINED FINANCIAL STATEMENTS

Nevada Housing Division

COMBINED STATEMENT OF NET POSITION

June 30, 2013
(With comparative totals for June 30, 2012)

	General	Program Funds		Combined Totals		Nevada Affordable Housing Assistance Corporation
ASSETS	**Funds**	**Single-Family**	**Multi-Unit**	**2013**	**2012**	**2012**
Current assets:						
Cash	$ 1,002,990	$ -	$ -	$ 1,002,990	$ 1,109,442	$ 5,145,613
Investments						
Restricted	113,131,514	1,787,987	-	114,919,501	97,354,652	-
Unrestricted	400,600	44,797,194	45,482,313	90,680,107	94,028,391	-
Total investments	113,532,114	46,585,181	45,482,313	205,599,608	191,383,043	-
Loans receivable	2,809,893	3,281	14,161,226	16,974,400	12,619,054	-
Interest and other receivables, net	6,345,076	603,089	848,733	7,796,898	7,532,432	3,610
Prepaid expenses	-	-	-	-	-	103,291
Total current assets	123,690,073	47,191,551	60,492,272	231,373,896	212,643,971	5,252,514
Noncurrent assets:						
Long-term investments						
Restricted	4,362,871	6,250	-	4,369,121	6,006,196	-
Unrestricted	-	165,992,438	43,096,722	209,089,160	262,181,934	-
Fair value adjustment on investments	(581,250)	-	-	(581,250)	(414,577)	-
Total long-term investments	3,781,621	165,998,688	43,096,722	212,877,031	267,773,553	-
Loans receivable, net of current portion	57,300,355	96,861	453,334,079	510,731,295	547,227,714	-
Deferred issue costs, net of amortization	-	2,138,319	-	2,138,319	2,424,468	-
Office furniture and equipment, net of accumulated depreciation of $385,538	359,529	-	-	359,529	-	51,876
Long-term receivable from related party	-	-	-	-	-	1,047,983
Deposits	-	-	-	-	-	9,833
Total noncurrent assets	61,441,505	168,233,868	496,430,801	726,106,174	817,425,735	1,109,692
Total assets	$ 185,131,578	$ 215,425,419	$ 556,923,073	$ 957,480,070	$1,030,069,706	$ 6,362,206
LIABILITIES AND NET POSITION						
Current liabilities:						
Bonds payable	$ -	$ 3,780,000	$ 38,528,000	42,308,000	$ 13,630,000	$ -
Interest payable	-	1,700,262	3,616,359	5,316,621	6,173,663	-
Interfund	(106,062)	158,160	(52,098)	-	-	-
Accounts payable and other liabilities	5,935,801	45,903	12,507,549	18,489,253	18,246,171	213,476
Accounts payable to related parties	-	-	-	-	-	5,300
Derivative instrument - interest rate swap	-	-	-	-	-	-
Total current liabilities	5,829,739	5,684,325	54,599,810	66,113,874	38,049,834	218,776
Noncurrent liabilities:						
Payable to related party	903,134	-	-	903,134	939,533	-
Bonds payable, net of current portion	-	198,688,228	498,890,000	697,578,228	797,375,612	-
Total liabilities	6,732,873	204,372,553	553,489,810	764,595,236	836,364,979	218,776
Net Position						
Invested in capital assets, net of related debt	359,529	-	-	359,529	-	51,876
Restricted	174,918,548	11,052,866	3,433,263	189,404,677	190,584,941	6,091,554
Unrestricted	3,120,628	-	-	3,120,628	3,119,786	-
Total net position	178,398,705	11,052,866	3,433,263	192,884,834	193,704,727	6,143,430
Total liabilities and net position	$ 185,131,578	$ 215,425,419	$ 556,923,073	$ 957,480,070	$1,030,069,706	$ 6,362,206

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, 2013
(With comparative totals for the year ended June 30, 2012)

