Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Nevada Housing Division

June 30, 2016

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, 2016, 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, 2016, 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.

Report on 2015 summarized comparative information

We have previously audited the Division's June 30, 2015 basic financial statement (not presented herein), and we expressed an unmodified audit opinion on the respective financial statements of the business-type activities in our report dated November 2, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited 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 October 31, 2016, 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
October 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statement Highlights

- The change in Net Position [bottom line] for the Housing Division was $3,430,393.
- Results of operations [revenue less operating expenses] were down $2,166,435 or 25% in comparison to last year's $8,590,486 increase primarily due to the sale of mortgages. There was an increase in General Funds Net Position of $3,270,484; an increase in Net Position for the Single-Family bond programs of $200,451 and a decrease in Net Position for the Multi-Unit bond programs of $40,542. Both single-family and multi-unit bond programs continue to pay off at an accelerating rate. While total operating revenues increased $1,770,469, total expenses increased $3,936,904.
- The five-year trend in declining single-family whole loan first mortgage numbers and dollar balances continued through the June 30, 2016 period. However, securitized loan pools continued to increase. The total number of single-family whole loan first mortgages outstanding changed from 424 at June 30, 2015 to 220 at June 30, 2016. This decrease is the result of the sale of single-family whole loans which were previously serviced by the Nevada Housing Division.
- Down payment assistance loans retained an extraordinarily high delinquency rate at June 30, 2016 of 23.49%, reflecting Nevada's improving but still recovering housing market. Loan delinquencies on whole first single-family mortgages outstanding went from 18.6% of loans outstanding at June 30, 2015 to 2.62% due to the sale of mortgages.
- Total investment earnings decreased 1.37% from $7,709,618 for the year ended June 30, 2015 to $7,604,145 for the year ended June 30, 2016.
- Total salaries and payroll expenses paid increased 3.14% from $2,077,349 for the year ended June 30, 2015 to $2,142,511 for the year ended June 30, 2016.
- The net cash position of the Housing Division increased from $1,055,490 at June 30, 2015 to $1,206,132 at June 30, 2016.
- 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 $544,821,907 versus the Statutory Limit of $5 billion.

Financial Analysis

Total Assets: The total assets at year end were $774,782,241 down $65,718,613 or 7.82%. This decrease is primarily due to a decrease in loans receivable. The five-year trend in year-end total assets has been:

2016	2015	2014	2013	2012
$ 774,782,241	$ 840,500,854	$ 828,966,674	$ 957,480,070	$ 1,030,069,706

The book value of single-family first mortgage loans outstanding at year end was $9,320,107

	2016	2015	2014	2013	2012
Value	$ 9,320,107	$24,692,253	$ 29,660,468	$ 59,307,256	$62,930,730
# of loans	220	424	519	720	771
% delinquent	2.62%	18.6%	10.44%	11.11%	8.17%

Total Liabilities: The total liabilities at year end were $577,990,304 down $68,977,149 or 10.7%. The five-year trend in total liabilities has been:

2016	2015	2014	2013	2012
$ 577,990,304	$ 646,967,453	$ 638,780,298	$ 764,595,256	$ 836,364,979

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

2016	2015	2014	2013	2012
1.341X	1.299X	1.298X	1.252X	1.232X

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

2016	2015	2014	2013	2012
10.9%	12.0%	12.2%	14.8%	16.2%

Net Position: The net position of the Housing Division increased to $196,542,438 up $3,430,393 or 1.78%. The five-year trend in net position has been:

2016	2015	2014	2013	2012
$ 196,542,438	$ 193,112,045	$ 190,186,376	$ 192,884,834	$ 193,704,727

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	2016	2015	2014	2013	2012
General Fund	$185,607,279	$182,336,795	$180,205,597	$178,398,705	$173,052,744
Single-Family	10,220,287	10,019,836	9,063,301	11,052,866	16,770,341
Multi-Unit	714,872	755,414	917,478	3,443,263	3,881,642

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

	2016		2015		2014		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
Single-Family	$ 566,124	30.4	$ 608,720	30.4	$ 578,856	13.4	$ 480,455	19.9
Multi-Unit	1,295,869	69.6	1,396,044	69.6	3,747,009	86.6	1,937,073	80.1
Totals	$1,861,993		$2,004,764		$4,325,865		$2,417,528	

Administrative Budget

The Housing Division's administrative expense budget was approved for fiscal years FY2016 and FY2017 by the 2016 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, 2016, the Housing Division had the following significant changes in comparing the original budget to the final budget:

- Budgetary reserves at year-end were $1,041,506.