	General Funds	Program Funds		Combined Totals		Nevada Affordable Housing Assistance Corporation
		Single-Family	Multi-Unit	2013	2012	2012
Operating revenues						
Interest and other investment income	$ 444,193	$ 7,267,139	$ 3,642,680	$ 11,354,012	$ 14,633,579	$ -
Realized and unrealized gains (losses) on investments	(166,673)	-	-	(166,673)	3,671,567	-
Total investment income	277,520	7,267,139	3,642,680	11,187,339	18,305,146	-
Interest income on mortgage loans	4,301,052	11,772	12,232,981	16,545,805	16,725,124	-
Grant revenue	-	-	-	-	-	10,699,950
Other income	1,721,160	-	1,573,405	3,294,565	3,380,073	-
Total operating revenues	6,299,732	7,278,911	17,449,066	31,027,709	38,410,343	10,699,950
Operating expenses						
Salaries and other payroll costs	1,489,425	-	-	1,489,425	1,840,322	979,756
Administrative expenses	6,488,877	-	363,854	6,852,731	2,011,140	1,712,271
Depreciation	3,021	-	-	3,021	-	-
Servicers' fees	238,379	493	-	238,872	111,824	-
Interest on bonds payable	-	7,276,855	15,948,806	23,225,661	26,444,014	-
Amortization of issue costs	-	274,583	11,566	286,149	1,170,280	-
Program payment expenses	-	-	-	-	-	7,925,763
Interfund operating charge	(2,053,674)	480,455	1,573,219	-	-	-
Total operating expenses	6,166,028	8,032,386	17,897,445	32,095,859	31,577,580	10,617,790
Non-operating revenues						
Interest income	-	-	-	-	-	339
Federal program revenue	2,404,186	-	-	2,404,186	9,041,241	-
Federal program expenses	(2,155,929)	-	-	(2,155,929)	(8,783,330)	-
Total non-operating income	248,257	-	-	248,257	257,911	339
CHANGE IN NET POSITION	381,961	(753,475)	(448,379)	(819,893)	7,090,674	82,499
Transfers	4,964,000	(4,964,000)	-	-	-	-
Net position at beginning of year	173,052,744	16,770,341	3,881,642	193,704,727	186,614,053	6,060,931
Net position at end of year	$ 178,398,705	$ 11,052,866	$ 3,433,263	$ 192,884,834	$ 193,704,727	$ 6,143,430

The accompanying notes are an integral part of this statement.

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS

Year ended June 30, 2013
(With comparative totals for the year ended June 30, 2012)

	General	Program Funds		Combined Totals	
	Funds	Single-Family	Multi-Unit	2013	2012
Cash flows from operating activities:					
Cash received from mortgage loans	$ 47,594,720	$ 111,196	$ 31,705,839	$ 79,411,755	$ 95,916,009
Cash payments to purchase mortgage loans	(31,384,104)	-	-	(31,384,104)	(56,029,732)
Cash receipts (payments) for goods and services	(5,077,719)	(478,188)	614,107	(4,941,800)	530,436
Interfund	(156,575)	28,705	127,870	-	-
Net cash provided by (used in) operating activities	10,976,322	(338,287)	32,447,816	43,085,851	40,416,713
Cash flows from noncapital financing activities:					
Proceeds from sale of bonds	-	-	-	-	48,346,000
Principal payments and purchase of bonds	-	(18,724,384)	(52,395,000)	(71,119,384)	(157,975,418)
Interest payments on bonds	-	(7,527,091)	(16,555,612)	(24,082,703)	(27,073,322)
Issue costs	-	-	-	-	(1,186,721)
Operating transfer	4,964,000	(4,964,000)	-	-	-
Federal grants received	2,404,186	-	-	2,404,186	9,041,241
Cash paid to other governments and organizations	(2,404,186)	-	-	(2,404,186)	(9,041,241)
Net cash provided by (used in) noncapital financing activities	4,964,000	(31,215,475)	(68,950,612)	(95,202,087)	(137,889,461)
Cash flows from investing activities:					
(Purchase) of short-term investments	(51,851,137)	(69,913,896)	(74,828,304)	(196,593,337)	(415,700,797)
Sale of short-term investments	33,709,338	97,201,686	51,465,756	182,376,780	458,329,295
(Purchase) of long-term investments	-	(44,203,575)	(10,146,973)	(54,350,548)	(193,503,410)
Sale of long-term investments	1,636,825	41,149,284	66,294,280	109,080,389	229,876,059
Income received on investments	458,200	7,320,263	3,718,037	11,496,500	15,013,724
Realized gains on investments	-	-	-	-	3,794,528
Net cash provided by (used in) investing activities	(16,046,774)	31,553,762	36,502,796	52,009,784	97,809,399
NET INCREASE (DECREASE) IN CASH	(106,452)	-	-	(106,452)	336,651
Cash at beginning of year	1,109,442	-	-	1,109,442	772,791
Cash at end of year	$ 1,002,990	$ -	$ -	$ 1,002,990	$ 1,109,442

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2013
(With comparative totals for the year ended June 30, 2012)

	General Funds	Program Funds		Combined Totals	
		Single-Family	Multi-Unit	2013	2012
Reconciliation of change in net position to net cash provided by (used in) operating activities:					
Change in net position	$ 381,961	$ (753,475)	$ (448,379)	$ (819,893)	$ 7,090,674
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:					
Amortization of issue costs	-	274,583	11,566	286,149	1,170,280
Depreciation	3,021	-	-	3,021	-
Income on investments	(444,193)	(7,267,139)	(3,642,680)	(11,354,012)	(14,633,579)
Realized and unrealized (gains) losses on investments	166,673	-	-	166,673	(3,671,567)
Interest on bonds payable	-	7,276,855	15,948,806	23,225,661	26,444,014
Change in assets and liabilities:				-	
Loans receivable	12,629,418	100,495	19,411,160	32,141,073	22,359,220
Other receivables	(636,778)	(1,073)	(131,653)	(769,504)	62,385
Deferred outflow of resources	-	-	-	-	3,699,570
Interfund	(156,575)	28,705	127,870	-	-
Derivative instrument - interest rate swap	-	-	-	-	(3,699,570)
Accounts payable and other liabilities	(967,205)	2,762	1,171,126	206,683	1,595,286
Net cash provided by (used in) operating activities	$ 10,976,322	$ (338,287)	$ 32,447,816	$ 43,085,851	$ 40,416,713
Noncash noncapital financing activities:					
Conversion of bonds	$ -	$ -	$ -	$ -	$ 66,940,000
Noncash capital financing activities:					
Acquisition of equipment	$ 362,550	$ -	$ -	$ 362,550	$ -

The accompanying notes are an integral part of this statement.

NOTE A - AUTHORIZING LEGISLATION

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

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

NOTE B - THE REPORTING ENTITY AND NATURE OF FUNDS

1. <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, 2013, the Division had designated certain general fund assets totaling $174,918,548 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, 2013, under 4 general bond certificates. Various funds are prescribed to account for the proceeds from the sale of the bonds and for the debt service requirements established by the bond certificate documents.

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

4. Multi-Unit Program Funds

There were 56 multi-unit programs existing as of June 30, 2013, under 56 general bond certificates or trust indenture documents.

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

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

5. Nevada Affordable Housing Assistance Corporation

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

In 2010, NAHAC was selected to administer the "Hardest Hit Funds" Program for the State of Nevada by the U.S. Treasury. Nevada was awarded over $194 million in funds available to qualified recipients through a series of federal grants to help Nevada homeowners.

NAHAC was considered a component unit of the Nevada Housing Division because the Nevada Housing Division was financially accountable for NAHAC as it appointed a voting majority of NAHAC's governing body. It was determined that NAHAC be presented as a discretely presented component unit of the Division.

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

NOTE C - SUMMARY OF ACCOUNTING POLICIES

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

1. Accrual Accounting for Enterprise Funds

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

2. Fund Accounting

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

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

3. Mortgages Purchased

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

4. Investments

Federal National Mortgage Association and Government National Mortgage Association investments are carried at amortized cost due to restrictions set by related bond indentures of each program. All other investments are carried at fair value. Realized and unrealized gains and losses are reflected in the statement of revenues, expenses and changes in net position.

5. Bond Costs and Accreted Values Payable

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

Interest is generally payable semiannually.

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, 2013, the Division recorded an allowance of $2,016,221 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.

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.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

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, 2013, the Division redeemed a total of $75,733,384 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.

15. Proprietary Accounting and Financial Reporting

During the period ended June 30, 2013, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporated into GASB's authoritative literature certain accounting and financial reporting guidance included in the pronouncements of the FASB and American Institute of Certified Public Accountants (AICPA). This statement also superseded GASB Statement No. 20, and eliminated the election to apply post November 30, 1989 FASB pronouncements. The Division adopted this guidance, and it is reflected in the financial statements for the years ended June 30, 2013 and 2012.