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, 2016.

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, 2016
(With comparative totals for June 30, 2015)

ASSETS	General Funds	Program Funds Single-Family	Program Funds Multi-Unit	Combined Totals 2016	Combined Totals 2015
Current assets					
Cash	$ 1,206,132	$ -	$ -	$ 1,206,132	$ 1,055,490
Investments					
Restricted	103,076,500	1,837,987	-	104,914,487	72,745,528
Unrestricted	149,731	15,448,883	21,607,581	37,206,195	47,605,392
Fair value adjustment on investments	(168,750)	-	-	(168,750)	(64,340)
Total investments	103,057,481	17,286,870	21,607,581	141,951,932	120,286,580
Loans receivable	680,346	-	40,326,614	41,006,960	24,438,022
Interest and other receivables, net	7,870,551	401,961	278,813	8,551,325	8,375,024
Total current assets	112,814,510	17,688,831	62,213,008	192,716,349	154,155,116
Noncurrent assets					
Long-term investments					
Restricted	71,977,034	-	-	71,977,034	31,278,244
Unrestricted	-	131,748,394	5,142,356	136,890,750	172,389,990
Fair value adjustment on investments	66,234	-	-	66,234	(39,511)
Total long-term investments	72,043,268	131,748,394	5,142,356	208,934,018	203,628,723
Loans receivable, net	11,245,008	-	361,011,028	372,256,036	430,684,340
Office furniture and equipment, net of accumulated depreciation of $545,677	252,878	-	-	252,878	293,363
Long-term receivable from related parties	622,960	-	-	622,960	51,739,312
Total noncurrent assets	84,164,114	131,748,394	366,153,384	582,065,892	686,345,738
Total assets	$ 196,978,624	$ 149,437,225	$ 428,366,392	$ 774,782,241	$ 840,500,854
Deferred outflows of resources					
Pension contributions	241,687	-	-	241,687	244,235
Total deferred outflows	$ 241,687	$ -	$ -	$ 241,687	$ 244,235
LIABILITIES AND NET POSITION					
Current liabilities					
Bonds payable	$ -	$ 3,005,000	$ 23,134,562	$ 26,139,562	$ 19,129,752
Interest payable	-	1,121,361	1,677,370	2,798,731	3,240,575
Interfund	20,433	130,644	(151,077)	-	-
Accounts payable and other liabilities	7,873,905	-	19,268,253	27,142,158	41,435,182
Total current liabilities	7,894,338	4,257,005	43,929,108	56,080,451	63,805,509
Noncurrent liabilities					
Payable to related party	622,960	-	-	622,960	739,312
Net pension liability	2,604,548	-	-	2,604,548	2,325,157
Bonds payable, net of current portion	-	134,959,933	383,722,412	518,682,345	580,097,475
Total noncurrent liabilities	3,227,508	134,959,933	383,722,412	521,909,853	583,161,944
Total current and noncurrent liabilities	11,121,846	139,216,938	427,651,520	577,990,304	646,967,453
Deferred inflows of resources					
Pension related	491,186	-	-	491,186	665,591
Total deferred outflows	491,186	-	-	491,186	665,591
Net position					
Invested in capital assets	252,878	-	-	252,878	293,363
Restricted	175,233,241	10,220,287	714,872	186,168,400	192,385,342
Unrestricted	10,121,160	-	-	10,121,160	433,340
Total net position	$ 185,607,279	$ 10,220,287	$ 714,872	$ 196,542,438	$ 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, 2016
(With comparative totals for the year ended June 30, 2015)

	General Funds	Program Funds		Combined Totals	
		Single-Family	Multi-Unit	2016	2015
Operating revenues					
Interest and other investment income	$ 1,644,898	$ 5,680,577	$ 277,335	$ 7,602,810	$ 6,866,280
Realized and unrealized losses on investments	1,472	-	(137)	1,335	843,338
Total investment income	1,646,370	5,680,577	277,198	7,604,145	7,709,618
Interest income on mortgage loans	1,496,595	-	8,107,689	9,604,284	11,416,757
Other income	8,075,449	-	1,254,241	9,329,690	5,641,274
Total operating revenues	11,218,414	5,680,577	9,639,128	26,538,119	24,767,649
Operating expenses					
Salaries and other payroll costs	2,142,511	-	-	2,142,511	2,077,349
Administrative expenses	7,415,414	-	50,744	7,466,158	1,729,380
Depreciation	40,485	-	-	40,485	40,484
Servicers' fees	65,145	-	-	65,145	79,058
Interest on bonds payable	-	4,914,002	8,383,800	13,297,802	15,148,926
Interfund operating charge	(1,811,249)	566,124	1,245,126	1	-
Total operating expenses	7,852,306	5,480,126	9,679,670	23,012,102	19,075,197
Non-operating revenues					
Federal program revenue	4,022,189	-	-	4,022,189	4,073,608
Federal program expenses	(4,117,813)	-	-	(4,117,813)	(4,148,654)
Total non-operating income	(95,624)	-	-	(95,624)	(75,046)
CHANGE IN POSITION	3,270,484	200,451	(40,542)	3,430,393	5,617,406
Net position at beginning of year	182,336,795	10,019,836	755,414	193,112,045	187,494,639
Net position at end of year	$ 185,607,279	$ 10,220,287	$ 714,872	$ 196,542,438	$ 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, 2016
(With comparative totals for the year ended June 30, 2015)

	General Funds	Program Funds: Single-Family	Program Funds: Multi-Unit	Combined Totals: 2016	Combined Totals: 2015
Cash flows from operating activities:					
Cash received from mortgage loans	$ 21,152,634	$ -	$ 48,443,063	$ 69,595,697	$ 54,587,602
Cash payments to purchase mortgage loans	-	-	(17,038,594)	(17,038,594)	(36,475,631)
Cash receipts (payments) for goods and services	50,309,327	(566,124)	(14,629,912)	35,113,291	15,625,717
Interfund	131,151	(29,634)	(101,517)	-	-
Net cash provided by (used in) operating activities	71,593,112	(595,758)	16,673,040	87,670,394	33,737,688
Cash flows from noncapital financing activities:					
Proceeds from sale of bonds	-	-	16,931,775	16,931,775	72,211,717
Principal payments and purchase of bonds	-	(30,902,787)	(40,434,308)	(71,337,095)	(80,778,768)
Interest payments on bonds	-	(5,160,986)	(8,578,660)	(13,739,646)	(15,493,762)
Federal grants received	4,022,189	-	-	4,022,189	4,073,607
Cash paid to other governments and organizations	(4,117,813)	-	-	(4,117,813)	(4,148,655)
Net cash used in noncapital financing activities	(95,624)	(36,063,773)	(32,081,193)	(68,240,590)	(24,135,861)
Cash flows from investing activities:					
Purchase of short-term investments	(281,221,658)	(84,967,560)	(72,279,644)	(438,468,862)	(261,356,350)
Sale of short-term investments	249,149,656	86,104,870	81,490,362	416,744,888	245,958,055
Purchase of long-term investments	(78,822,603)	(18,088,071)	-	(96,910,674)	(217,108,078)
Sale of long-term investments	38,078,025	47,835,827	5,751,484	91,665,336	216,146,442
Income received on investments	1,469,734	5,774,465	445,951	7,690,150	6,651,812
Net cash provided by (used in) investing activities	(71,346,846)	36,659,531	15,408,153	(19,279,162)	(9,708,119)
NET INCREASE (DECREASE) IN CASH	150,642	-	-	150,642	(106,292)
Cash at beginning of year	1,055,490	-	-	1,055,490	1,161,782
Cash at end of year	$ 1,206,132	$ -	$ -	$ 1,206,132	$ 1,055,490

Nevada Housing Division

COMBINED STATEMENT OF CASH FLOWS - CONTINUED

Year ended June 30, 2016
(With comparative totals for the year ended June 30, 2015)