16. Using Estimates

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

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

17. Accounting for Compensated Absences

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

18. Accounting and Financial Reporting for Certain Grants

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

19. New Accounting Pronouncements

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

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

In June 2011, the Governmental Accounting Standards Board (the "GASB") issued authoritative guidance related to financial reporting for deferred outflows of resources and deferred inflows of resources. This Statement, GASB 63, *Financial Reporting of Deferred Outflows of resources, Deferred Inflows of resources, and Net Position,* establishes accounting and financial reporting standards that standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. The Division adopted this guidance, and changes are reflected in the financial statements for the years ended June 30, 2013 and 2012.

NOTE D - INVESTMENTS

Investments consist of the following at June 30, 2013:

	General Funds	Single-Family	Multi-Unit	Total
Short-term investments	$ 113,464,752	$ 43,395,334	$ 35,677,899	$ 192,537,985
U.S. Treasury bonds	1,865,594	-	-	1,865,594
Investment agreements	-	2,347,717	2,398,737	4,746,454
Federal National Mortgage Association	1,983,389	3,074,597	38,569,444	43,627,430
Government National Mortgage Association	-	163,766,221	11,932,955	175,699,176
	$ 117,313,735	$ 212,583,869	$ 88,579,035	$ 418,476,639

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

Investment Risk Factors

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

Credit Risk

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

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

NOTE D - INVESTMENTS - Continued

Credit Risk - Continued

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

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

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

The credit risk profile for investments at June 30, 2013 is a follows:

	General Funds	Single-Family	Multi-Unit	Total
Investment type				
Short-term investments				
Aaa	$ 99,464,751	$ 43,395,334	$ 35,677,899	$ 178,537,984
Withdrawn rating	14,000,001	-	-	14,000,001
Total short-term	$ 113,464,752	$ 43,395,334	$ 35,677,899	$ 192,537,985
Investment agreements				
A1	$ -	$ 330,530	$ 668,373	$ 998,903
A2	-	408,236	641,426	1,049,662
Baa1	-	-	223,019	223,019
Baa3	-	1,608,951	-	1,608,951
Ba3	-	-	505,518	505,518
Withdrawn rating	-	-	360,401	360,401
Total investment agreements	$ -	$ 2,347,717	$ 2,398,737	$ 4,746,454
Federal National Mortgage Association				
Aaa	$ 1,983,389	$ 3,074,597	$ 38,569,444	$ 43,627,430
Government National Mortgage Association				
Aaa	$ -	$ 163,766,221	$ 11,932,955	$ 175,699,176

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, 2013, the Division's investments in the Fannie Mae and Ginnie Mae are 10.43% and 41.99%, 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, 2013.

		Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10	No Maturity
Short-term Investments	$ 192,537,985	$ -	$ -	$ -	$ -	$192,537,985
U.S. Treasury securities	1,865,594	-	1,865,594	-	-	-
U.S. agencies	219,326,606	-	-	8,643,784	210,682,822	-
Investment agreements	4,746,454	-	-	223,019	4,523,435	-
	$ 418,476,639	$ -	$ 1,865,594	$ 8,866,803	$ 215,206,257	$192,537,985

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	3.5%-10.98%	$ 60,644,226	$ 100,142	$ -	$ 60,744,368
Multi-Unit Programs	4.125%-11.25%	-	-	467,495,305	467,495,305
Less unamortized discount		533,978	-	-	533,978
		$ 60,110,248	$ 100,142	$ 467,495,305	$527,705,695
Due within one year		$ 2,809,893	$ 3,281	$ 14,161,226	$ 16,974,400