	General Funds	Program Funds		Combined Totals	
		Single-Family	Multi-Unit	2016	2015
Reconciliation of change in net position to net cash provided by (used in) operating activities:					
Change in net position	$ 3,270,484	$ 200,451	$ (40,542)	$ 3,430,393	$ 5,617,406
Change in deferred outflows of resources	2,548	-	-	2,548	(2,228)
Change in deferred inflows of resources	(174,405)	-	-	(174,405)	665,591
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:					
Depreciation	40,485	-	-	40,485	40,484
Income on investments	(1,644,898)	(5,680,577)	(277,335)	(7,602,810)	(6,866,280)
Realized and unrealized losses on investments	(1,472)	-	137	(1,335)	(843,338)
Interest on bonds payable	-	4,914,002	8,383,800	13,297,802	15,148,926
Change in assets and liabilities:					
Loans receivable	69,763,547	-	23,212,171	92,975,718	6,056,125
Other receivables	(348,322)	-	180,305	(168,017)	(244,298)
Interfund	131,151	(29,634)	(101,517)	-	-
Accounts payable and other liabilities	274,603	-	(14,683,979)	(14,409,376)	14,773,887
Net pension liability	279,391	-	-	279,391	(608,587)
Net cash provided by (used in) operating activities	$ 71,593,112	$ (595,758)	$ 16,673,040	$ 87,670,394	$ 33,737,688

The accompanying notes are an integral part of this statement.

NOTE A - AUTHORIZING LEGISLATION

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

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

NOTE B - THE REPORTING ENTITY AND NATURE OF FUNDS

1. All Funds

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

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

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

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

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

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

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, 2016, the Division had designated certain general fund assets totaling $175,233,241 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, 2016, 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, 2016, 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

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 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, 2016, the Division recorded an allowance of $1,254,838 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. 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, 2016, the Division redeemed a total of $71,337,095 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.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

15. Using Estimates

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

16. Accounting for Compensated Absences

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

17. Accounting and Financial Reporting for Certain Grants

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

18. Pensions

For purposes of measuring the net pension liability, deferred outflows or 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 position 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.

19. 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 Note I.

NOTE C - SUMMARY OF ACCOUNTING POLICIES - Continued

20. New Accounting Pronouncements

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 Division adopted this guidance for the period ended June 30, 2016. There is no significant impact to the financial statements as a result of the implementation of GASB 72.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73* which addressed certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68*, and Amendments to Certain Provisions of GASB Statements No. 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 is effective for fiscal years beginning after June 15, 2017. 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.

21. Reclassifications

Certain prior year balances have been reclassified for consistency with current year presentation. These reclassifications did not impact the prior year change in net position.

NOTE D - INVESTMENTS

Investments consist of the following at June 30, 2016:

	General Funds	Single-Family	Multi-Unit	Total
Short-term investments	$ 65,474,762	$ 14,125,855	$ 21,485,405	$ 101,086,022
U.S. Treasury notes	31,070,127	-	-	31,070,127
U.S. Agencies	25,437,150	-	-	25,437,150
Corporate notes	10,840,821	-	-	10,840,821
Commercial paper	4,892,426	-	-	4,892,426
Securitized	16,055,757	-	-	16,055,757
Investment agreements	-	11,703	162,808	174,511
Federal National Mortgage Association	4,963,783	8,853,216	-	13,816,999
Government National Mortgage Association	16,365,923	126,044,490	5,101,724	147,512,137
	$ 175,100,749	$ 149,035,264	$ 26,749,937	$ 350,885,950

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.

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.

NOTE D – INVESTMENTS - Continued

Credit Risk - Continued

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, 2016 is a follows:

Investment type	General Funds	Single-Family	Multi-Unit	Total
Short-term investments				
Aaa	$ 58,869,731	$ 14,125,855	$ 21,485,405	$ 94,480,991
P-1	6,605,031	-	-	6,605,031
Total short-term	$ 65,474,762	$ 14,125,855	$ 21,485,405	$ 101,086,022
U.S. Treasury notes				
Aaa	$ 31,070,127	$ -	$ -	$ 31,070,127
U.S. Agencies				
Aaa	$ 25,437,150	$ -	$ -	$ 25,437,150
Corporate notes				
A1	$ 3,085,341	$ -	$ -	$ 3,085,341
A2	4,987,993	-	-	4,987,993
A3	2,149,050	-	-	2,149,050
Aa2	301,521	-	-	301,521
Aa3	316,916	-	-	316,916
Total corporate notes	$ 10,840,821	$ -	$ -	$ 10,840,821
Commercial paper				
P-1	$ 4,892,426	$ -	$ -	$ 4,892,426
Securitized				
Aaa	$ 6,636,367	$ -	$ -	$ 6,636,367
NR	9,419,390	-	-	9,419,390
Total corporate notes	$ 16,055,757	$ -	$ -	$ 16,055,757
Investment agreements				
A2	$ -	$ -	$ 162,808	$ 162,808
Baa3	-	11,703	-	11,703
Total investment agreements	$ -	$ 11,703	$ 162,808	$ 174,511
Federal National Mortgage Association				
Aaa	$ 4,963,783	$ 8,853,216	$ -	$ 13,816,999
Government National Mortgage Association				
Aaa	$ 16,365,923	$ 126,044,490	$ 5,101,724	$ 147,512,137