NOTE F - BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Original Amount	Outstanding
Single-Family Bonds:			
2002 Issue A, 3.10% - 5.65%	April 1, 2033	$ 30,000,000	$ 120,000
2006 Issue A, 4.95%	October 1, 2033	18,000,000	200,000
2006 Issue B, 3.80%-4.65%	October 1, 2036	18,000,000	245,000
2007 Issue A, 3.75%-4.90%	April 1, 2037	18,000,000	1,220,000
2007 Issue B, 3.85%-5.30%	April 1, 2047	32,000,000	1,830,000
2008 Issue A, 3.05%-5.875%	April 1, 2038	34,300,000	3,220,000
2008 Issue B, 2.10%-5.55%	April 1, 2039	17,500,000	2,870,000
2009 Issue A, 1.20%-5.375%	October 1, 2039	23,180,000	8,580,000
2009 Issue B, 0.80%-5.25%	October 1, 2048	22,651,400	12,938,228
2009 Issue I-A, 3.010%	October 1, 2041	15,000,000	13,890,000
2010 Issue I, .65%-4.40%	April 1, 2027	10,000,000	8,095,000
2011 Issue A, .50%-4.625%	October 1, 2027	13,600,000	11,485,000
2009 Issue I-B, 0.61%-3.53%	October 1, 2041	20,400,000	19,185,000
2009 Issue I-C, 2.32%	October 1, 2041	10,000,000	9,775,000
2011 Issue B, 0.70%-4.75%	October 1, 2033	15,000,000	14,065,000
2009 Issue I-D, 2.32%	October 1, 2036	30,700,000	30,700,000
2011 Issue C, 4.20%	October 1, 2022	5,500,000	5,500,000
2009 Issue I-E, 2.32%	October 1, 2041	26,240,000	26,240,000
2011 Issue D, 1.00%-4.40%	April 1, 2029	32,460,000	32,310,000
Total single-family bonds		392,531,400	202,468,228
Multi-Unit Bonds:			
1996 Oakmont Fort Apache, Variable	October 1, 2026	7,800,000	7,800,000
1996 Oakmont Flamingo, Variable	October 1, 2026	9,500,000	9,500,000
1997 Maryland Villas, Variable, Taxable	October 1, 2030	735,000	45,000
1997 Maryland Villas, Variable	October 1, 2030	4,165,000	3,835,000
1998 Cheyenne Pointe, 5.45%-5.50%	April 1, 2030	8,755,000	7,885,000
1998 Boulder Creek, 5.375%-5.50%	April 1, 2031	12,725,000	11,755,000
1998 Vintage Hills, 5.79%	October 1, 2030	7,740,000	7,158,000
1998 Spanish Hills, 6.26%, Taxable	April 1, 2014	1,845,000	5,000
1998 Spanish Hills, 5.25%-5.35%	October 1, 2031	6,655,000	6,655,000
1998 South Valley, 5.25%-5.375%	October 1, 2031	11,380,000	11,145,000
1998 Capistrano Pines, 5.25%	October 1, 2031	8,185,000	7,585,000
1998 Casa Sorrento, 5.25%	October 1, 2031	9,335,000	8,525,000
1998 Hilltop Villas, Variable, Taxable	April 1, 2031	570,000	535,000
1998 Hilltop Villas, Variable	April 1, 2031	3,220,000	2,965,000
1998 Stewart Villas, Variable, Taxable	April 1, 2031	585,000	550,000
1998 Stewart Villas, Variable	April 1, 2031	3,310,000	3,045,000

NOTE F - BONDS PAYABLE - Continued

Multi-Unit Bonds: - Continued	Maturity Date	Original Amount	Outstanding
1999 Studio Three, Variable	October 1, 2030	$ 8,500,000	$ 5,670,000
1999 Diamond Creek, 7.60%, Taxable	April 1, 2014	3,250,000	60,000
1999 Diamond Creek, 5.90%-6.05%	April 1, 2032	16,245,000	16,245,000
1999 Bonanza Gardens, 6.30%	April 1, 2030	5,185,000	4,815,000
1999 Parkway Silverado, Variable, Taxable	October 15, 2032	2,240,000	-
1999 Parkway Silverado, Variable	October 15, 2032	12,710,000	12,710,000
1999 Apache Pines, Variable	October 15, 2032	11,815,000	11,815,000
2000 Summerhill, 4.50%-6.00%	October 1, 2030	10,200,000	8,110,000
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	3,910,000
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	15,900,000
2000 Rancho Mesa, 5.75%	April 1, 2031	11,260,000	10,000,000
2000 CitiVista, 5.45%-5.70%	October 1, 2033	8,250,000	7,010,000
2001 Villanova, 5.40%-5.42%	April 15, 2035	18,905,000	17,565,000
2001 Silver Creek, 5.40%-5.42%	April 15, 2035	12,860,000	11,965,000
2002 City Center-LV, Variable	April 15, 2035	14,000,000	13,900,000
2002 Silver Pines, Variable	October 15, 2035	11,800,000	11,800,000
2002 Oakmont @ Reno, Variable	April 15, 2027	4,350,000	4,150,000
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	650,000
2002 Sunset Canyon, 5.20%-5.61%	April 1,2036	10,965,000	10,685,000
2002 Sunset Canyon, 5.11%, Taxable	April 1, 2017	1,935,000	785,000
2002 Los Pecos, 2.90%-5.15%	April 1, 2036	8,800,000	7,780,000
2002 Los Pecos, 5.65%, Taxable	April 1, 2036	2,200,000	1,960,000
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	310,000
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	190,000
2003 Community Gardens, 3.10%-5.10%	October 1, 2038	7,435,000	6,485,000
2003 Cedar Village, 3.10%-5.10%	October 1, 2038	6,205,000	5,430,000
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	6,690,000
2003 Zephyr Pointe, 2.60%-4.85%	April 1, 2037	15,160,000	13,625,000
2004 Glenbrook Terrace, 4.20%-5.33%	April 1, 2037	18,000,000	16,285,000
2004 Sundance Village, Variable	October 1, 2035	22,385,000	20,185,000
2005 Sierra Pointe, Variable	April 15, 2038	9,985,000	9,465,000