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, 2016, the Division's investments in the Fannie Mae and Ginnie Mae are 3.94% and 42.04%, respectively, of the Division's total investments. The Fannie Mae and Ginnie Mae investments are in mortgage backed securities matched to the interest rate and maturity of the underlying bonds. Because such investments are matched to concomitant liabilities, the Division is less concerned about a concentration risk on these investments.

NOTE D - INVESTMENTS - Continued

Interest Rate Risk

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

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

The following table represents the maturities of the Division's investments as of June 30, 2016:

		Maturities in Years				
	Total	Less than 1	1-5	6-10	More than 10	No Maturity
Short-term investments	$ 101,086,022	$ 6,605,031	$ -	$ -	$ -	$ 94,480,991
U.S. agencies	217,836,413	28,526,143	27,981,135	-	161,329,135	-
Corporate notes	10,840,821	4,164,151	6,676,670	-	-	-
Commercial paper	4,892,426	4,892,426	-	-	-	-
Securitized	16,055,757	-	10,342,950	5,145,035	567,772	-
Investment agreements	174,511	-	-	-	174,511	-
	$ 350,885,950	$ 44,187,751	$ 45,000,755	$5,145,035	$ 162,071,418	$ 94,480,991

NOTE F - BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Original Amount	Outstanding
Single-Family Bonds:			
2008 Issue B, 4.0%-5.55%	April 1, 2039	$ 17,500,000	$ 795,000
2009 Issue A, 3.35%-5.375%	October 1, 2039	23,180,000	3,060,000
2009 Issue B, 3.5%-5.25%	October 1, 2048	22,651,400	3,963,463
2009 Issue I-A, 3.010%	October 1, 2041	15,000,000	6,930,000
2010 Issue I, 2.45%-4.40%	April 1, 2027	10,000,000	3,215,000
2011 Issue A, 2.20%-4.625%	October 1, 2027	13,600,000	4,420,000
2009 Issue I-B, 3.53%	October 1, 2041	20,400,000	9,020,000
2009 Issue I-C, 2.32%	October 1, 2041	10,000,000	4,560,000
2011 Issue B, 2.05%-4.75%	October 1, 2033	15,000,000	5,870,000
2009 Issue I-D, 2.32%	October 1, 2036	30,700,000	20,290,000
2011 Issue C, 4.20%	October 1, 2022	5,500,000	3,635,000
2009 Issue I-E, 2.32%	October 1, 2041	26,240,000	17,340,000
2011 Issue D, 1.00%-4.40%	April 1, 2029	32,460,000	17,895,000
2014 Issue A, 0.50%-3.95%	October 1, 2044	40,652,596	36,971,470
Total single-family bonds		282,883,996	137,964,933
Multi-Unit Bonds:			
1996 Oakmont Flamingo, Variable	October 1, 2026	9,500,000	9,500,000
1996 Oakmont Fort Apache, Variable	October 1, 2026	7,800,000	7,800,000
1997 Maryland Villas, Variable	October 1, 2030	4,165,000	2,230,000
1998 Hilltop Villas, Variable	April 1, 2031	3,220,000	2,200,000
1998 Stewart Villas, Variable, Taxable	April 1, 2031	585,000	520,000
1998 Stewart Villas, Variable	April 1, 2031	3,310,000	2,850,000
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 Apartments, Variable	April 1, 2032	9,350,000	7,440,000
2000 Horizon Pines Sr. Apartments, Variable	April 15, 2033	8,750,000	8,550,000
2000 Horizon Sr. Apartments, Variable	October 15, 2033	10,840,000	10,740,000
2000 Orchard Club, 5.85%-5.95%	April 1, 2034	16,500,000	14,685,000
2002 City Center-Las Vegas, Variable	April 15, 2035	14,000,000	13,900,000
2002 Silver Pines, Variable	October 15, 2035	11,800,000	11,800,000
2002 St. Rose Seniors, Variable	October 15, 2035	14,770,000	14,770,000
2002 Bluffs at Reno, Variable	October 15, 2035	17,850,000	17,850,000
2002 Sunset Canyon, 5.20%-5.61%	April 1,2036	10,965,000	10,530,000
2002 Sunset Canyon, 5.11%, Taxable	April 1, 2017	1,935,000	160,000
2002 Los Pecos, 2.90%-5.15%	April 1, 2036	8,800,000	7,245,000
2002 Los Pecos, 5.56%, Taxable	April 1, 2036	2,200,000	1,825,000
2002 Whittell Pointe, 5.15%	April 1, 2036	7,045,000	6,855,000
2002 Wood Creek, 5.25%	October 1, 2034	7,580,000	7,210,000