NOTE F - BONDS PAYABLE - Continued

	Maturity Date	Original Amount	Outstanding
Multi-Unit Bonds: - Continued			
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	4,110,000
2007 Golden Apartments, Variable	October 1, 2037	8,200,000	7,850,000
2007 Centennial Park, 4.90%	April 1, 2037	2,040,000	1,875,000
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	10,685,000
2008 Sierra Manor, 6.95%	June 1, 2041	11,000,000	6,940,000
2011 College Villas, 3.55%	October 1, 2051	12,000,000	11,910,000
2011 Washoe Mill, 3.55%	April 1, 2029	8,820,000	8,630,000
Total multi-unit bonds		605,190,000	537,418,000
Combined total		$ 997,721,400	$ 739,886,228

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, 2013, for the following years, are:

	Single-Family		Multi-Unit		Combined Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Years ending June 30,						
2014	$ 3,780,000	$ 6,787,089	$ 38,528,000	$ 14,001,421	$ 42,308,000	$ 20,788,510
2015	3,900,000	6,723,572	7,109,000	13,674,599	11,009,000	20,398,171
2016	4,020,000	6,641,319	7,860,000	13,338,398	11,880,000	19,979,717
2017	4,170,000	6,540,933	8,400,000	12,973,502	12,570,000	19,514,435
2018	4,305,000	6,419,834	12,160,000	12,570,330	16,465,000	18,990,164
2019-2023	24,815,000	29,588,311	87,540,000	53,318,673	112,355,000	82,906,984
2024-2028	32,499,837	23,662,489	85,005,000	31,946,808	117,504,837	55,609,297
2029-2033	40,871,362	16,403,052	112,791,000	17,616,795	153,662,362	34,019,847
2034-2038	49,269,311	9,230,738	125,520,000	7,041,309	174,789,311	16,272,047
2039-2043	33,382,718	2,092,116	52,505,000	693,862	85,887,718	2,785,978
2044-2048	1,420,000	215,411	-	-	1,420,000	215,411
2049-2053	35,000	919	-	-	35,000	919
	$ 202,468,228	$ 114,305,783	$ 537,418,000	$ 177,175,697	$ 739,886,228	$ 291,481,480

Total interest expense for the year ended June 30, 2013 was $23,225,661.

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 Division consist of bonds payable to debt holders for the purchase of mortgage loans.

	Single-Family	Multi-Unit	Combined Total
Bonds payable			
Balances at July 1, 2012	$ 221,192,612	$ 589,813,000	$ 811,005,612
Increase in debt	-	-	-
Decrease in debt	(18,724,384)	(52,395,000)	(71,119,384)
Balances at June 30, 2013	$ 202,468,228	$ 537,418,000	$ 739,886,228
Due within one year	$ 3,780,000	$ 38,528,000	$ 42,308,000

NOTE H - RESTRICTED ASSETS

Substantially all investments in the Single-Family and Multi-Unit Mortgage Purchase Funds are held by trustees and are restricted as to use as required by the various bond certificates or trust indentures. Such restricted assets are included in funds and accounts within the program funds as established by the bond certificates. Such funds typically include, among others, bond reserve funds, capital reserve funds, debt service funds, and mortgage loan reserve funds. Restricted investments and interest receivable included in the various programs of the Division as of June 30, 2013 are as follows:

	General Fund	Single-Family	Multi-Unit	Combined Total
Investments	$ 116,913,135	$ 1,794,237	$ -	$ 118,707,372
Interest receivable	15,219	160	-	15,379
	$ 116,928,354	$ 1,794,397	$ -	$ 118,722,751

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.