NOTE D - INVESTMENTS - Continued

Fair Value Levels

The Division categorizes it fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Debt and equity securities classified in both Level 1 and Level 2 are valued using prices quoted in active markets for those securities. The Division has no debt or equity securities classified in Level 3 of the fair value hierarchy.

The following table represents the fair value measurements of the Division's investments as of June 30, 2016:

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury securities	$132,156,149	$ 125,551,120	$ 6,605,029	$ -
Commercial mortgage-backed securities	20,948,183	710,494	20,237,689	-
Residential mortgage-backed securities	24,057,318	14,102,668	9,954,650	-
Corporate notes	10,840,821	10,225,437	615,384	-
	$188,002,471	$ 150,589,719	$ 37,412,752	$ -

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 at June 30, 2016:

	Interest Rates	General Funds	Single-Family	Multi-Unit	Combined Total
Single-Family Mortgage Programs	3.25%-9.25%	$ 11,938,171	$ -	$ -	$ 11,938,171
Multi-Unit Programs	0.13%-6.95%	-	-	401,337,642	401,337,642
Less unamortized discount		(12,817)	-	-	(12,817)
		$ 11,925,354	$ -	$ 401,337,642	$413,262,996

NOTE F - BONDS PAYABLE - Continued

Multi-Unit Bonds: - Continued	Maturity Date	Original Amount	Outstanding
2003 Cedar Village, 3.10%-5.10%	October 1, 2038	$ 6,205,000	$ 5,110,000
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	6,240,000
2003 Zephyr Pointe, 2.60%-4.85%	April 1, 2037	15,160,000	12,760,000
2004 Glenbrook Terrace, 4.20%-5.33%	April 1, 2037	18,000,000	15,215,000
2004 Sundance Village, Variable	October 1, 2035	22,385,000	18,785,000
2005 Sierra Pointe, Variable	April 15, 2038	9,985,000	9,465,000
2005 Sonoma Palms, Variable	April 15, 2039	16,300,000	16,300,000
2005 Southwest Village, Variable	October 15, 2038	19,000,000	17,000,000
2006 Riverwood, 4.75%	April 1, 2039	9,790,000	3,890,000
2007 Centennial Park, 4.90%	April 1, 2037	2,040,000	1,760,000
2007 Golden Apartments, Variable	October 1, 2037	8,200,000	7,850,000
2007 Vintage at Laughlin, Variable	April 15, 2041	11,000,000	9,660,000
2007 Vista Creek, Variable	April 15, 2041	21,000,000	18,515,000
2007 HELP Owens, Variable	October 1, 2042	5,545,000	2,065,000
2007 Arby Road Apartments, 5.35%-6.10%	April 1, 2041	15,350,000	10,220,000
2008 Sierra Manor Apartments, 6.95%	October 1, 2041	11,000,000	6,760,000
2011 Washoe Mill, 3.55%	April 1, 2029	8,820,000	8,300,000
2013 Henderson Apartments, 6%	September 1, 2046	15,000,000	14,550,000
2013 Agate Avenue, Variable	June 1, 2047	13,000,000	8,300,000
2014 Agate Seniors II, Variable	January 1, 2049	12,500,000	6,521,991
2015 501 N Lamb Apartments, Variable	January 1, 2049	21,500,000	4,868,255
2015 Terracina, Variable	March 1, 2048	11,000,000	9,392,577
2016 Boulder Pines II, Variable	June 1, 2049	21,500,000	2,109,151
Total multi-unit bonds		509,890,000	406,856,974
Combined total		$ 792,773,996	$ 544,821,907

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, 2016, for the following years, are:

	Single-Family		Multi-Unit		Combined Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Years ending June 30,						
2017	$ 3,005,000	$ 4,471,063	$ 23,134,562	$ 7,768,695	$ 26,139,562	$ 12,239,758
2018	3,125,000	4,405,442	3,770,579	7,447,067	6,895,579	11,852,509
2019	3,205,000	4,326,239	4,132,005	7,311,629	7,337,005	11,637,868
2020	3,325,000	4,235,711	4,320,012	7,163,234	7,645,012	11,398,945
2021	3,450,000	4,129,497	4,264,038	6,990,169	7,714,038	11,119,666
2022-2026	19,971,540	18,520,165	31,360,524	31,508,739	51,332,064	50,028,904
2027-2031	25,547,141	14,025,009	62,326,890	25,049,503	87,874,031	39,074,512
2032-2036	31,205,882	9,423,161	128,578,133	16,772,314	159,784,015	26,195,475
2037-2041	36,071,504	4,305,211	115,861,441	8,768,227	151,932,945	13,073,438
2042-2046	8,858,866	491,146	7,923,514	4,143,267	16,782,380	4,634,413
2047-2051	200,000	14,306	21,185,276	805,843	21,385,276	820,149
	$ 137,964,933	$ 68,346,950	$ 406,856,974	$ 123,728,687	$ 544,821,907	$ 192,075,637

Total interest expense for the year ended June 30, 2016 was $13,297,802.

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, 2015	$ 3,064,469	$ 168,867,720	$ 430,359,507	$ 602,291,696
Increase in debt	279,391	-	16,931,775	17,211,166
Decrease in debt	(116,352)	(30,902,787)	(40,434,308)	(71,453,447)
Balances at June 30, 2016	$ 3,227,508	$ 137,964,933	$ 406,856,974	$ 548,049,415
Due within one year	$ -	$ 3,005,000	$ 23,134,562	$ 26,139,562

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, 2016 are as follows:

	General Funds	Single-Family	Multi-Unit	Combined Total
Investments	$ 175,053,534	$ 1,837,987	$ -	$ 176,891,521
Interest receivable	179,707	-	-	179,707
	$ 175,233,241	$ 1,837,987	$ -	$ 177,071,228

NOTE I - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. PERS administers a cost-sharing, multiple-employer, defined benefit public employees' retirement 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.

NOTE I - DEFINED BENEFIT PENSION PLAN - Continued

General Information about the Pension Plan - Continued

Benefits provided. Benefits, as required by the Nevada Revised Statutes (NRS or statute), 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 286.572 -.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 on 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 pater 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 contributions 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, 2015 and 2014 the Statutory Employer/employee matching rate was 13.25%. The Employer-pay contribution rates was 25.75%. The Division's contribution to PERS for the years ended June 30, 2016, 2015 and 2014 were $241,687, $244,235 and $242,007, respectively, and were equal to the required contributions for each year.

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

The current report is dated June 30, 2015. Based on this report the Housing Division reported a liability of $2,604,548 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015. At June 30, 2015, the Housing Division's portion was 0.141 percent.

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

Reconciliation of net pension liability	
Beginning net position, July 1, 2015	$ 2,325,157
Pension expense	348,528
Employer contributions	(243,542)
Increase in deferred inflows	174,405
Ending net pension liability, June 30, 2016	$ 2,604,548

For the year ended June 30, 2016 the Housing Division recognized pension expense of $348,528. At June 30, 2016, 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	$ -	$ 195,906
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	141,080
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	154,200
Division contributions subsequent to the measurement date	241,687	-
	$ 241,687	$ 491,186

The $241,687 reported as deferred outflows of resources resulting from the Division contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2017. The amount reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Reporting periods ending June 30,	
2017	$ (152,624)
2018	(152,624)
2019	(152,624)
2020	28,677
2021	(47,194)
Thereafter	(14,797)
	$ (491,186)

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

Actuarial assumptions. The total pension liability in the June 30, 2016 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2014 – June 30, 2015. There were no changes in actuarial assumptions since the preceding valuation. The actuarially determined contribution rates decreased by 0.17% for Regular members.

The following was the PERS' Board adopted policy target asset allocation as of June 30, 2015:

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, 2015, PERS' long-term inflation assumptions was 3.5%*

Discount Rate. The discount rate used to measure the total pension liability was 8.00% as of June 30, 2015. 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, 2015 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, 2015.