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, 2013, 2012 and 2011 were $188,363, $236,433, and $231,356, 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 State has contributed $17,700 to irrevocable trust as a multiple employer cost sharing plan. The unfunded actuarial accrued liability for the trust, as of the most recent valuation on July 1, 2010 is $947,150. This compares to $1,850,000 on July 1, 2009. This is recorded as a liability of the trust and not of the State or the System.

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

NOTE K - OPERATING LEASE

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

Years ending June 30,	
2014	$ 184,834
2015	106,269
2016	100,417
2017	42,277
	$ 433,797

Total rent expense for the year ended June 30, 2013 and 2012 was $154,558 and $155,186, respectively.

NOTE L - RELATED PARTY TRANSACTIONS

The Division had a payable to NAHAC totaling $903,134 and $939,533 as of June 30, 2013 and 2012, respectively, for the down payment assistance where the Division made loans to members of the Nevada Culinary Union using funds from NAHAC.

NOTE M - SUBSEQUENT EVENTS

On July 1, 2013, the Division closed program 1998 Capistrano Pines, which held total assets of $7,897,565 at June 30, 2013. On July 15, 2013, the Division closed program 2002 Oakmont at Reno, which held total assets of $5,078,561 at June 30, 2013. On August 1, 2013, the Division closed programs 1998 Casa Sorrento and 2011 College Villas, which held assets of $8,906,454 and $12,202,023 at June 30, 2013, respectively.

REQUIRED SUPPLEMENTAL INFORMATION

Nevada Housing Division

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

GENERAL FUND

Year ended June 30, 2013

	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	$ -	$ -	$ -	$ -	$ 444,193	*(1)*	$ 444,193
Realized and unrealized gains on investments	-	-	-	-	(166,673)	*(1)*	(166,673)
Total investment income	-	-	-	-	277,520		277,520
Interest income on mortgage loans					4,301,052	*(1)*	4,301,052
Other income	1,202,717	1,202,717	1,510,407	307,690	210,753	*(1)*	1,721,160
Federal grants	3,225,074	3,225,074	2,401,384	(823,690)	2,802	*(2)*	2,404,186
Total operating revenues	4,427,791	4,427,791	3,911,791	(516,000)	4,792,127		8,703,918
Operating expenses							
Salaries and other payroll costs	2,124,723	2,124,723	1,619,724	(504,999)	(130,299)	*(3)*	1,489,425
Administrative expenses	(718,093)	(555,019)	(67,641)	487,378	6,556,518	*(1)*	6,488,877
Depreciation	-	-	-	-	3,021	*(1)*	3,021
Servicers' fees	-	-	-	-	238,379	*(1)*	238,379
Interfund operating charge	(593,449)	(593,449)	90,043	683,492	(2,143,717)	*(1)*	(2,053,674)
Reserve	1,163,894	1,000,820	(1,052)	(1,001,872)	1,052		-
Attorney general	42,511	42,511	42,511	-	(42,511)	*(1)*	-
Federal grant expenses	3,000,000	3,000,000	2,206,318	(793,682)	(50,389)	*(2)*	2,155,929
Total operating expenses	5,019,586	5,019,586	3,889,903	(1,129,683)	4,432,054		8,321,957
CHANGE IN NET POSITION	(591,795)	(591,795)	21,888	613,683	360,073		381,961
Transfers	-	-	-	-	4,964,000	*(1)*	4,964,000
Net position at beginning of year	591,795	591,795	591,795	-	172,460,949		173,052,744
Net position at end of year	$ -	$ -	$ 613,683	$ 613,683	$ 177,785,022		$ 178,398,705

Explanation of Differences:

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

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

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

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, 2013, 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 5, 2013.

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.

Grant Thornton LLP

Reno, Nevada
November 5, 2013

Nevada Housing Division

SCHEDULE OF FINDINGS

For the year ended June 30, 2013

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

Significant Deficiencies

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.

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.