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

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 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	$ 3,968,810	$ 2,604,548	$ 1,470,069

Pension Plan Fiduciary Net Position

Detailed information about the pension's plan fiduciary net position is available in the separately issued PERS 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, 2014 is $1,427,000,000. This compares to $1,271,000,000 on July 1, 2013. This is recorded as a liability of the trust and not of the State or the Division.

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 office lease expires in November 2016. The Division entered into a new lease, which was approved by the Board of Examiners and the Interim Finance Committee and became effective in October 2016, in which they will share a facility with other agencies. The Las Vegas office lease expired December 31, 2015.

Years ending June 30,	
2017	$ 92,529
2018	160,324
2019	163,811
2020	167,136
2021	170,055
Thereafter	981,244
	$ 1,735,099

Rent expense for the year ended June 30, 2016 was $189,130.

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 $622,960 as of June 30, 2016 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 bore interest based on the one-month LIBOR rate and was 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.

NOTE M - SUBSEQUENT EVENTS

The Company evaluated subsequent events through October 31, 2016, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

Nevada Housing Division

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

GENERAL FUND

Year ended June 30, 2016

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)	Budget to GAAP Differences Over (Under)		Actual Amounts GAAP Basis
Operating revenues							
Interest and other investment income	$ -	$ -	$ -	$ -	$ 1,644,898	*(1)*	$ 1,644,898
Realized and unrealized gains on investments	-	-	-	-	1,472	*(1)*	1,472
Total investment income	-	-	-	-	1,646,370		1,646,370
Interest income on mortgage loans	-	-	-	-	1,496,595	*(1)*	1,496,595
Other income	1,633,862	1,633,862	2,035,179	401,317	6,040,270	*(1)*	8,075,449
Federal program revenue	3,359,467	3,359,467	2,924,264	(435,203)	1,097,925	*(2)*	4,022,189
Total operating revenues	4,993,329	4,993,329	4,959,443	(33,886)	10,281,160		15,240,603
Operating expenses							
Salaries and other payroll costs	2,240,257	2,240,257	1,878,656	(361,601)	263,855	*(3)*	2,142,511
Administrative expenses	(353,792)	(352,953)	281,746	634,699	7,133,668	*(1)*	7,415,414
Depreciation	-	-	-	-	40,485		40,485
Servicers' fees	-	-	-	-	65,145	*(1)*	65,145
Interfund operating charge	(236,143)	(236,070)	54,735	290,805	(1,865,984)	*(1)*	(1,811,249)
Reserve	713,490	1,041,506	-	(1,041,506)	-		-
Attorney general	14,019	14,019	14,019	-	(14,019)	*(1)*	-
Federal program expenses	3,000,000	3,000,000	2,752,317	(247,683)	1,365,496	*(2)*	4,117,813
Total operating expenses	5,377,831	5,706,759	4,981,473	(725,286)	6,988,646		11,970,119
CHANGE IN NET POSITION	(384,502)	(713,430)	(22,030)	691,400	3,292,514		3,270,484
Transfers	-	-	-	-	-	*(1)*	-
Net position at beginning of year	-	-	550,579	550,579	181,786,216		182,336,795
Net position at end of year	$ (384,502)	$ (713,430)	$ 528,549	$ 1,241,979	$ 185,078,730		$ 185,607,279

Explanation of differences:

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

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

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

Nevada Housing Division

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years*

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Division's proportion of the net pension liability	0.1410%	0.1370%		(Historical information prior to the implementation of GASB67/68 is not required)						
Division's proportate share of the net pension liability	$2,604,548	$2,325,157								
Division's covered employee payroll	$1,483,397	$1,369,850								
Division's proportate share of the net pension liability as a percentage of its covered-employee payroll	175.58%	169.74%								
PERS fiduciary net position as a percentage of the total pension liability	302.03%	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 CONTRIBUTIONS

Last 10 Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	$ 241,687	$ 244,235		(Historical information prior to the implementation of GASB67/68 is not required)						
Contributions in relation to the contractually required contributions	(241,687)	(244,235)								
Contribution deficiency/(excess)	$ -	$ -								
Division's covered-employee payroll	$1,404,393	$1,483,397								
Contributions as a percentage of covered-employee payroll	17.21%	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, 2016, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated October 31, 2016.

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 opinion 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.

Grant Thornton

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
October 31, 2016